# Arcata Fire Protection District

Financial Statements
With Independent Auditor's Report

June 30, 2011

Prepared by:
D.R. Watts Accountancy Corporation
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# ARCATA FIRE PROTECTION DISTRICT
# AUDITED FINANCIAL STATEMENTS
# JUNE 30, 2011

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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, 2011, 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, 2011, and the results of operations for the year then ended in conformity with accounting principles generally accepted in the Unites 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 December 7, 2011, 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 2 - 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.

D.R. Watts Accountancy Corp.

D.R. Watts Accountancy Corporation
December 7, 2011

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# *Management's Discussion and Analysis*

For the Fiscal Year ended June 30, 2011

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, 2011. 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 on-going 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 10/11, the District received revenues of $3,546,096 and expended $3,318,502. The net result was revenues over expenditures of $ 227,594.

The ongoing maintenance issues for the fire apparatus fleet remain well controlled. The District is now not only capable of addressing unexpected repair events but is also capable of aggressively maintaining the emergency response vehicle fleet in a well defined mode on a schedule that has been intentionally planned and funded by the guidelines set forth in the benefit assessment.

The District's revenue from the Special Tax and Benefit Assessment changes only through property use code changes or property sub-division. Revenues from firefighting reimbursements vary widely from year to year due to differences in statewide wildland fire activity. This revenue difference is likewise matched by a corresponding difference in salary and equipment maintenance and therefore does not alter the District's finances.

The District continues to be faced with increased retirement and insurance costs. The most significant insurance issue is transferring the workers compensation insurances from the Fire District's Association pool to the County of Humboldt Pool. This action produced a net reduction in premium of $41,000.00. The District instead created a deferred comp program for all employees. The District has also made lump sum payments for the PERS retirements which likewise generated significant savings. These are examples of the methods the District has implemented to not only contain but also to reduce future costs of operations.

The District has eliminated operation of obsolete emergency response vehicles. The acquisition of three new fire engines and four new staff vehicles in recent past budgets plus two additional new fire engines projected for this fiscal year has provided the remedy for our vehicle maintenance program. The existing loan of approximately $1,100,000.00 will be paid by benefit assessment funds in FY 2013/14 and the new apparatus will continue that payment program for seven additional years to be completed in FY 2020/21. The District has implemented a revolving apparatus replacement program under retained revenue. Our next planned large expenditure will be a new rescue vehicle in 2015/16.

Due to the ongoing budget difficulties facing the State of California, a shift of approximately 8% of the ad valorem tax revenues was implemented. At the direction of the District Board, we entered into the Prop 1A Securitization Program last year that was created by California Communities. Through this program, California Communities provides the Fire District with the revenue shifted to the State by selling bonds and receiving the interest on the revenue promised by the State. This program continues to keep the District financially whole and free of obligation to pay for bonds, interest, or other fees

The pre-existing debt of the District for the aerial platform truck was paid off in full last year. Other debt listed includes the apparatus and equipment purchased as a result of commitments made during the benefit assessment. The District also has a State loan in the amount of $27,967.00.

The District will continue to be faced with issues in the coming years related to wages and benefits. It is planned that the District will pursue an ongoing standard cost of living adjustment (COLA) program for future stabilization and predictability of personnel expenses. Employees have voluntarily deferred all wage considerations for the current fiscal year. The employees are to be commended for this action.

All other emergency staffing is by volunteers and off-duty career staff. The volunteer firefighter response is variable. This is addressed through annual recruitments for additions to the volunteer force.

The District has a 'Reserve Volunteer Program' that provides reimbursement to the Volunteer Firefighters for their personal expenses related to covering additional staffing requirements that supplement the career firefighting staffing patterns. Total cost of this project is $25,000.00 which covers 250 twenty four hour volunteer shifts. The same quantity of shifts covered by paid career personnel would generate in excess of $87,000.00 in additional payroll. This is the economic spirit of the 'combination' career and volunteer work force that makes Arcata Fire the showcase operation that it is today.

