

Arcata Fire Protection District

Financial Statements
For the Year Ended June 30, 2013

With Independent Auditor's Report

Prepared by:

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ARCATA FIRE PROTECTION DISTRICT
 AUDITED FINANCIAL STATEMENTS
 JUNE 30, 2013

TABLE OF CONTENTS

	Page
Independent Auditor’s Report.....	1
Independent Auditors Report on Compliance.....	3
Management’s Discussion and Analysis.....	5
Statement of Net Position, June 30, 2013.....	11
Statement of Activities, for the year ended June 30, 2013.....	12
Balance Sheet, June 30, 2013.....	13
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities, June 30, 2013.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances, for the year ended June 30, 2013.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities for the year ended June 30, 2013.....	17
Notes to the Financial Statements.....	18
 Required Supplementary Information:	
Budgetary Comparison Schedule.....	33
Pension Plan – Funded Status of Plan Pool – Safety Plan and Miscellaneous Plan.....	35
Schedule of Funding Progress - Other Post-Employment Benefits Plan, for the year ended June 30, 2013.....	36
Schedule of Expenditures of Federal Awards.....	37
Notes to Schedule of Expenditures of Federal Awards.....	38
Schedule of Findings and Questioned Costs.....	39
Report on Internal Control over Financial Reporting and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arcata Fire Protection District
Arcata, California

We have audited the accompanying financial statements of the governmental activities of Arcata Fire Protection District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the 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 the 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, the State Controller's Minimum Audit Requirements for California Special Districts 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Arcata Fire Protection District as of June 30, 2013, and the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for the District's pension plan, the schedule of funding progress for the other post-employment benefits plan and the budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arcata Fire Protection District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued our report dated May 24, 2014, on our consideration of the Arcata Fire Protection District's internal control over financial reporting and on our test 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 Arcata Fire Protection District's internal control over financial reporting and compliance.



May 24, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Arcata Fire Protection District
Arcata, CA

Report on Compliance for Each Major Federal Program

We have audited Arcata Fire Protection District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Arcata Fire Protection District's major federal programs for the year ended June 30, 2013. Arcata Fire Protection District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Arcata Fire Protection District's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about Arcata Fire Protection District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Arcata Fire Protection District's compliance.

Opinion on Each Major Federal Program

In our opinion, Arcata Fire Protection District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Arcata Fire Protection District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Arcata Fire District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arcata Fire Protection District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



May 24, 2014

ARCATA FIRE PROTECTION DISTRICT

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Management's Discussion and Analysis For the Fiscal Year ended June 30, 2013

The management of the Arcata Fire Protection District presents the District's financial statement narrative overview and analysis of the activities of the District for the fiscal year ended June 30, 2013. An independent public accountant has audited the accompanying District financial statements, and the opinion is included in the accompanying independent auditors' report. An independent audit not only provides for the confidence of the public at large regarding the ongoing financial operations of the District, but also allows the District's management team to compare its financial operation with recognized standards, and develop useful data for evaluation of District policies and operations.

Overview of the Financial Statements

The District-wide financial statements (*Statement of Net Position and Statement of Activities*) are designed to provide readers with a broad overview of the District's finances. The *Statement of Net Position* 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 assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Specifically, the District uses a special revenue governmental fund type to account for its financial activities. Unlike the District-wide financial statements, the District's fund financial statements (Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) focus on the near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The district-wide and fund financial statements should not be considered without factoring in the financial statement notes and required supplementary information which provides additional information that is essential to a full understanding of the data provided in the District's financial statements.

Financial Analysis of the Fund Financial Statements

In FY 12/13, the District received revenues of \$4,233,262 and expended \$4,212,121. The net result was revenues over expenditures of \$ 21,141.

In July of 2013 the District Board hired Assistant Chief Desmond Cowan as Fire Chief. One of the Chief's short-term goals has been to reduce pressure on the District budget by leaving the Assistant Chief/Fire Marshal position vacant. In the past, this position managed and coordinated all of the District fire prevention and code enforcement activities. Rather than immediately filling the position, Chief Cowan chose to continue to serve as Fire Marshal and, with the assistance of the Assistant Chief and Battalion Chief, carry the additional workload. The Board approved the hiring of a civilian Fire Prevention Specialist (FPS) in March of 2014. The new FPS will eventually transition into taking on the duties previously handled by the Fire Marshal, with the support of the Fire Chief and other Chief Officers. The new configuration allows the District to fulfill its obligation to provide community safety education and prevention services while reducing the overall costs in wages and benefits and allowing greater flexibility with the District budget.

In prior years, the District operated with at least four administrative officers; typically, a Chief, two Assistant Chiefs, and an Administrative Fire Captain or Battalion Chief. While operating with only three Chief Officers, the District Administrative team must still provide specialized management and supervision as well as incident management year-round. This supervision is provided by the officers on a weeklong rotation. The use of three officers has left one week of the year unfilled. The Chief has determined that the most effective use of revenue at this time is to utilize the services of experienced and qualified officers who are retired annuitants. These personnel cover during the evening and weekends on the open duty week. During the weekdays, the three Chief Officers cover any management issues that arise and respond as Incident Commander. This again allows the greatest degree of flexibility and efficient use of revenue as well as providing volunteer personnel opportunities within the District organization that would otherwise be unavailable.

Our labor groups (the Arcata Fire District Professional Firefighters Local 4981 and the Senior Management Group) have also negotiated tiered benefits for both retirement and health benefits. Coupled with these voluntary adjustments are the structural changes to the Public Employees Retirement System made this year by the Governor. Combined, these will over time help reduce the budget impact of retirement and insurance costs. In 2013, the District offered a 2-year CalPERS service credit option to reduce overall pension costs; however, neither of the two eligible employees opted to take the service credit option. Wage negotiations with the labor groups have focused on reasonable compensation coupled with maintaining the security of the staff positions. Additionally, personnel agreed to reconfigure compensation so that the stipend for providing duty officer coverage was standardized at a rate equal to that of Step 1 Battalion Chief for all personnel, including the Fire Chief and Assistant Chiefs.

In the fiscal year ended June 30, 2013, the District experienced another busy year of emergency responses, saw growth due to grant funding, and increased training and activity. The career staff and volunteers responded to a total of 2,620 incidents this year, an increase of 206 incidents from 2012. Our fire responses account for 7% of the call volume, while our rescue and emergency medical responses make up 49% of response. The remaining 41% of call volume is comprised of service calls to assist residents, investigations, and aid to other agencies (police, ambulance). On December 7, a fatality fire occurred in the 200 block of H Street in Arcata, the first fire fatality in the District in over 3 years.

