

D.R. Watts Accountancy Corporation

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December 5, 2013

Desmond Cowan, Fire Chief
Arcata Fire Protection District
631 9th Street
Arcata, CA 95521

RE: Capital Outlay FYE 6/30/2012

Chief Cowan,
In response to your inquiry regarding the capital outlay reported on page 13 of the Statement of Revenues, Expenditures, and Changes in Fund Balances, I offer the following explanation:

The total capital outlay of \$934,499 for the year ended June 30, 2013 consisted of the following purchases:

Ferrara Engine # 8215	\$416,465
Ferrara Engine # 8217	416,465
Rebuild Engine # 8212	75,055
Mobile data terminals	12,946
2010 Chevy Impala	<u>13,567</u>
Total	<u>\$934,498</u>

Also on page 13 of the same report, you will find under "Other Sources and Uses Of Funds" the proceeds from long-term debt (for the two Ferrara Engines) in the amount of \$832,930. More information on this loan can be found in Footnote 8 on page 25.

Please let me know if there are any additional questions you may have.

Sincerely,
Diane Watts

Diane Watts, CPA

Arcata Fire Protection District

Audited Financial Statements
For the Year Ended

June 30, 2012

Prepared by:
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ARCATA FIRE PROTECTION DISTRICT
 AUDITED FINANCIAL STATEMENTS
 JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arcata Fire Protection District
Arcata, California

We have audited the accompanying financial statements of the Arcata Fire Protection District as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Arcata Fire Protection District. Our responsibility is to express an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Arcata Fire Protection District as of June 30, 2012, and the results of operations for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting principles prescribed by the State Controller's Office and State regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 11, 2013, addressing our consideration of Arcata Fire Protection District's internal control over financial reporting. Also reported are our findings on the District's

compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

The Management Discussion and Analysis on pages 3 - 7 and the required supplementary information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "D.R. Watts Accountancy Corp".

D.R. Watts Accountancy Corporation
February 11, 2013

ARCATA FIRE PROTECTION DISTRICT

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(707) 825-2000 FAX: (707) 822-7951

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Management's Discussion and Analysis

For the Fiscal Year ended June 30, 2012

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, 2012. 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 Assets and Statement of Activities*) are designed to provide readers with a broad overview of the District's finances. The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. 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 assets 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 full understanding of the data provided in the District's financial statements.

Financial Analysis of the Fund Financial Statements

In FY 11/12, the District received revenues of \$3,604,510 and expended \$4,719,209. The net result was expenditures over revenues of \$ (1,312,699).

In November, 2011 two new Ferrara Engines were delivered under a lease with an option to purchase for a total of \$832,930 payable over ten years. Additional capital expenditures in the amount of \$101,568 were used to rebuild Engine 8212, purchase a Chevy Impala, and acquire mobile data terminals. The Pierce pumper and the 2000 Ford Expedition were sold during the year for \$41,200.

In February, 2012 the District Board chose to submit payment to CalPERS for the purpose of reducing our "side fund" obligation. The "side fund" is an obligation owed to CalPERS by the District to fund our full participation in the PERS risk pool. By paying off half the side fund obligation in the amount of \$874,304, we were able to significantly reduce the payroll rate charged to the District for retirement benefits. Our labor groups (the Arcata Fire District Employee's Association 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 Employee's Retirement System made this year by the Governor. Combined, these will over time help reduce the budget impact of retirement and insurance costs.

In the fiscal year ended June 30, 2012, the District experienced another busy year of emergency responses, saw growth due to grant funding, and began the recruitment process for a new Fire Chief. The career staff and volunteers responded to a total of 2,414 incidents this year, an increase of 174 incidents from 2011. Our fire responses decreased by 23 to a total of 124, while our rescue and emergency medical responses increased by 27 to a total of 1,146. We are pleased to report that there were no fire deaths for the year.

The National Volunteer Fire Council published an article in 2011, 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.