The District continues to apply for and receive **FEMA** ***Assistance to Firefighters Grant*** **(AFG)** grants each fiscal year. These acquisitions greatly enhance firefighter safety and health issues while supplementing the budget.

The **SAFER** ***Staffing for Adequate Fire and Emergency Response*** grant was received to facilitate ongoing volunteer recruitment and retention efforts. This grant award is for a four year period commencing June 26, 2011 totaling $483,236.00 distributed as follows:

Year 1 - $ 95,284.00
Year 2 - $112,384.00
Year 3 - $137,284.00
Year 4 – $138,284.00

These ongoing grant efforts have provided assistance in funding operational expenses exceeding one million dollars. Grant programs have provided funding for breathing apparatus, portable radios, pagers, personal protective equipment, extrication equipment, public education training props, computer equipment, part time fire inspectors, fire prevention equipment, an MCI mass casualty incident response trailer, as well as the volunteer recruitment.

The budget continues to be a dynamic document with frequent modifications designed to clarify and simplify its understanding. The 'Revenue Designations' were created to identify the three specific designations retained for future projected capital expenses and contingencies.

The accounts for retained revenues are as follows:

1. *PERS* DESIGNATION provides the District with the ability to make lump sum payments to PERS and also to compensate for unanticipated increases in PERS contributions.

2. *CONTINGENCY* DESIGNATION provides the District with an emergency fund for large or high cost building repairs, equipment replacement, or apparatus repairs, etc.

3. *CAPITAL IMPROVEMENT* DESIGNATION provides the District with the ability to coordinate the funding of capital improvement projects or apparatus replacement within the normal operating budget.

The County Trust Fund account lists "Cash" which is in fact the general operating revenue. This is necessary for the District to finance operational expenditures through the first half of each fiscal year as no revenue is deposited into District accounts by the County until mid December of each year. This is a required standard accounting practice of all Humboldt County Special Districts.

For the year ended June 30, 2011, the fund balance changed as follows:

| | |
|---|---|
| Beginning fund balance | $ 3,714,678 |
| Increase (decrease) in fund balance | 227,594 |
| Ending fund balance | $ 3,942,272 |

For the year ended June 30, 2011, net assets as reported in the government-wide financial statements changed as follows:

| | Invested in capital assets net of related debt | Unrestricted | Total |
|---|---|---|---|
| Beginning net assets | $ 2,058,252 | $ 3,204,884 | $ 5,263,136 |
| Increase (decrease) in net assets | 43,779 | (125,767) | (81,988) |
| Ending net assets | $ 2,102,031 | $ 3,079,117 | $ 5,181,148 |

The following table shows the District's assets and liabilities as reported in the government-wide financial statements of June 30, 2011 and 2010:

| | 6/30/2011 | 6/30/2010 | Change |
|---|---|---|---|
| ASSETS: | | | |
| Cash in County Treasury – Unrestricted | $ 2,668,553 | $ 2,288,512 | $ 380,041 |
| Cash in banks | 262,755 | 626,527 | (363,772) |
| Impress cash | 250 | 250 | - |
| Accounts receivable | 1,439 | 12,528 | (11,089) |
| Interest receivable | 12,435 | 12,000 | 435 |
| Cash in County Treasury – Restricted | 1,191,272 | 950,948 | 240,324 |
| Capital assets, net of accumulated depreciation | 2,572,731 | 2,800,358 | (227,627) |
| TOTAL ASSETS | $ 6,709,435 | $ 6,691,123 | $ 18,312 |

| | | | |
|---|---|---|---|
| LIABILITIES: | | | |
| Accounts payable | $ 61,504 | $ 40,291 | $ 21,213 |
| Accrued interest payable | 19,582 | 19,980 | (398) |
| Wages payable | 69,104 | 59,615 | 9,489 |
| Compensated time off | 44,242 | 56,201 | (11,959) |
| Compensated vacation and holiday pay | 139,617 | 135,995 | 3,622 |
| Other post employment benefits | 695,570 | 345,833 | 349,737 |
| Debt not invested in capital assets | 27,967 | 27,967 | - |
| Current portion of long-term debt | - | 215,231 | (215,231) |
| Long-term debt net of current portion | 470,700 | 526,874 | (56,174) |
| TOTAL LIABILITIES | $ 1,528,286 | $ 1,427,987 | $ 100,299 |