The National Volunteer Fire Council published an article in 2012, showing there was a 5.4 percent drop in the Nation's volunteer firefighters in 2010. The District applied for and was fortunate to receive a second FEMA grant to increase volunteer recruitment and retention, which included a half time coordinator staff position. A Recruitment and Retention Coordinator was hired for this position and has been working to develop policies, guidelines, and a plan to actively recruit new volunteers. With the grant funding, the District is able to enhance the Training Division's ability to specifically train new volunteers and find specialized training for more experienced volunteer firefighters. Volunteer personnel participate in mandatory ride-along hours, providing us with trained and capable personnel to augment the on-duty staffing.

The Fire District's operating budget for 2012-2013 was \$3,935,440. Our budget continues to be subject to the same pressures that other businesses and agencies are facing; increasing costs coupled with relatively flat revenues will likely create a situation in the future in which alternative funding methods and sources will need to be considered.

Personnel costs account for 78.8% of the budget. These costs include salaries and benefits for full and part-time personnel. Also included are workers compensation insurance and uniform costs for career and volunteer firefighters. **Apparatus and equipment** costs are 9.33% and include the ongoing budget line item for the replacement of fire engines and trucks, fuel, funding for the replacement of firefighting equipment and tools (hose, chainsaws, etc.), and mandatory annual inspections and testing for hoses, ladders, and fire extinguishers. **Services and supplies** account for 8.04 of the budget and include professional services provided by attorneys, the District accountant and annual audit, dispatch services, radio funding, and dues and subscriptions for computer programs, mapping, public education, participation in the Urban Search and Rescue team, and other specialized services. The **facilities** portion is 2.71%, included in this area of the budget are rent, structure maintenance and improvements, grounds maintenance, emergency generator service and maintenance, and utilities. Finally, although a relatively small portion of the budget, 1.14% is spent on **training**. This area is a crucial component in keeping our volunteer and career personnel ready to provide the many services needed by our modern community. Under the training budget, the Fire District allocates money for local training, out of town conferences, officer development, and training supplies such as plywood and lumber for ventilation training props.

For the year ended June 30, 2013, the net position changed as follows:

Beginning balance	\$ 3,868,449
Increase (decrease)	<u>21,141</u>
Ending balance	<u>\$ 3,889,590</u>

The following table shows the District's assets and liabilities as reported in the government-wide financial statements of June 30, 2013 and 2012:

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>Change</u>
ASSETS:			
Cash in County Treasury -- Unrestricted	\$ 2,768,266	\$ 2,579,580	\$ 188,686
Cash in banks	9,299	148,581	(139,282)
Imprest cash	250	250	-
Prepaid expense	55,668	10,128	45,540
Grant reimbursement receivable	165,737	30,152	135,585
Interest receivable	3,589	6,500	(2,911)
Cash in County Treasury -- Designated	540,562	612,022	(71,460)
Cash in banks - Restricted	105,100	31,850	73,250
Capital assets, net of accumulated depreciation	<u>3,241,942</u>	<u>3,142,195</u>	<u>99,747</u>
TOTAL ASSETS	<u>\$ 6,890,413</u>	<u>\$ 6,561,258</u>	<u>\$ 329,155</u>
LIABILITIES:			
Accounts payable	\$ 111,718	\$ 100,614	\$ 11,104
Accrued interest payable	26,948	29,658	(2,710)
Wages payable	32,810	21,917	10,893
Accrued pension payable	12,845	9,492	3,353
Grant expenses payable	105,100	15,000	90,100
Deferred grant revenue	6,423	31,850	(25,427)
Compensated time off	39,922	64,475	(24,553)
Compensated vacation and holiday pay	128,638	128,167	471
Other post employment benefits	1,428,373	1,075,000	353,373
Debt not invested in capital assets	27,967	27,967	-
Current portion of long-term debt	114,009	108,591	5,418
Long-term debt net of current portion	<u>966,070</u>	<u>1,080,078</u>	<u>(114,008)</u>
TOTAL LIABILITIES	<u>\$ 3,000,823</u>	<u>\$ 2,692,809</u>	<u>\$ 308,014</u>

The following table shows the District's revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012:

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>Change</u>
REVENUES:			
Property tax revenue	\$ 3,564,788	\$ 3,486,214	\$ 78,574
Fire protection revenue	10,769	36,132	(25,363)
Grant revenue	614,918	-	614,918
Other revenue	22,856	51,422	(28,566)
Gain on sale of capital asset	2,683	-	2,683
Unrestricted investment earnings	<u>17,248</u>	<u>30,742</u>	<u>(13,494)</u>
TOTAL REVENUES	<u>\$ 4,233,362</u>	<u>\$ 3,604,510</u>	<u>\$ 628,752</u>
OPERATING EXPENSES:			
Salaries and employee benefits	\$ 2,875,944	\$ 2,698,837	\$ 177,107
Clothing and personal supplies	20,551	13,297	7,254
Communications	92,101	79,947	12,154
Depreciation	266,646	279,865	(13,219)
Food	4,610	6,573	(1,963)
Grant expenses	18,219	-	18,219
Household expenses	4,851	3,135	1,716
Insurance	14,706	16,354	(1,648)
Interest expense	56,605	62,451	(5,846)
Maintenance	87,166	102,380	(15,214)
Memberships	9,655	13,182	(3,527)
Miscellaneous	3,524	2,147	1,377
Office expense	12,488	10,708	1,780
Professional and specialized services	121,725	84,832	36,893
Rents and leases – structures	53,700	44,880	8,820
Small tools and instruments	55,858	47,622	8,236
Special district expense	58,310	44,860	13,450
Training	37,139	41,452	(4,313)
Transportation and travel	44,760	49,406	(4,646)
Utilities	<u>20,190</u>	<u>17,578</u>	<u>2,612</u>
TOTAL OPERATING EXPENSES	<u>3,858,748</u>	<u>3,619,506</u>	<u>239,242</u>
NON-OPERATING EXPENSES			
Designated fund expense - PERS	-	874,304	(874,304)
Loss on disposal of capital assets	-	43,969	(43,969)
Post employment benefits	<u>353,373</u>	<u>379,430</u>	<u>(26,057)</u>
TOTAL NON-OPERATING EXPENSES	<u>353,373</u>	<u>1,297,703</u>	<u>(944,330)</u>
TOTAL EXPENSES	<u>4,212,121</u>	<u>4,917,209</u>	<u>(705,088)</u>
CHANGE IN NET POSITION	<u>\$ 21,141</u>	<u>\$ (1,312,699)</u>	<u>\$ 1,333,840</u>

The Arcata Fire District is once again in the midst of change. In the coming months, we anticipate significant progress in the modernization of two fire stations. This can only be accomplished through a collaboration of the District and the volunteers with the support of the community. The draft Strategic Plan for the next five years indicates that more change should be anticipated. Our identity needs to be clearly communicated to our constituents. Our internal and external communications can be refined to provide the best information to all of our stakeholders.