The Fire District's operating budget for 2011-2012 was \$3,658,254. 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 77.6% 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 10.5% 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 7.3% 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 3% of the budget. 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, 1.6% 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, 2012, the net assets changed as follows:

Beginning balance	\$ 5,181,148
Increase (decrease)	<u>(1,312,699)</u>
Ending balance	<u>\$ 3,868,449</u>

The following table shows the District's assets and liabilities as reported in the government-wide financial statements of June 30, 2012 and 2011:

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Change</u>
ASSETS:			
Cash in County Treasury – Unrestricted	\$ 2,579,580	\$ 2,668,553	\$ (88,973)
Cash in banks	148,581	262,755	(114,174)
Imprest cash	250	250	-
Prepaid expense	10,128	-	10,128
Accounts receivable	-	1,439	(1,439)
Grant reimbursement receivable	30,152	-	30,152
Interest receivable	6,500	12,435	(5,935)
Cash in County Treasury – Designated	612,022	1,191,272	(579,250)
Cash in banks - Restricted	31,850	-	31,850
Capital assets, net of accumulated depreciation	<u>3,142,195</u>	<u>2,572,731</u>	<u>569,464</u>
TOTAL ASSETS	<u>\$ 6,561,258</u>	<u>\$ 6,709,435</u>	<u>\$ (148,177)</u>

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Change</u>
LIABILITIES:			
Accounts payable	\$ 100,614	\$ 61,504	\$ 39,110
Accrued interest payable	29,658	19,582	10,076
Wages payable	21,917	69,104	(47,187)
Accrued pension payable	9,492	-	9,492
Grant expenses payable	15,000	-	15,000
Deferred grant revenue	31,850	-	31,850
Compensated time off	64,475	44,242	20,233
Compensated vacation and holiday pay	128,167	139,617	(11,450)
Other post employment benefits	1,075,000	695,570	379,430
Debt not invested in capital assets	27,967	27,967	-
Current portion of long-term debt	108,591	-	108,591
Long-term debt net of current portion	<u>1,080,078</u>	<u>470,700</u>	<u>609,378</u>
TOTAL LIABILITIES	<u>\$ 2,692,809</u>	<u>\$ 1,528,286</u>	<u>\$ 1,164,523</u>

The following table shows the District's revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011:

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Change</u>
REVENUES:			
Property tax revenue	\$ 3,486,214	\$ 3,430,155	\$ 56,059
Fire protection revenue	36,132	28,891	7,241
Grant revenue	-	5,000	(5,000)
Other revenue	51,422	42,037	9,385
Unrestricted investment earnings	<u>30,742</u>	<u>40,012</u>	<u>(9,270)</u>
TOTAL REVENUES	<u>\$ 3,604,510</u>	<u>\$ 3,546,095</u>	<u>\$ 58,415</u>
OPERATING EXPENSES:			
Salaries and employee benefits	\$ 2,698,837	\$ 2,428,158	\$ 270,679
Clothing and personal supplies	13,297	18,327	(5,030)
Communications	79,947	62,199	17,748
Depreciation	279,865	257,303	22,562
Food	6,573	7,609	(1,036)
Household expenses	3,135	5,209	(2,074)
Insurance	16,354	17,131	(777)
Interest expense	62,451	45,776	16,675
Maintenance	102,380	105,604	(3,224)
Memberships	13,182	3,451	9,731

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Change</u>
Miscellaneous	2,147	414	1,733
Office expense	10,708	9,433	1,275
Professional and specialized services	84,832	71,661	13,171
Rents and leases – structures	44,880	44,880	-
Small tools and instruments	47,622	57,084	(9,462)
Special district expense	44,860	43,218	1,642
Training	41,452	37,522	3,930
Transportation and travel	49,406	47,308	2,098
Utilities	<u>17,578</u>	<u>16,059</u>	<u>1,519</u>
TOTAL OPERATING EXPENSES	<u>3,619,506</u>	<u>3,278,346</u>	<u>341,160</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>379,430</u>	<u>349,737</u>	<u>29,693</u>
TOTAL NON-OPERATING EXPENSES	1,297,703	349,737	947,966
TOTAL EXPENSES	<u>4,917,209</u>	<u>3,628,083</u>	<u>1,289,126</u>
CHANGE IN NET ASSETS	<u>\$ (1,312,699)</u>	<u>\$ (81,988)</u>	<u>\$ (1,230,711)</u>

This year of growth and transition would not have been possible without the hard work, dedication and collaboration of the career staff, volunteers, senior management team and the District Board. I extend my heartfelt appreciation to everyone for a job well done. I look forward to seeing this camaraderie and commitment to excellence continue as we enter into 2013.