The following table shows the District's revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010:

| | 06/30/2011 | 06/30/2010 | Change |
|---|---|---|---|
| REVENUES: | | | |
| Property tax revenue | $ 3,430,155 | $ 3,458,429 | $ (28,274) |
| Fire protection revenue | 28,891 | 90,141 | (61,250) |
| Grant revenue | 5,000 | 8,157 | (3,157) |
| Other revenue | 42,037 | 23,554 | 18,483 |
| Unrestricted investment earnings | 40,012 | 50,617 | (10,605) |
| TOTAL REVENUES | $ 3,546,095 | $ 3,630,898 | $ (84,803) |
| OPERATING EXPENSES: | | | |
| Salaries and employee benefits | $ 2,428,158 | $ 2,349,551 | $ 78,607 |
| Clothing and personal supplies | 18,327 | 15,118 | 3,209 |
| Communications | 62,199 | 68,698 | (6,499) |
| Designated fund expense | 0 | 66,769 | (66,769) |
| Depreciation | 257,303 | 258,303 | (1,000) |
| Food | 7,609 | 4,215 | 3,394 |
| Household expenses | 5,209 | 3,685 | 1,524 |
| Insurance | 17,131 | 13,843 | 3,288 |
| Interest expense | 45,776 | 45,402 | 374 |
| Maintenance | 105,604 | 74,557 | 31,047 |
| Memberships | 3,451 | 2,512 | 939 |
| Miscellaneous | 414 | 4,711 | (4,297) |
| Office expense | 9,433 | 8,613 | 820 |
| Professional and specialized services | 71,661 | 78,960 | (7,299) |
| Rents and leases – structures | 44,880 | 44,880 | - |
| Small tools and instruments | 57,084 | 40,840 | 16,244 |
| Special district expense | 43,218 | 46,676 | (3,458) |
| Training | 37,522 | 33,911 | 3,611 |
| Transportation and travel | 47,308 | 34,864 | 12,444 |

| | | | |
|---|---|---|---|
| Utilities | 16,059 | 14,043 | 2,016 |
| TOTAL OPERATING EXPENSES | 3,278,346 | 3,210,151 | 68,195 |
| NON-OPERATING EXPENSES | | | |
| Loss on disposal of capital assets | - | 64,518 | (64,518) |
| Post employment benefits | 349,737 | 345,833 | 3,904 |
| TOTAL NON-OPERATING EXPENSES | 349,737 | 410,351 | (60,614) |
| TOTAL EXPENSES | 3,628,083 | 3,620,502 | 7,581 |
| CHANGE IN NET ASSETS | $ (81,988) | $ 10,396 | $ (92,384) |

The configuration of the Arcata Fire Protection District as a 'Special District' under California law has allowed this organization to be successfully managed, especially in these trying economic times when all government agencies are being held accountable and many are floundering. Arcata Fire continues to function as a healthy special district while Departments organized under a municipal style of financial management are struggling to survive.

Likewise, the configuration as a 'combination' Fire Department, having both paid career staff as well as fully qualified volunteer unpaid staff, has proven to be the most efficient and economical manner in which a community can deliver essential emergency fire and life safety services.

In addition to the value of the services rendered by the paid staff, the Volunteers have provided 2,009 man hours of service on the fire ground and 5,226 man hours in the stations. This is a tremendous increase from past years and clearly identifies the value of the 7,235 documented volunteer hours of labor to this organization. Arcata Fire presents itself as an example for all of what a high quality combination Fire Agency can be.