Lastly, the Fire District for many years operated in a manner that was "behind the times" even though we provided service to a community of over 36,000 residents who pride themselves in living within a modern and progressive California University community. We face the challenge now of catching up with this community. As we move forward, we will face increasing pressure on our budget as well as the clear need to expand the number of career employees in our staff as well as increasing the range of services expected by a modern community. All of this will take an investment by our community. By being strong guardians of the public trust and revenue, we will ensure that when we need the support of our residents, they will be there for us. All of the personnel of the Arcata Fire District can be proud of the work we have done for the public.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Desmond Cowan". The signature is fluid and cursive, with a large initial "D" and "C".

Desmond Cowan, Fire Chief

**ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
June 30, 2013**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS	
Cash in County Treasury-Unrestricted/undesignated (Note 2)	\$ 2,768,266
Cash in banks (Note 2)	9,299
Imprest cash	250
Prepaid expense	55,668
Grant reimbursements receivable (Note 14b)	165,737
Interest receivable	<u>3,589</u>
Total current assets	3,002,809
Cash in County Treasury-Unrestricted/designated (Note 2)	540,562
Cash in banks - restricted (Note 13)	105,100
Capital assets, net of accumulated depreciation of \$2,159,206 (Note 9)	<u>3,241,942</u>
Total assets	6,890,413
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,890,413</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities	
Accounts payable	\$ 111,718
Accrued interest payable	26,948
Wages payable	32,810
Accrued pension payable	12,845
Grant - match payable	105,100
Deferred grant revenue (Note 14a)	6,423
Compensated time off - current	39,922
Current portion of long-term debt (Note 8)	<u>114,009</u>
Total current liabilities	449,775
Long-term liabilities	
Other post employment benefits (Note 7)	1,428,373
Accrued employee benefits, long-term	128,638
Long-term debt, net of current portion (Note 8)	<u>994,037</u>
Total long-term liabilities	2,551,048
TOTAL LIABILITIES	<u>3,000,823</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>
NET POSITION	
Invested in capital assets, net of related debt	2,161,864
Restricted	105,100
Unrestricted	<u>1,622,626</u>
TOTAL NET POSITION	<u>3,889,590</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 6,890,413</u>

See accompanying notes.

**ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2013**

	Expenses	Program Revenues Charges For Services	Net Revenue (Expense) and Changes in Net Assets Governmental Activities
Functions/Programs:			
Fire Protection	\$ 3,858,748	\$ 10,769	\$ (3,847,979)
Total Governmental Activities	3,858,748	10,769	(3,847,979)
General Revenues:			
Taxes:			
Property taxes – current secured			1,735,923
Property taxes – current unsecured			66,554
Property taxes – prior years secured and unsecured			36,630
Property taxes – current supplemental			7,787
Property taxes – prior years supplemental			3,231
Units of benefit charges			1,660,060
RDA dissolution			26,523
Total taxes			3,536,708
Grant revenue			614,918
Other revenue			22,856
Unrestricted investment earnings			17,248
Homeowners' property tax relief			27,419
State timber yield tax			661
Total Revenues			4,219,810
NON OPERATING REVENUES (EXPENSES)			
Post employment benefits			(353,373)
Gain on sale of capital assets			2,683
Total non-operating revenues (expenses)			(350,690)
Change in Net Position			21,141
Net Position – beginning of the year			3,868,449
Net Position – end of the year			\$ 3,889,590

See accompanying notes.

**ARCATA FIRE PROTECTION DISTRICT
BALANCE SHEET
JUNE 30, 2013**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS		
Cash in County Treasury – Unrestricted/undesignated	\$	2,768,266
Cash in banks		9,299
Imprest cash		250
Prepaid expenses		55,668
Grant reimbursements receivable		165,737
Interest receivable		3,589
Cash in County Treasury – Unrestricted/designated		540,562
Restricted cash		<u>105,100</u>
Total Assets		3,648,471
DEFERRED OUTFLOWS OF RESOURCES		<u> --</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		<u><u>\$ 3,648,471</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

LIABILITIES		
Accounts payable		111,718
Accrued interest payable		26,948
Wages payable		32,810
Accrued pension payable		12,845
Grant - match payable		105,100
Deferred revenue		6,423
Compensated time off		<u>39,922</u>
TOTAL LIABILITIES		335,766
DEFERRED INFLOWS OF RESOURCES		-
FUND BALANCE		
Restricted, assigned		105,100
Unrestricted, unassigned		<u>3,207,605</u>
TOTAL FUND BALANCE		<u>3,312,705</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		<u><u>\$ 3,648,471</u></u>

See accompanying notes.

ARCATA FIRE PROTECTION DISTRICT

**Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
For the Year Ended June 30, 2013**

Total Governmental Fund Balance	\$ 3,312,705
Amounts reported in governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets net of accumulated depreciation	3,241,942
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds:	
Accrued employee benefits payable	(128,638)
Other post employment benefits payable	(1,428,373)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,108,046)</u>
Net Position of Governmental Activities	<u>\$ 3,889,590</u>

See accompanying notes..

ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2013

REVENUES

Taxes:		
Property taxes – current secured	\$	1,735,923
Property taxes – current unsecured		66,554
Property taxes – prior years secured & unsecured		36,630
Property taxes – current supplemental		7,787
Property taxes – prior years supplemental		3,231
Units of benefit charge		1,660,060
RDA dissolution		<u>26,523</u>
Total taxes		3,536,708
Grant revenue		614,918
Interest Income		17,248
Homeowners' property tax relief		27,419
State timber yield tax		661
Other revenue		22,856
Firefighting reimbursement		<u>10,769</u>
TOTAL REVENUES		<u>4,230,579</u>

EXPENDITURES

Salaries and employee benefits:		
Salaries, wages and payroll taxes		1,635,840
Retirement		627,023
Employee group insurance		554,560
Workers' compensation insurance		<u>58,049</u>
Total salaries and employee benefits		<u>2,875,472</u>
Service and Supplies:		
Clothing and personal supplies		20,551
Communications		92,101
Food		4,610
Grant expenses		18,219
Household expense		4,851
Insurance		14,706
Maintenance		87,166
Memberships		9,655
Miscellaneous		3,524
Office expense		12,488
Professional and specialized service		121,725
Leases – structures (Note 15)		53,700
Special district expense (Note 11)		58,310
Small tools and equipment		55,858
Training		37,139
Transportation and travel		44,760
Utilities		<u>20,190</u>
Total services and supplies		<u>659,553</u>

See accompanying notes.

ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Continued)
Year Ended June 30, 2013

EXPENDITURES (Continued)

Capital outlay:	
Equipment purchases	\$ 388,710
Total capital outlay	<u>388,710</u>
Long-term lease obligations:	
Principle payment	108,591
Interest expense	<u>56,605</u>
Total long-term lease obligations	<u>165,196</u>
TOTAL EXPENDITURES	<u>4,088,931</u>
CHANGE IN FUND BALANCE FROM OPERATIONS	141,648
Other Sources and Uses of Funds	
Proceeds from sale of capital assets	<u>25,000</u>
Total Other Sources and Uses of Funds	25,000
Change in Fund Balance	166,648
Fund Balance – beginning of the year	<u>3,146,057</u>
Fund Balance – end of the year	<u>\$ 3,312,705</u>

See accompanying notes.

ARCATA FIRE PROTECTION DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2013**

Net change in Fund Balance	\$ 166,648
Repayment of long term lease payable is an expenditure in the governmental funds, but the repayment reduces the long term liabilities in the statement of net assets.	108,591
Capital asset purchases require the use of current financial resources and are reported as expenditures in the governmental funds, but the purchases are capitalized in the statement of net assets.	388,710
In the statement of activities the loss on the sale of fixed assets is reported. In the governmental fund the proceeds from the sale of fixed assets increases financial resources. The change in net assets differs from the change in fund balance by the cost of fixed assets sold.	(22,317)
Expenditures in the statement of activities that do not require current financial resources are not reported as expenditures in the fund.	
These expenditures include:	
Depreciation	(266,646)
Other post employment benefits	(353,373)
Repayment of employee benefits payable is an expenditure in the governmental funds, but the repayment reduces the long term liabilities in the statement of net assets.	<u>(472)</u>
Change in Net Position	<u>\$ 21,141</u>

See accompanying notes.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arcata Fire Protection District (the district) was formed on June 1, 1944 with the approval of the Humboldt County Board of supervisors. The State of California issued a Certificate of Existence to the District on March 10, 1958. Under the provisions of the Health & Safety Code, the District was reorganized under the Fire Protection District Law of 1987 (H & S Code Sections 13801-13999).

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

These financial statements present financial information for the District (the primary government). No component units were determined to exist; therefore, none are included in these financial statements.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either 1) the District's ability to impose its will over the organization or 2) the potential that the organization will provide a financial benefit to, or impose a financial burden on the District. Using these criteria the District has no component units. The following is a brief review of each potential component unit addressed in defining the District's reporting entity. *Included* within the reporting entity is the Arcata Fire Protection District. *Excluded* from the reporting entity are several other entities, including the County of Humboldt (the County), the City of Arcata, Humboldt State University, McKinleyville Community Services District, Manila Community Services District, Humboldt Bay Municipal Water District and the Arcata Volunteer Firefighter Association, which provides services to the Arcata Fire Protection District.

B. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and their reporting in the financial statements.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The statement of activities reduces gross expenses (including depreciation) by program revenues. In the statement of net position, the District's net position is reported in three parts- invested in capital assets, net of related debt, restricted, and unrestricted. For the year ended June 30, 2013, there were restricted net assets in the amount of \$105,100.

Governmental Fund Financial Statements

The District is a special-purpose government engaged in a single governmental program. The general fund is the only fund of the District. The governmental fund type uses a current financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. Measurable means the amount can be determined. Available means collectible within the current period or within 60 days after year-end. Expenses are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized when due.

Governmental fund balances are reported as reserved when the balances are not available for appropriation or expenditure. The remaining balances are unreserved fund balances. From time to time, the District agrees to set aside or designate resources for future uses. These unreserved, designated balances are based on management's tentative plans and can be changed. See Note 2 for further disclosure of designated funds.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those FASB pronouncements conflict or contradict GASB pronouncements.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgets

The District follows these procedures in establishing its budget. Budgetary data is reflected in these financial statements.

1. The Fire Chief submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing on July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The Budget is legally adopted by October 1.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the future expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for maintenance and repairs are expensed as incurred.

Depreciation of all exhaustible capital assets is charged as an expense with accumulated depreciation reflected in the statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Trucks and equipment	5-25	years
Buildings and improvements	30	years

F. Compensated Absences Payable

Compensated absences payable are expected to be liquidated with available financial resources, and are reported as expenditure and accrued liability in accordance with the provisions of statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2- CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District has no self-directed investments. The District's investments consist of cash in banks and funds invested in pooled investment funds maintained by other agencies as follows:

Cash in banks- unrestricted	\$ 9,299
Cash in banks - restricted	105,100
Cash in County Treasury-unrestricted	2,768,266
Cash in County Treasury-designated	540,562
Imprest cash	<u>250</u>
Total investments	<u>\$ 3,423,477</u>

Funds of the District deposited in the general checking and savings are insured by federal depository insurance up to \$250,000, and collateralized for the remainder of the total deposits. The District's investment policy does not restrict the amount the District may deposit with any one issuer and the policy states that all excess funds not required for immediate use be deposited in the County Treasurer's Investment Pool.

Cash in County Treasury is cash deposited in an external investment pool administered by the County of Humboldt Treasurer's Office. The cash balance is pooled with funds from other entities and invested by the Humboldt County Treasurer for the purpose of maximizing investment earnings. Interest earned from the pool is distributed to the participating funds based on their average daily balance within the pool. The District considers the cash deposited in the County Treasurers Investment Pool to be cash equivalents.