Respectfully submitted,



Justin McDonald, Interim Fire Chief

**ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012**

ASSETS

Current assets

Cash in County Treasury-Unrestricted/undesignated (Note 2)	\$ 2,579,580
Cash in banks (Note 2)	148,581
Imprest cash	250
Prepaid expense	10,128
Grant reimbursements receivable (Note 14b)	30,152
Interest receivable	<u>6,500</u>
Total current assets	2,775,191

Cash in County Treasury-Unrestricted/designated (Note 2)	612,022
Restricted cash (Note 13)	31,850
Capital assets, net of accumulated depreciation of \$2,033,538 (Note 9)	<u>3,142,195</u>

TOTAL ASSETS 6,561,258

LIABILITIES

Current liabilities

Accounts payable	\$ 100,614
Accrued interest payable	29,658
Wages payable	21,917
Accrued pension payable	9,492
Grant expenses payable (Note 14b)	15,000
Deferred grant revenue (Note 14a)	31,850
Compensated time off - current	64,475
Current portion of long-term debt (Note 8)	<u>108,591</u>
Total current liabilities	<u>381,597</u>

Long-term liabilities

Other post employment benefits (Note 7)	1,075,000
Accrued employee benefits, long-term	128,167
Long-term debt, net of current portion (Note 8)	<u>1,108,045</u>
Total long-term liabilities	<u>2,311,212</u>

TOTAL LIABILITIES 2,692,809

NET ASSETS

Invested in capital assets, net of related debt	1,953,526
Restricted	31,850
Unrestricted	<u>1,883,073</u>

TOTAL NET ASSETS \$ 3,868,449

See accompanying notes to the financial statements.

**ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2012**

	Expenses	Program Revenues Charges For Services	Net Revenue (Expense) and Changes in Net Assets Governmental Activities
Functions/Programs:			
Fire Protection	\$ 3,619,506	\$ 36,132	\$ (3,583,374)
Total Governmental Activities	3,619,506	36,132	(3,583,374)
General Revenues:			
Taxes:			
Property taxes – current secured			1,690,899
Property taxes – current unsecured			67,159
Property taxes – prior years secured and unsecured			28,812
Property taxes – current supplemental			10,226
Property taxes – prior years supplemental			3,265
Units of benefit charges			1,657,268
Homeowners’ property tax relief			27,890
State timber yield tax			695
Total taxes			3,486,214
Other revenue			51,422
Unrestricted investment earnings			30,742
Total Revenues			3,568,378
NON OPERATING REVENUES (EXPENSES)			
PERS employers side-fund paid			(874,304)
Post employment benefits			(379,430)
Loss on sale of capital assets			(43,969)
Total non-operating revenues (expenses)			(1,297,703)
Change in Net Assets			(1,312,699)
Net Assets – beginning of the year			5,181,148
Net Assets – end of the year			\$ 3,868,449

See accompanying notes to the financial statements.

**ARCATA FIRE PROTECTION DISTRICT
BALANCE SHEET
JUNE 30, 2012**

ASSETS

Cash in County Treasury – Unrestricted/undesignated	\$	2,579,580
Cash in banks		148,581
Imprest cash		250
Prepaid expenses		10,128
Grant reimbursements receivable		30,152
Interest receivable		6,500
Cash in County Treasury – Unrestricted/designated		612,022
Restricted cash		<u>31,850</u>
TOTAL ASSETS	\$	<u>3,419,063</u>

LIABILITES AND FUND BALANCE

LIABILITIES

Accounts payable		100,614
Accrued interest payable		29,658
Wages payable		21,917
Accrued pension payable		9,492
Grant expenses payable		15,000
Deferred revenue		31,850
Compensated time off		<u>64,475</u>

TOTAL LIABILITIES

273,006

FUND BALANCE

Restricted, assigned		31,850
Unrestricted, unassigned		<u>3,114,207</u>

TOTAL FUND BALANCE

3,146,057

TOTAL LIABILITIES AND FUND BALANCE

\$ 3,419,063

See accompanying notes to the financial statements.