Just six years ago the Arcata Fire Protection District was experiencing its last balanced budget. The interventions provided by a new management team along with community support through the Benefit Assessment have allowed the District to stabilize and progress. The long needed funding cycle is now in place and working well. A mid-year budget review is conducted annually provides the District Board with an amended projection as well as staff recommendations for the financial status of the District. Progressively, since 2005, the financial position of the District has continued to improve as indicated by the Statement of Net Assets and promised in the Benefit Assessment.

Respectfully submitted,

John H. McFarland, Fire Chief

**ARCATA FIRE PROTECTION DISTRICT**
**STATEMENT OF NET ASSETS**
**June 30, 2011**

## ASSETS

| | |
|---|---|
| **Current assets** | |
| Cash in County Treasury-Unrestricted/undesignated | $ 2,668,553 |
| Cash in banks | 262,755 |
| Imprest cash | 250 |
| Accounts receivable | 1,439 |
| Interest receivable | 12,435 |
| Total current assets | 2,945,432 |
| Cash in County Treasury-Unrestricted/designated (Note 2) | 1,191,272 |
| Capital assets, net of accumulated depreciation of $1,990,830 (Note 9) | 2,572,731 |
| **TOTAL ASSETS** | 6,709,435 |

## LIABILITIES

| | |
|---|---|
| **Current liabilities** | |
| Accounts payable | $ 61,504 |
| Accrued interest payable | 19,582 |
| Wages payable | 69,104 |
| Compensated time off - current | 44,242 |
| Current portion of long-term debt | 72,770 |
| Total current liabilities | 267,202 |
| **Long-term liabilities** | |
| Other post employment benefits (Note 7) | 695,570 |
| Accrued employee benefits, long-term | 139,617 |
| Long-term debt, net of current portion (Note 8) | 425,898 |
| Total long-term liabilities | 1,261,085 |
| **TOTAL LIABILITIES** | 1,528,287 |

## NET ASSETS

| | |
|---|---|
| Invested in capital assets, net of related debt | 2,102,031 |
| Unrestricted | 3,079,117 |
| **TOTAL NET ASSETS** | $ 5,181,148 |

See accompanying notes to the financial statements.

**ARCATA FIRE PROTECTION DISTRICT**
**STATEMENT OF ACTIVITIES**
**Year ended June 30, 2011**

| | Expenses | Program Revenues<br>Charges For Services | Net Revenue (Expense) and Changes in Net Assets<br>Governmental Activities |
|---|---|---|---|
| Functions/Programs: | | | |
| Fire Protection | $ 3,278,346 | $ 28,890 | $ (3,249,456) |
| Total Governmental Activities | 3,278,346 | 28,890 | (3,249,456) |
| General Revenues: | | | |
| Taxes: | | | |
| Property taxes – current secured | | | 1,626,668 |
| Property taxes – current unsecured | | | 70,410 |
| Property taxes – prior years secured and unsecured | | | 35,058 |
| Property taxes – current supplemental | | | 8,932 |
| Property taxes – prior years supplemental | | | 4,463 |
| Units of benefit charges | | | 1,655,941 |
| Homeowners' property tax relief | | | 27,988 |
| Federal aid in-lieu tax | | | 104 |
| State timber yield tax | | | 591 |
| Total taxes | | | 3,430,155 |
| Other revenue | | | 42,038 |
| Grant revenue | | | 5,000 |
| Unrestricted investment earnings | | | 40,012 |
| Total Revenues | | | 3,517,205 |
| NON OPERATING REVENUES (EXPENSES) | | | |
| Post employment benefits | | | (349,737) |
| Total non-operating revenues (expenses) | | | (349,737) |
| Change in Net Assets | | | (81,988) |
| Net Assets – beginning of the year | | | 5,263,136 |
| Net Assets – end of the year | | | $ 5,181,148 |

See accompanying notes to the financial statements.