The District accounts for cash equivalents in the County Treasurer's Investment Pool at the lower of cost or fair value. Fair value is calculated annually based on statistics provided by the County Treasurer. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Based on this determination the unrealized increase in fair value of the investments was not recognized and is not included in the balances reported in these financial statements.

The Humboldt County Treasurer's Investment Pool is administered by the County of Humboldt Treasurer's Office and conforms to the California Government Code. The County's portfolio normally consists of U.S Treasury issues, U.S Agency agreements, bankers' acceptances, and the Local Agency Investment Fund. All cash invested by the County in demand deposit accounts is collateralized to 110% with approved U.S Government securities such as Treasury Bills and other U.S Treasury issues.

The District's Board has designated unrestricted/unreserved funds to be allocated among three accounts: Capital Improvements, Contingency Designation, and PERS Designation. The PERS Designation account allows the District the ability to make lump sum payments to PERS on an annual basis which saves on cost and to compensate for unanticipated increases in PERS contributions. The Contingency Designation account provides the District with emergency funds for large/high cost building repairs, equipment

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2- CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

replacement, apparatus repairs and similar unanticipated expenditures. The Capital Improvements Designation account allows the District to coordinate funding of capital improvement projects or apparatus replacement within the normal operating budget.

The accounts are held in the County Treasury and had the following balances at June 30, 2013:

Contingency Designation	\$ 213,494
PERS Designation	-0-
Capital Improvements Designation	<u>327,068</u>
Total Cash in County Treasury – designated	<u>\$ 540,562</u>

Also see Note 12 for a summary of designated fund activity for the year ended June 30, 2013.

NOTE 3- SPECIAL TAX

On November 5, 1996, state voters approved Proposition 218 which nullified the Arcata Fire Protection Benefit Assessment upon which the District had relied for approximately 30% of its funding for over ten years.

On June 3, 1997, the voters in the District approved a special tax to replace those funds lost when Proposition 218 was passed. The tax, which is assessed on units or multiple units of benefit, ranges from \$5 for a single-family residence to \$100 for heavy industrial use. The special tax is assessed, collected and distributed to the District by the County.

On August 25, 2006, a benefit assessment was passed by the voters in the Arcata Fire Protection District. There is no expiration to this benefit assessment. The assessment is \$22 per unit of benefit, which equates to \$22 to \$264 depending upon the land use code. The revenue is collected by the County of Humboldt for all parcels except parcels deemed by the County of Humboldt to be of low value or owned by a public entity. The billing and collection of fees for the low value or public owned parcels is done by the District. Fees collected by the District for the low value and public entity owned parcels are deposited into the District's Cash in County Treasury account.

NOTE 4- PROPERTY TAXES

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4- PROPERTY TAXES (continued)

The County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvement) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on the state formula. The District's tax rate is \$.06/\$100 of assessed value, the maximum allowable under Proposition 13.

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted. Under this plan, the County Auditor-Controller distributes 100 percent of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

The District's share of the taxes collected by the County is calculated based on a formula established by the State of California.

NOTE 5- DEFERRED COMPENSATION PLAN

The District offers employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to all full-time non-seasonal District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan was revised in 1999 by the plan administrator. The assets of the retirement plan are held in a trust for the exclusive benefit of the participants and their beneficiaries and are not accessible by the government or its creditors. The participants or beneficiaries assume the risk of loss from declines in the value of plan assets. The plan is administered by an independent plan administrator.

Effective June 30, 1999, the District adopted GASB 32 which provides accounting and reporting guidance for deferred compensation plans under the revised provisions of IRC section 457. Under GASB 32, the assets and liabilities of the plan are not reported in the financial statements of the District.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 – PENSION PLAN

a. Plan Description

The District contributes to two retirement plans, the safety plan and the miscellaneous plan, under the California Public Employees' Retirement System (CalPERS), a cost sharing multi-employer public employee retirement system defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the State of California. The safety plan covers the District's firefighters and the miscellaneous plan covers other District employees.

The plans provide retirement, disability, and unused sick leave benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Menus of benefit provisions, as well as other requirements are established by state statutes, as legislatively amended within the Public Employees' Retirement Law. California Government Code, Part 3, sections 20000-21600 governs PERS. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through resolution. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the Cal PERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

b. Funding Policy

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 46.177% of annual payroll for the safety plan. The required employer contribution rate for fiscal year 2012-2013 was 10.298% of annual payroll for the miscellaneous plan. The contribution requirements of the plan members are established by state statute.

c. Annual Pension Costs

Employer contributions are calculated in conformance with the provisions of GASB Statements No. 27 as a percentage of covered payrolls. Therefore, the contributions transmitted to the System are equal to the Annual Required Contribution (ARC), and there is no Net Pension Obligation (NPO) required. For the fiscal year ended June 30, 2013, the District's total annual pension cost of \$595,204 was equal to the required and actual contributions of the District. For both the safety and miscellaneous plans, the required contributions were determined as part of the June 30, 2011 actuarial valuations using the entry age actuarial cost method. Significant actuarial assumptions used in the valuations include (A) an actuarially assumed investment return of 7.50% per annum, (B) salary increases based on a scale that assumes salary increases vary by length of service and type of employment, between 3.30% to 14.20%, (C) an assumed inflation rate of 2.75% in future years and (D) a 3.00% overall growth in payroll.

**ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 6 – PENSION PLAN (Continued)

d. Employer Side-Fund

At the time of joining the risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the District's plan. A negative side fund causes the required annual employer contribution rate to be increased by the amortization of the side fund. As of June 30, 2013 the District's side fund was a negative \$803,960

e. Five-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	447,420	100%	-0-
6/30/09	512,447	100%	-0-
6/30/10	625,074	100%	-0-
6/30/11	730,340	100%	-0-
6/30/12	595,204	100%	-0-

See the required supplementary information on page 32 for the funded status of plan pool for the safety and miscellaneous plans.

NOTE 7 – OTHER POST- EMPLOYMENT BENEFITS

Plan Description

The district provides post-employment health care benefits through a single employer defined benefit plan. Retirees who are age 50 or over are eligible to obtain medical coverage. Medical coverage is also provided for the surviving spouse of retired employees and the surviving spouse of active employees who upon death had attained age 50 and who had a minimum of 10 years of service with the District. The Plan does not provide a publicly available financial report.