ARCATA FIRE PROTECTION DISTRICT

**Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
For the Year Ended June 30, 2012**

Total Governmental Fund Balance	\$ 3,146,057
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	3,142,195
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	(128,167)
Other post employment benefits payable	(1,075,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,216,636)</u>
Net Assets of Governmental Activities	<u>\$ 3,868,449</u>

See accompanying notes to the financial statements.

ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2012

REVENUES

Taxes:	\$ 1,690,899
Property taxes – current secured	67,159
Property taxes – current unsecured	28,812
Property taxes – prior years secured & unsecured	10,226
Property taxes – current supplemental	3,265
Property taxes – prior years supplemental	1,657,268
Units of benefit charge	27,890
Homeowners' property tax relief	695
State timber yield tax	<u>3,486,214</u>
Total taxes	30,742
Interest Income	51,422
Other revenue	36,132
Firefighting reimbursement	<u>3,604,510</u>
TOTAL REVENUES	

EXPENDITURES

Salaries and employee benefits:	1,461,170
Salaries, wages and payroll taxes	741,280
Retirement	463,169
Employee group insurance	44,668
Workers' compensation insurance	<u>2,710,287</u>
Total salaries and employee benefits	
Service and Supplies:	13,297
Clothing and personal supplies	79,947
Communications	6,573
Food	3,135
Household expense	16,354
Insurance	102,380
Maintenance	13,182
Memberships	2,147
Miscellaneous	10,708
Office expense	84,832
Professional and specialized service	44,880
Leases – structures (Note 15)	44,860
Special district expense (Note 11)	47,622
Small tools and equipment	41,452
Training	49,406
Transportation and travel	17,578
Utilities	<u>578,353</u>
Total services and supplies	

See accompanying notes to the financial statements.

ARCATA FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Continued)
Year Ended June 30, 2012

EXPENDITURES (Continued)

Capital outlay:	\$ 934,499
Equipment purchases	<u>934,499</u>
Total capital outlay	
Long-term lease obligations:	
Proceeds from long-term debt	----
Principle payment	114,961
Interest expense	<u>62,451</u>
Total long-term lease obligations	<u>177,412</u>
TOTAL EXPENDITURES	<u>4,400,551</u>
CHANGE IN FUND BALANCE FROM OPERATIONS	(796,041)
Other Sources and Uses of Funds	
Proceeds from long-term debt	832,930
Proceeds from sale of capital assets	41,200
PERS employer side-fund paid	<u>(874,304)</u>
Total Other Sources and Uses of Funds	(174)
Change in Fund Balance	(796,215)
Fund Balance – beginning of the year	<u>3,942,272</u>
Fund Balance – end of the year	<u>\$ 3,146,057</u>

See accompanying notes to the financial statements.

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, 2012**

Net change in Fund Balance	\$ (796,215)
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.	114,961
Proceeds from new long-term debt is a revenue in the governmental funds, but increases the long-term liabilities in the statement of net assets.	(832,930)
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.	934,499
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.	(85,169)
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	(279,865)
Other post employment benefits	(379,430)
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>11,450</u>
Change in Net Assets	<u>\$ (1,312,699)</u>

See accompanying notes to the financial statements.

**ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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, 2012

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 assets 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 assets, the District's net assets are reported in three parts- invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. For the year ended June 30, 2012, there were restricted net assets in the amount of \$31,850.

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. These designated fund accounts are increased annually on a prorated basis with any unreserved fund balance in excess of ½ the subsequent year's budgeted operating expenses. 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, 2012**

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, 2012**

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	\$ 148,581
Cash in banks - restricted	28,350
Cash in County Treasury - restricted	3,500
Cash in County Treasury-unrestricted	2,579,580
Cash in County Treasury-designated	612,022

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, 2012**

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, 2012:

Contingency Designation	\$ 297,254
PERS Designation	-0-
Capital Improvements Designation	<u>314,768</u>
Total Cash in County Treasury – designated	<u>\$ 612,022</u>

Also see Note 12 for a summary of designated fund activity for the year ended June 30, 2012.