# ARCATA FIRE PROTECTION DISTRICT
# BALANCE SHEET
# JUNE 30, 2011

## ASSETS

| | | |
|---|---|---|
| Cash in County Treasury – Unrestricted/undesignated | $ | 2,668,553 |
| Cash in banks | | 262,755 |
| Imprest cash | | 250 |
| Accounts receivable | | 1,439 |
| Interest receivable | | 12,435 |
| Cash in County Treasury – Unrestricted/designated | | 1,191,272 |
| **TOTAL ASSETS** | | 4,136,704 |

## LIABILITES AND FUND BALANCE

| | | |
|---|---|---|
| **LIABILITIES** | | |
| Accounts payable | | 61,504 |
| Accrued interest payable | | 19,582 |
| Wages payable | | 69,104 |
| Compensated time off | | 44,242 |
| **TOTAL LIABILITIES** | | 194,432 |
| **FUND BALANCE** | | |
| Unreserved | | 2,751,000 |
| Reserved | | 1,191,272 |
| **TOTAL FUND BALANCE** | | 3,942,272 |
| **TOTAL LIABILITIES AND FUND BALANCE** | $ | 4,136,704 |

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, 2011

| | | |
|---|---|---|
| **Total Governmental Fund Balance** | $ | 3,942,272 |
| 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. | | |
| The amount of capital assets net of accumulated depreciation is: | | 2,572,731 |
| 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. | | |
| The amount of accrued employee benefits payable is: | | (139,618) |
| The amount of other post employment benefits payable is: | | (695,570) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | | (498,667) |
| **Net Assets of Governmental Activities** | $ | 5,181,148 |

See accompanying notes to the financial statements.

# ARCATA FIRE PROTECTION DISTRICT
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
### Year Ended June 30, 2011

#### REVENUES

| | |
|---|---|
| Taxes: | |
| Property taxes – current secured | $ 1,626,668 |
| Property taxes – current unsecured | 70,410 |
| Property taxes – prior years secured & unsecured | 35,058 |
| Property taxes – current supplemental | 8,932 |
| Property taxes – prior years supplemental | 4,463 |
| Units of benefit charge | 1,655,941 |
| Homeowners' property tax relief | 27,988 |
| Federal aid in lieu tax | 104 |
| State timber yield tax | 591 |
| Total taxes | 3,430,155 |
| Interest Income | 40,012 |
| Other revenue | 42,038 |
| Grant revenue | 5,000 |
| Firefighting reimbursement | 28,891 |
| **TOTAL REVENUES** | 3,546,096 |

#### EXPENDITURES

| | |
|---|---|
| Salaries and employee benefits: | |
| Salaries, wages and payroll taxes | 1,262,878 |
| Retirement | 640,619 |
| Employee group insurance | 448,188 |
| Workers' compensation insurance | 72,851 |
| Total salaries and employee benefits | 2,424,536 |
| Service and Supplies: | |
| Clothing and personal supplies | 18,327 |
| Communications | 62,199 |
| Food | 7,609 |
| Household expense | 5,209 |
| Insurance | 17,131 |
| Maintenance | 105,604 |
| Memberships | 3,451 |
| Miscellaneous | 414 |
| Office expense | 9,432 |
| Professional and specialized service | 71,661 |
| Leases – structures (Note 13) | 44,880 |
| Special district expense (Note 11) | 43,218 |
| Small tools and equipment | 57,084 |
| Training | 37,522 |
| Transportation and travel | 47,308 |
| Utilities | 16,060 |
| Total services and supplies | 547,109 |

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, 2011**

### EXPENDITURES (Continued)

| | |
|---|---|
| Capital outlay: | |
| Equipment purchases | 29,676 |
| Total capital outlay | 29,676 |
| Long-term lease obligations: | |
| Proceeds from long-term debt | (470,700) |
| Principle payment | 742,105 |
| Interest expense | 45,776 |
| Total long-term lease obligations | 317,181 |
| **TOTAL EXPENDITURES** | 3,318,502 |
| Change in Fund Balance | 227,594 |
| Fund Balance – beginning of the year | 3,714,678 |
| Fund Balance – end of the year | $ 3,942,272 |

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, 2011**

| | | |
|---|---|---|
| **Net change in Fund Balance** | $ | 227,594 |
| 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. | | 742,105 |
| 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. | | (470,700) |
| 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. | | 29,676 |
| 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 | | (257,303) |
| Other post employment benefits | | (349,737) |
| 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. | | (3,623) |
| **Change in Net Assets** | $ | (81,988) |

See accompanying notes to the financial statements.