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the District and/or the employee associations. The District is currently funding this OPEB obligation on a pay-as-you-go basis. For the year ended June 30, 2013, the District paid \$ 135,982 in health care costs for its retirees and their covered dependents.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – OTHER POST- EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. 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 liabilities of the plan over a period not to exceed thirty years.

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 Retiree Health Plan:

Annual required contribution		\$ 506,968
Interest on net OPEB obligation		48,375
Adjustment to annual required contribution		<u>(48,439)</u>
Annual OPEB cost (expense)		506,904
Actual contributions made		<u>(153,531)</u>
Increase in net OPEB obligation		353,373
Net OPEB Obligation – beginning of year		<u>1,075,000</u>
Net OPEB Obligation – end of year		<u>\$ 1,428,373</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/10	\$ 454,148	\$ 108,315	23.85%	\$ 345,833
06/30/11	484,470	134,733	27.81%	349,737
06/30/12	517,591	138,161	26.69%	379,430
06/30/13	506,904	153,531	30.22%	353,373

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – OTHER POST- EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

As of July 1, 2012, the plan was zero percent funded. The actuarial accrued liability for benefits was \$5,569,066, and the actuarial value of assets was zero, resulting in an unfunded accrued liability (UAL) of \$5,569,066. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,283,821 and the ratio of the UAL to the covered payroll was 433.79%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial 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 the calculations. In the July 1, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an investment interest rate of 4.5% per annum, a projected salary increase of 3.25% per annum and a general inflation rate of 3.00% per annum.

NOTE 8 – BONDED INDEBTEDNESS AND LONG-TERM DEBT

The District has no bonded indebtedness.

In 1983-84 the District received \$58,861 from the State of California for business inventory subventions. Subsequent collections of special appropriations and supplemental roll tax collections reduced the advance to \$29,952 as of January 15, 1986, and on April 3, 1986, the State of California and the District entered into a loan agreement for that amount at 0% interest. At June 30, 2013, the District's unpaid balance was \$27,967.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 – BONDED INDEBTEDNESS AND LONG-TERM DEBT (Continued)

A lease with an option to purchase two 2007 Ferrara Engines and one 2008 Ferrara Engine was executed on March 14, 2011 in the amount of \$470,700. The lease calls for annual payments in the amount of \$91,886 for six years beginning January, 2012. This lease was a refinance of the previous lease that originated on September 26, 2006 and had a remaining balance of \$459,292 at the time of the refinance.

On March 14, 2011 an additional lease with an option to purchase two new Ferrara Engines was executed in the amount of \$832,930. The lease calls for annual payments in the amount of \$76,018 for six years beginning January, 2012, followed by three payments of \$167,905 and a final payment of \$159,685. The two new engines were delivered to the District in November, 2011.

A schedule of changes in long-term debt for the year ended June 30, 2013, is shown below:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</u>
State loan payable	\$ 27,967	\$ -	\$ -	\$ 27,967
Refinance Ferrara truck loan	397,930	-	72,030	325,900
New Ferrara truck loan	<u>790,739</u>	<u>-</u>	<u>36,561</u>	<u>754,178</u>
 Total	 <u>\$ 1,216,636</u>	 <u>\$ -</u>	 <u>\$ 108,591</u>	 1,108,045
Less amount due within one year				<u>(114,009)</u>
Long-term debt, net of current portion				<u>\$ 994,036</u>

The annual debt service requirements to maturity are as follows:

Year ending June 30,	<u>Total Payment</u>	<u>Interest</u>	<u>Principle</u>
2014	\$ 167,905	53,896	114,009
2015	167,905	48,206	119,699
2016	167,905	42,234	125,671
2017	167,905	35,963	131,942
2018	167,905	29,379	138,526
2019 and thereafter	<u>523,463</u>	<u>45,265</u>	<u>478,198</u>
Totals	<u>\$ 1,362,988</u>	<u>\$ 254,943</u>	<u>\$ 1,108,045</u>

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9-CAPITAL ASSETS

The following table summarizes the changes in components of the capital assets for the fiscal year ended June 30, 2013:

	Balance <u>6/30/12</u>	Additions	Deletions	Balance <u>6/30/13</u>
Land	\$ 224,630	\$ -	\$ -	\$ 224,630
Buildings	412,530	-	-	412,530
Equipment	4,538,573	388,710	(163,295)	4,763,988
Less accumulated depreciation	<u>(2,033,538)</u>	<u>(266,646)</u>	<u>140,978</u>	<u>(2,159,206)</u>
Capital assets net of depreciation	<u>\$ 3,142,195</u>	<u>\$ 122,064</u>	<u>\$ (22,317)</u>	<u>\$ 3,241,942</u>

NOTE 10- RISK MANAGEMENT

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and health and welfare of employees.

The District purchases insurance coverage from FAIRA (Fire Agencies Insurance Risk Authority). FAIRA provides coverage for automobile, general liability, errors and omissions losses and property as follows:

Auto liability –combined single limit	\$ 1,000,000
General aggregate	2,000,000
Management liability	1,000,000
Umbrella liability	10,000,000
Each occurrence or wrongful act	1,000,000
Garagekeepers legal liability	250,000

For the fiscal year ending June 30, 2013, the annual premium to FAIRA was \$14,706.

The County of Humboldt, Risk Management Division, Workers Compensation Program, a risk sharing pool administered by the County, provides worker's compensation benefits for its members. The premium paid to the County for the fiscal year ending June 30, 2013 was \$58,049.

Management believes coverage maintained is sufficient to preclude any significant uninsured losses to the District.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 11- SPECIAL DISTRICT EXPENSE

Special District Expense for the year ended June 30, 2013 included the following:

Certifications	\$	996
Emergency supply cache stations		216
Fire Prevention		1,129
USAR Team Administration		4,300
Miscellaneous		5,814
Public education		2,354
Recruitment - Fire Chief		29,801
Reserve firefighter program		<u>13,700</u>
Total	\$	<u>58,310</u>

NOTE 12 – DESIGNATED FUNDS EXPENDITURES AND TRANSFERS

The following table summarized the activity in the three designated funds during the year ended June 30, 2013:

	Contingency <u>Designation</u>	Capital Improvements <u>Designation</u>	PERS <u>Designation</u>	<u>Total</u>
Balance at 6/30/2012	\$ 297,253	\$ 314,769	\$ -	\$ 612,022
Less expenditures:				
Strategic Planning Task #1	(4,800)	-	-	(4,800)
Strategic Planning Tasks # 2&3	(7,600)	-	-	(7,600)
Strategic Planning Task #4	(4,300)	-	-	(4,300)
Modular Workstation	(67,059)	-	-	(67,059)
AED Defibulator	<u>-</u>	<u>(12,701)</u>	<u>-</u>	<u>(12,701)</u>
Total expenditures	(83,759)	(12,701)	-	(96,460)
Additions:				
Sale of 1990 Beck Pumper	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Balance at 6/30/2013	<u>\$ 213,494</u>	<u>\$ 327,068</u>	<u>\$ -</u>	<u>\$ 540,562</u>

**ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 12 – DESIGNATED FUNDS EXPENDITURES AND TRANSFERS (Continued)

The total expenditures from the designated funds during the fiscal year ended June 30, 2013 were reported as:

Capitalized equipment purchase	\$ 79,760
Professional and specialized services	<u>16,700</u>
 Total expenditures	 <u>\$ 96,460</u>

NOTE 13 - RESTRICTED FUNDS

The District had the following restricted funds at 6/30/2013:

	FEMA-AFG
	<u>Grant</u>
Balance at 6/30/2012	\$ 31,850
Deposits from:	
Various Fire Districts-matching funds	73,250
Expenditures:	<u>-</u>
Balance at 6/30/2013	<u>\$ 105,100</u>

See Note 14 below for information on the FEMA AFG grant.

NOTE 14 - FEDERAL GRANTS AWARDED

The District was awarded three grants during the year ended 6/30/2012:

a. FEMA Assistance to Firefighters Grant (AFG) Program - Operations and Safety Program

This grant is primarily to fund a communications project that includes the replacement of outdated and unreliable mountaintop repeaters and updating the regional Emergency Communications Center (ECC). The ECC dispatches 40 of the 42 fire agencies in Humboldt County. The amount awarded under this grant is \$604,578 and requires \$151,144 (20% of total expenditures) to be paid in matching funds by the District for total expenditures of \$755,722.

The budget period of this grant is from October 31, 2011 to September 30, 2012 and the performance period is from February 12, 2012 to February 11, 2013. During the year ended June 30, 2013, there were \$392,392 in expenditures made under this grant and \$325,565 in reimbursements from FEMA. Participating local fire agencies paid the District an additional \$73,250, for a total of \$105,100, for their shares of the matching funds required and this money is classified as restricted assets and as a short term liability in the District's financial statements.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 14 - FEDERAL GRANTS AWARDED (Continued)

b. FEMA Staffing for Adequate Fire and Emergency Response (SAFER) - Recruitment Program

This grant is to provide funding directly to fire departments and volunteer firefighter interest organizations in order to help them increase the number of trained "front-line" firefighters in their communities. It is intended to be used primarily for volunteer firefighter recruitment and retention. The amount awarded in this grant is \$483,236 with no matching fund requirement.

The budget period for this grant is from November 12, 2010 to September 30, 2011 and the performance period is from June 26, 2011 to June 25, 2015. During the year ended 6/30/2013, there were \$50,959 in expenditures made under this grant and \$18,196 in reimbursements received from FEMA.

c. FEMA Staffing for Adequate Fire and Emergency Response (SAFER) - Hiring Program

This grant is to provide funding directly to fire departments and volunteer firefighter interest organizations in order to help them increase the number of trained "front-line" firefighters in their communities. It is intended to be used primarily to hire and pay salaries and fringe benefits for three firefighters for two years. The amount awarded in this grant is \$553,953 with no matching fund requirement.

The budget period for this grant is from January 26, 2012 to September 12, 2012 and the performance period is from September 22, 2012 to September 21, 2014. There were \$177,637 in expenditures made under this grant during the year ended June 30, 2013 and \$111,843 in reimbursements from FEMA.

NOTE 15- OPERATING LEASE

The District leases its facility under a month-to-month lease agreement with the Arcata Volunteer Fire Department. Monthly lease payments were \$3,740 through November, 2012, then increased to \$5,000 beginning December, 2012, due to expanded use of the facilities by the District.

NOTE 16-GANN LIMIT

Proposition 4, the "Gann" initiative, was passed by California voters in 1978 and is intended to limit government appropriations. According to California law, special districts must use the 1978-79 appropriations as a base year and modify that figure by the composite consumer price index and population changes which have accrued in subsequent years. Management calculated the appropriations limit for the year ended June 30, 2013, using the entire County population growth data and the blended City of Arcata/County unincorporated growth data. Based upon both calculations, the District's appropriations remain below the Gann limitation.

ARCATA FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Taxes				
Property taxes - current secured	\$ 1,626,668	\$ 1,633,050	\$ 1,735,923	\$ 102,873
Property taxes - current unsecured	71,080	71,080	66,554	(4,526)
Property taxes - prior yrs secured & unsecured	27,886	45,546	36,630	(8,916)
Property taxes - current supplemental	28,618	28,618	7,787	(20,831)
Property taxes - prior years supplemental	5,341	5,341	3,231	(2,110)
Units of benefit charges	1,655,941	1,657,268	1,660,060	2,792
RDA dissolution revenue	0	16,500	26,523	10,023
Total taxes	3,415,534	3,457,403	3,536,708	79,305
Interest income	20,000	33,800	17,248	(16,552)
Homeowners property tax relief	28,230	28,230	27,419	(811)
State timber tax	884	884	661	(223)
Other services and sales	1,280	1,280	0	(1,280)
Sale of Fixed Assets	5,000	5,000	25,000	20,000
Aid from private parties	6,400	6,400	12,759	6,359
Other revenue	36,163	50,730	10,097	(40,633)
Grant revenue	0	271,755	614,918	343,163
Firefighting reimbursement	80,000	80,000	10,769	(69,231)
Total Income	3,593,491	3,935,482	4,255,579	320,097
Expense				
Salaries, wages and payroll taxes	1,556,950	1,786,960	1,635,840	(151,120)
Retirement	589,480	642,700	627,023	(15,677)
Employee group insurance	546,200	543,220	554,560	11,340
Workers compensation insurance	70,000	78,000	58,049	(19,951)
Total salaries and employee benefits	2,762,630	3,050,880	2,875,472	(175,408)
Services and supplies				
Clothing and personal supplies	18,000	25,000	20,551	(4,449)
Communications	122,300	122,400	92,101	(30,299)
Food	7,500	7,500	4,610	(2,890)
Grant expense	0	0	18,219	18,219
Household expense	4,700	4,700	4,851	151
Insurance	16,354	16,354	14,706	(1,648)
Maintenance - equipment	72,300	76,000	47,541	(28,459)
Maintenance - electronic equipment	12,400	12,400	9,556	(2,844)
Maintenance - structure	27,200	27,200	30,069	2,869
Dues and subscriptions	8,600	12,100	9,655	(2,445)
Miscellaneous expense	2,500	2,500	2,597	97
Office expense	13,000	14,500	12,488	(2,012)
Professional services	35,400	77,900	121,725	43,825