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, 2012

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, 2012

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 2011-2012 was 46.621% of annual payroll for the safety plan. The required employer contribution rate for fiscal year 2011-2012 was 10.096% 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, 2012, the District's total annual pension cost of \$719,753 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, 2010 actuarial valuations using the entry age actuarial cost method. Significant actuarial assumptions used in the valuations include (A) an actuarially assumed investment return of 7.75% per annum, (B) salary increases based on a scale that assumes salary increases vary by length of service and type of employment, between 3.55% to 14.45%, (C) an assumed inflation rate of 3.00% in future years and (D) a 3.25% overall growth in payroll.

**ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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, 2012 the District's side fund was a negative \$1,748,608. In February, 2012 the Board approved a motion to reduce the side fund by 50%, and on June 14, 2012 a payment was made to PERS in the amount of \$874,304.

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>
6/30/07	283,644	100%	-0-
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-

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, 2012, the District paid \$ 138,161 in health care costs for its retirees and their covered dependents.

**ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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	\$ 515,638
Interest on net OPEB obligation	31,301
Adjustment to annual required contribution	<u>(29,348)</u>
Annual OPEB cost (expense)	517,591
Actual contributions made	<u>(138,161)</u>
Increase in net OPEB obligation	379,430
Net OPEB Obligation – beginning of year	<u>695,570</u>
Net OPEB Obligation – end of year	<u>\$1,075,000</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, 2012 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
6/30/12	517,591	138,161	26.69%	379,430

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – OTHER POST- EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

As of June 30, 2012, the plan was zero percent funded. The actuarial accrued liability for benefits was \$5,080,649, and the actuarial value of assets was zero, resulting in an unfunded accrued liability (UAL) of \$5,080,649. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,415,370 and the ratio of the UAL to the covered payroll was 358.96%.

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 June 30, 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 3.25% 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, 2012, the District's unpaid balance was \$27,967.

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012, is shown below:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2012</u>
State loan payable	\$ 27,967	\$ -	\$ -	\$ 27,967
Refinance Ferrara truck loan	470,700	-	72,770	397,930
New Ferrara truck loan	<u>-</u>	<u>832,930</u>	<u>42,191</u>	<u>790,739</u>
Total	<u>\$ 498,667</u>	<u>\$ 832,930</u>	<u>\$ 114,961</u>	1,216,636
Less amount due within one year				<u>(108,591)</u>
Long-term debt, net of current portion				<u>\$ 1,108,045</u>

The annual debt service requirements to maturity are as follows:

Year ending June 30,	Total		
	<u>Payment</u>	<u>Interest</u>	<u>Principle</u>
2013	\$ 167,905	\$ 59,314	\$ 108,591
2014	167,905	53,895	114,010
2015	167,905	48,207	119,698
2016	167,905	42,234	125,671
2017	167,905	35,963	131,942
2018 and thereafter	<u>691,368</u>	<u>74,644</u>	<u>616,724</u>
Totals	<u>\$ 1,530,893</u>	<u>\$ 314,257</u>	<u>\$ 1,216,636</u>

ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9-CAPITAL ASSETS

The following table summarizes the changes in components of the capital assets for the fiscal year ended June 30, 2012:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Land	\$ 224,630	\$ -	\$ -	\$ 224,630
Buildings	412,530	-	-	412,530
Equipment	3,926,401	934,498	(322,326)	4,538,573
Less accumulated depreciation	<u>(1,990,830)</u>	<u>(279,865)</u>	<u>237,157</u>	<u>(2,033,538)</u>
Capital assets net of depreciation	<u>\$ 2,572,731</u>	<u>\$ 654,633</u>	<u>\$ (85,169)</u>	<u>\$ 3,142,195</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, 2012, the annual premium to FAIRA was \$16,354.

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, 2012 was \$46,788.