## 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.

## 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 related debt, restricted net assets, and unrestricted net assets. For the year ended June 30, 2011, there were no restricted net assets.

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.

## 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.*

## 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 | $ 262,755 |
| Cash in County Treasury-unrestricted | 2,668,553 |
| Cash in County Treasury-designated | 1,191,272 |

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

## 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, 2011:

| | |
|---|---|
| Contingency Designation | $ 334,081 |
| Capital Improvements Designation | 362,191 |
| PERS Designation | 495,000 |
| Total Cash in County Treasury – designated | $ 1,191,272 |

Also see Note 12 for a summary of designated fund activity for the year ended June 30, 2011.

## 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.

## 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.

## NOTE 6 – PENSION PLAN

### 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.

### 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 2010-2011 was 43.989% of annual payroll for the safety plan. The required employer contribution rate for fiscal year 2010-2011 was 5.261% of annual payroll for the miscellaneous plan. The contribution requirements of the plan members are established by state statute.

### 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, 2011, the District's total annual pension cost of $574,090 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, 2009 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, (C) an assumed inflation rate of 3.00% in future years and (D) a 3.25% across the board increase and merit increases that vary by length of service.

## NOTE 6 – PENSION PLAN (Continued)

Five-Year trend Information for PERS

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 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 31 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, 2011, the District paid $ 134,733 in health care costs for its retirees and their covered dependents.

**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.

## NOTE 7 – OTHER POST- EMPLOYMENT BENEFITS (Continued)

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

| | |
|---|---|
| Annual required contribution | $ 483,582 |
| Interest on net OPEB obligation | 15,562 |
| Adjustment to annual required contribution | (14,674) |
| Annual OPEB cost (expense) | 484,470 |
| Actual contributions made | (134,733) |
| Increase in net OPEB obligation | 349,737 |
| Net OPEB Obligation – beginning of year | 345,833 |
| Net OPEB Obligation – end of year | $ 695,570 |

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, 2011 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Actual Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 06/30/11 | $ 484,470 | $ 134,733 | 27.81% | $ 349,737 |

**Funded Status and Funding Progress**

As of June 30, 2011, the plan was zero percent funded. The actuarial accrued liability for benefits was $ 4,639,031, and the actuarial value of assets was zero, resulting in an unfunded accrued liability (UAL) of $ 4,639,031. The covered payroll (annual payroll of active employees covered by the plan) was $ 1,262,878 and the ratio of the UAL to the covered payroll was 367.34%.

## NOTE 7 – OTHER POST- EMPLOYMENT BENEFITS (Continued)

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, 2011 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, 2011, the District's unpaid balance was $27,967.

On September 26, 2006, a lease with an option to purchase two Ferrara Type 1 Engines and one Type III Engine was executed in the amount of $ 967,576. The lease called for annual payments in the amount of $16, 905 for seven years and beginning in January, 2008. In the year ended 6/30/2011, the remaining balance of $598,687 was paid in full. The remaining balance on an existing truck loan in the amount of $143,418, was also paid in full during the year ended 6/30/2011.

## 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. As of June 30, 2011, the engines had not been delivered and the funds were held in an acquisition fund established by the escrow agent.