ARCATA FIRE PROTECTION DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 Year ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Publications and notices	\$ 2,500	\$ 2,500	\$ 927	\$ (1,573)
Rent	44,880	56,000	53,700	(2,300)
Special District expense	66,000	85,400	58,310	(27,090)
Small tools and equipment	72,700	60,700	55,858	(4,842)
Training	56,000	45,000	37,137	(7,863)
Transportation and travel	50,000	50,000	44,760	(5,240)
Utilities	18,500	18,500	20,192	1,692
Total services and supplies	<u>650,867</u>	<u>716,654</u>	<u>659,553</u>	<u>(57,101)</u>
Capital outlay:				
Equipment purchases	0	0	388,710	388,710
Principal payments	108,591	108,591	108,591	0
Interest expense	59,314	59,314	56,605	(2,709)
TOTAL EXPENSES	<u>3,581,402</u>	<u>3,935,439</u>	<u>4,088,931</u>	<u>153,492</u>
Change in Fund Balance	<u>\$ 12,089</u>	<u>\$ 43</u>	166,648	<u>\$ 166,605</u>
Fund Balance - beginning of the year			3,146,057	
Fund Balance - end of the year			<u>\$ 3,312,705</u>	

ARCATA FIRE PROTECTION DISTRICT

FUNDED STATUS OF PLAN POOL – SAFETY PLAN AND MISCELLANEOUS PLAN

For the year ended June 30, 2013

PENSION PLAN – Required supplementary information required by GASB 27 for a cost-sharing multiple-employer defined benefit plan:

Required Supplementary Information

Funded Status of Plan Pool – Safety Plan: 3% at 50

Valuation Date	Normal Accrued Liability (Per \$1,000)	Actuarial Value of Assets (Per \$1,000)	Unfunded Liability/ (Excess Assets) (Per \$1,000)	Funded Status	Annual Covered Payroll (Per \$1,000)	UAAL As a % of Payroll
6/30/08	8,700,468	7,464,928	1,235,540	85.8%	914,840	135.1%
6/30/09	9,721,675	8,027,159	1,694,517	82.6%	973,814	174.0%
6/30/10	10,165,475	8,470,235	1,695,240	83.3%	955,980	177.3%
6/30/11	10,951,745	9,135,654	1,816,091	83.4%	949,833	191.2%
6/30/12	11,724,021	9,854,788	1,869,234	84.1%	947,735	197.2%

Required Supplementary Information

Funded Status of Plan Pool – Miscellaneous Plan: 2.7% at 55

Valuation Date	Normal Accrued Liability (Per \$1,000)	Actuarial Value of Assets (Per \$1,000)	Unfunded Liability/ (Excess Assets) (Per \$1,000)	Funded Status	Annual Covered Payroll (Per \$1,000)	UAAL As a % of Payroll
6/30/08	1,823,366	1,529,549	293,818	83.9%	414,589	70.9%
6/30/09	2,140,439	1,674,260	466,179	78.2%	440,071	105.9%
6/30/10	2,297,871	1,815,672	482,200	79.0%	434,023	111.1%
6/30/11	2,486,709	1,981,073	505,635	79.7%	427,300	118.3%
6/30/12	2,680,181	2,178,800	501,382	81.3%	417,600	120.1%

ARCATA FIRE PROTECTION DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 For the year ended June 30, 2013

OTHER POST-EMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)-(a)	Funded Ratio AVA (a)/(b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(b)-(a)]/(c)
07/1/09	\$ -	\$ 4,277,158	\$ 4,277,158	-	\$ 1,331,261	321.29%
07/1/10	-	4,639,031	4,639,031	-	1,262,878	367.34%
07/1/11	-	5,080,649	5,080,649	-	1,461,170	347.71%
07/1/12	-	5,569,066	5,569,066	-	1,283,821	433.79%

ARCATA FIRE PROTECTION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security, Federal Emergency Management Agency Direct Programs:			
Assistance to Firefighters Grant Program (AFG) - Operations and Safety Program	97.044	N/A	\$ 392,392
Staffing for Adequate Fire and Emergency Response (SAFER) - Recruitment	97.044	N/A	50,959
Staffing for Adequate Fire and Emergency Response (SAFER) - Hiring	97.083	N/A	<u>177,637</u>
Total expenditures of federal awards			<u>\$ 620,988</u>

See accompanying notes to schedule of expenditures of federal awards.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Arcata Fire Protection District under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Arcata Fire Protection District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Arcata Fire Protection District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**ARCATA FIRE PROTECTION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Arcata Fire Protection District.
2. The audit did not disclose any noncompliance that is material to the financial statements.
3. The auditor's report on compliance for the major federal award programs for Arcata Fire Protection District expresses an unmodified opinion on all major programs.
4. The audit did not disclose any audit findings relating to major programs that the auditor is required to report in accordance with Section 510(a) of OMB Circular A-133.
5. The programs tested as major programs were:

U.S. Department of Homeland Security,
Federal Emergency Management Agency:

Assistance to Firefighters Grant Program
(AFG) - Operations and Safety Program CFDA No. 97.044

Staffing for Adequate Fire and Emergency
Response (SAFER) - Hiring CFDA No. 97.083

6. The threshold for distinguishing between Type A and Type B programs was \$300,000.
7. The auditee was not qualified as a low-risk auditee.

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

To the Board of Directors
Arcata Fire Protection District

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 government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arcata Fire Protection District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Arcata Fire Protection District's basic financial statements, and have issued our report thereon dated May 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arcata 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 Arcata Fire Protection District's internal control. Accordingly, we do not express an opinion on the effectiveness of Arcata 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arcata Fire Protection District's financial statements are free from material misstatements, we performed test of its compliance with certain 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.

A handwritten signature in cursive script, appearing to read "D. H. Watts".

May 24, 2014