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, 2012**

NOTE 11- SPECIAL DISTRICT EXPENSE

Special District Expense for the year ended June 30, 2012 included the following:

Certifications	\$	3,510
Emergency supply cache stations		1,841
Fire Prevention		3,387
USAR Team Administration		1,376
MCSO hydrant upgrade		4,334
Miscellaneous		5,597
Public education		2,619
Recruitment - fire Chief		1,296
Reserve firefighter program		<u>20,900</u>
Total	\$	<u>44,860</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, 2012:

	Contingency <u>Designation</u>	Capital Improvements <u>Designation</u>	PERS <u>Designation</u>	<u>Total</u>
Balance at 6/30/2011	\$ 334,081	\$ 362,191	\$ 495,000	\$ 1,191,272
Less expenditures:				
Upgrade Plymovent System	(9,363)	-	-	(9,363)
City Gate Study	(14,519)	-	-	(14,519)
Mobile Data Terminals	(12,946)	-	-	(12,946)
Rebuild Engine 8212	-	(75,055)	-	(75,055)
7% Sales Commission-Pumper	-	(2,800)	-	(2,800)
Chevy Impala	-	(9,567)	-	(9,567)
PERS Side-Fund payment	-	-	(874,304)	(874,304)
Total expenditures	<u>(36,828)</u>	<u>(87,422)</u>	<u>(874,304)</u>	<u>(998,554)</u>
Additions:				
Sale of 1995 Pierce Pumper	-	40,000	-	40,000
Unrestricted/unreserved funds	-	-	379,304	379,304
Balance at 6/30/2012	<u>\$ 297,253</u>	<u>\$ 314,769</u>	<u>\$ -</u>	<u>\$ 612,022</u>

**ARCATA FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 12 – DESIGNATED FUNDS EXPENDITURES AND TRANSFERS (Continued)

The total expenditures from the designated funds were reported as:

Capitalized equipment purchase	\$ 97,568
Sale of fixed assets	2,800
Other expense - contingency	<u>898,186</u>
 Total expenditures	 <u>\$ 998,554</u>

NOTE 13 - RESTRICTED FUNDS

The District had the following restricted funds at 6/30/2012:

	FEMA-AFG Grant
Balance at 6/30/2011	\$ -
Deposits from:	
Various Fire Districts-matching funds	31,850
Expenditures:	<u>-</u>
Balance at 6/30/2012	<u>\$ 31,850</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. As of June 30, 2012, there were no expenditures made under this grant and there were no reimbursements made by FEMA. Participating local fire agencies had paid the District \$ 31,850 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, 2012**

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. There were \$30,152 in estimated expenses incurred under this grant for the year ended 6/30/2012. These expenses are presented on the Statement of Net Assets and the Balance Sheet as grant reimbursements receivable. Of the \$30,152 in estimated expenses, \$15,000 had not yet been paid by the District at 6/30/2012. This amount is presented as grant expenses payable on the Statement of Net Assets and the Balance Sheet.

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 no significant expenditures made under this grant and no reimbursements made by FEMA in the year ended 6/30/12.

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 are \$3,740. A rent increase is anticipated within the year ending June 30, 2013 due to expanded use of the facilities by the District. The monthly rent could possibly increase up to 34% higher than the current amount.