A schedule of changes in long-term debt for the year ended June 30, 2011, is shown below:

| | Balance July 1, 2010 | Additions | Deductions | Balance June 30, 2011 |
|---|---|---|---|---|
| State loan payable | $ 27,967 | $ - | $ - | $ 27,967 |
| Ladder truck loan | 143,418 | - | 143,418 | - |
| New Ferrara truck loan | 598,687 | - | 598,687 | - |
| Refinanced Ferrara truck loan | - | 470,700 | | 470,700 |
| Total | $ 770,072 | $ 470,700 | $ 742,105 | 498,667 |
| Less amount due within one year | | | | (72,770) |
| Long-term debt, net of current portion | | | | $ 425,897 |

The annual debt service requirements to maturity are as follows:

| Year ending June 30, | Total Payment | Interest | Principle |
|---|---|---|---|
| 2012 | $ 91,886 | $ 19,116 | $ 72,770 |
| 2013 | 91,886 | 19,857 | 72,029 |
| 2014 | 91,886 | 16,262 | 75,624 |
| 2015 | 91,886 | 12,489 | 79,397 |
| 2016 | 91,886 | 8,527 | 83,359 |
| 2017 and thereafter | 119,855 | 4,357 | 115,488 |
| Totals | $ 579,285 | $ 80,608 | $ 498,667 |

## NOTE 9-CAPITAL ASSETS

The following table summarizes the changes in components of the capital assets for the fiscal year ended June 30, 2011:

| | Balance 6/30/10 | Additions | Deletions | Balance 6/30/11 |
|---|---|---|---|---|
| Land | $ 224,630 | $ - | $ - | $ 224,630 |
| Buildings | 396,975 | 15,555 | - | 412,530 |
| Equipment | 3,912,280 | 14,121 | - | 3,926,401 |
| Less accumulated depreciation | (1,733,527) | (257,303) | - | (1,990,830) |
| Capital assets net of depreciation | $ 2,800,358 | $ (227,627) | $ - | $ 2,572,731 |

## 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 |

For the fiscal year ending June 30, 2011, the annual premium to FAIRA was $17,096.

FDAC-FASIS, a joint power authority, provides worker's compensation benefits for its members, including program and claims administration. FDAC-FASIS is a risk sharing pool. FDAC-FASIS also purchases insurance for excess coverage. For the fiscal year ending June 30, 2011, the premium paid was $49,640, which covered the first two quarters of the fiscal year. On December 1, 2011, the District changed providers and contracted with the County of Humboldt, Risk Management Division, Workers Compensation Program, a risk sharing pool administered by the County, for the remainder of the fiscal year ended June 30, 2011. The premium paid to the County for the period from December 1, 2010 through June 30, 2011 was $23,211.

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, 2011**

## NOTE 11- SPECIAL DISTRICT EXPENSE

Special District Expense for the year ended June 30, 2011 included the following:

| | |
|---|---|
| Professional development | $ 8,082 |
| Certifications | 615 |
| Emergency supply cache stations | 1,153 |
| Fire Prevention | 1,396 |
| USAR Team Administration | 4,328 |
| Mapping program | 2,315 |
| MCSD hydrant upgrade | 4,291 |
| Miscellaneous | 5,195 |
| Public education | 2,343 |
| Reserve firefighter program | 13,500 |
| Total | $ 43,218 |

## NOTE 12 – DESIGNATED FUNDS EXPENDITURES AND TRANSFERS

The following table summarized the activity in the three designated funds during the year ended June 30, 2011:

| | Contingency Designation | Capital Improvements Designation | PERS Designation | Total |
|---|---|---|---|---|
| Balance at 6/30/2010 | $ 234,081 | $ 291,867 | $ 425,000 | $ 950,948 |
| Less expenditures: | | | | |
| Mad River paving | - | (15,555) | - | (15,555) |
| Generator | - | (14,121) | - | (14,121) |
| Total expenditures | - | (29,676) | - | (29,676) |
| Add transfers from: | | | | |
| Unrestricted/unreserved funds | 100,000 | 100,000 | 70,000 | 270,000 |
| Balance at 6/30/2010 | $ 334,081 | $ 362,191 | $ 495,000 | $ 1,191,272 |

## NOTE 12 – DESIGNATED FUNDS EXPENDITURES AND TRANSFERS (Continued)

The total expenditures from the designated funds were reported as:

| | |
|---|---|
| Capitalized equipment purchase | $ 29,676 |
| Total expenditures | $ 29,676 |

## NOTE 13- 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.

## NOTE 14-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, 2011, 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.