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, 2012, 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, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
Taxes				
Property taxes - current secured	\$ 1,594,250	\$ 1,594,250	\$ 1,690,899	\$ 96,649
Property taxes - current unsecured	70,663	70,663	67,160	(3,503)
Property taxes - prior yrs secured & unsecured	26,560	26,560	28,812	2,252
Property taxes - current supplemental	27,000	27,000	10,226	(16,774)
Property taxes - prior years supplemental	4,775	4,775	3,265	(1,510)
Units of benefit charges	1,654,670	1,654,670	1,657,268	2,598
Total taxes	<u>3,377,918</u>	<u>3,377,918</u>	<u>3,457,630</u>	<u>79,712</u>
Interest income	58,000	58,000	30,742	(27,258)
Homeowners property tax relief	28,061	28,061	27,890	(171)
State timber tax	145	145	695	550
Other services and sales	1,280	1,280	0	(1,280)
Sale of Fixed Assets	50,000	50,000	41,200	(8,800)
Aid from private parties	6,400	6,400	10,900	4,500
Other revenue	40,450	40,450	51,422	10,972
Firefighting reimbursement	96,000	96,000	25,232	(70,768)
Total Income	<u>3,658,254</u>	<u>3,658,254</u>	<u>3,645,711</u>	<u>(12,543)</u>
Expense				
Salaries, wages and payroll taxes	1,587,800	1,587,800	1,461,170	(126,630)
Retirement	713,440	713,440	741,280	27,840
Employee group insurance	493,755	493,755	463,169	(30,586)
Workers compensation insurance	70,000	70,000	44,668	(25,332)
Total salaries and employee benefits	<u>2,864,995</u>	<u>2,864,995</u>	<u>2,710,287</u>	<u>(154,708)</u>
Services and supplies				
Clothing and personal supplies	18,000	18,000	13,297	(4,703)
Communications	90,300	90,300	79,947	(10,353)
Food	7,500	7,500	6,573	(927)
Household expense	4,700	4,700	3,135	(1,565)
Insurance	16,354	16,354	16,354	0
Maintenance - equipment	70,500	70,500	73,512	3,012
Maintenance - electronic equipment	11,800	11,800	9,067	(2,733)
Maintenance - structure	27,500	27,500	10,438	(17,062)
Dues and subscriptions	9,400	9,400	13,182	3,782
Miscellaneous expense	2,500	2,500	1,059	(1,441)
Office expense	13,400	13,400	10,709	(2,691)
Professional services	35,900	35,900	70,313	34,413

ARCATA FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE

Year ended June 30, 2012

	Original Budget	Final Budget	Actual	Over (Under) Budget
Publications and notices	\$ 500	\$ 500	\$ 1,088	\$ 588
Rent	44,880	44,880	44,880	0
Special District expense	58,000	58,000	44,860	(13,140)
Small tools and equipment	79,500	79,500	47,622	(31,878)
Training	50,000	50,000	41,452	(8,548)
Transportation and travel	45,000	45,000	49,406	4,406
Utilities	17,500	17,500	17,578	78
Total services and supplies	<u>603,234</u>	<u>603,234</u>	554,472	(48,762)
Capital outlay:				
Equipment purchases	0	0	934,499	934,499
Principal payments	114,961	114,961	114,961	0
Interest expense	52,944	52,944	62,451	9,507
Contingency expense	909,621	909,621	898,186	(11,435)
TOTAL EXPENSES	<u>4,545,755</u>	<u>4,545,755</u>	5,274,856	729,101
Change in Fund Balance	<u>\$ (887,501)</u>	<u>\$ (887,501)</u>	(1,629,145)	<u>\$ (741,644)</u>
Fund Balance - beginning of the year			3,942,272	
Proceeds from long-term debt			832,930	
Fund Balance - end of the year			<u>\$ 3,146,057</u>	

ARCATA FIRE PROTECTION DISTRICT
 FUNDED STATUS OF PLAN POOL – SAFETY PLAN AND MISCELLANEOUS PLAN

For the year ended June 30, 2012

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

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
6/30/07	7,986,055	6,826,599	1,159,455	85.5%	831,608	139.4%
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%

Required Supplementary Information
Funded Status of Plan Pool – Miscellaneous Plan

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
6/30/07	498,935	479,521	19,414	96.1%	171,053	11.4%
6/30/08	532,483	513,147	19,336	96.1%	183,388	10.5%
6/30/09	582,842	553,954	28,888	95.0%	184,320	15.7%
6/30/10	624,423	594,492	29,931	95.2%	186,778	16.0%
6/30/11	682,376	639,237	43,139	93.7%	193,877	22.3%

ARCATA FIRE PROTECTION DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 For the year ended June 30, 2012

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%
7/01/11	-	5,080,649	5,080,649		1,461,170	347.71%

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING 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 the financial statements of the Arcata Fire Protection District, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In our report on the financial statements, our opinion on the Arcata Fire Protection District was unqualified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arcata Fire Protection District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Arcata Fire Protection District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material, in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, others within the Arcata Fire Protection District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



D.R. White
Accountancy Corp

February 11, 2013