## Required Supplementary Information

ARCATA FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2010

| | Original Budget | Final Budget | Actual | Over (Under) Budget |
|---|---|---|---|---|
| Taxes | | | | |
| Property taxes - current secured | $ 1,611,843 | $ 1,594,250 | $ 1,626,668 | $ 32,418 |
| Property taxes - current unsecured | 65,330 | 67,352 | 70,410 | 3,058 |
| Property taxes - prior yrs secured & unsecured | 8,598 | 21,631 | 35,058 | 13,427 |
| Property taxes - current supplemental | 26,000 | 0 | 8,932 | 8,932 |
| Property taxes - prior years supplemental | 2,580 | 2,580 | 4,463 | 1,883 |
| Units of benefit charges | 1,646,066 | 1,654,670 | 1,655,941 | 1,271 |
| | 3,360,417 | 3,340,483 | 3,401,472 | 60,989 |
| Interest income | 58,000 | 58,000 | 40,012 | (17,988) |
| Homeowners property tax relief | 28,000 | 28,000 | 27,988 | (12) |
| State timber tax | 145 | 145 | 591 | 446 |
| Other services and sales | 1,280 | 1,280 | 0 | (1,280) |
| Federal aid in lieu tax | 0 | 0 | 104 | 104 |
| Aid from private parties | 6,400 | 6,400 | 11,234 | 4,834 |
| Grant revenue | 0 | 0 | 5,000 | 5,000 |
| Other revenue | 39,508 | 39,508 | 42,038 | 2,530 |
| Firefighting reimbursement | 96,000 | 96,000 | 17,657 | (78,343) |
| Total Income | 3,589,750 | 3,569,816 | 3,546,096 | (23,720) |
| Expense | | | | |
| Salaries, wages and payroll taxes | 1,480,400 | 1,480,400 | 1,262,878 | (217,522) |
| Retirement | 596,440 | 596,440 | 640,619 | 44,179 |
| Employee group insurance | 460,505 | 473,505 | 448,188 | (25,317) |
| Workers compensation insurance | 119,300 | 119,300 | 72,851 | (46,449) |
| Total salaries and employee benefits | 2,656,645 | 2,669,645 | 2,424,536 | (245,109) |
| Services and supplies | | | | |
| Clothing and personal supplies | 18,000 | 18,000 | 18,327 | 327 |
| Communications | 120,500 | 120,500 | 62,199 | (58,301) |
| Food | 7,500 | 7,500 | 7,609 | 109 |
| Household expense | 4,700 | 4,700 | 5,209 | 509 |
| Insurance | 18,000 | 17,096 | 17,131 | 35 |
| Maintenance - equipment | 71,000 | 71,000 | 74,799 | 3,799 |
| Maintenance - electronic equipment | 10,600 | 10,600 | 6,161 | (4,439) |
| Maintenance - structure | 29,000 | 29,000 | 24,644 | (4,356) |
| Dues and subscriptions | 6,400 | 6,400 | 3,451 | (2,949) |
| Miscellaneous expense | 2,500 | 2,500 | 414 | (2,086) |
| Office expense | 10,900 | 10,650 | 9,057 | (1,593) |
| Professional services | 46,200 | 46,200 | 71,661 | 25,461 |

ARCATA FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2010

| | Original Budget | Final Budget | Actual | Over (Under) Budget |
|---|---|---|---|---|
| Publications and notices | $ 500 | $ 500 | $ 375 | $ (125) |
| Rent | 44,880 | 44,880 | 44,880 | 0 |
| Special District expense | 58,500 | 61,800 | 43,218 | (18,582) |
| Training | 40,000 | 40,000 | 37,522 | (2,478) |
| Transportation and travel | 45,000 | 45,000 | 47,308 | 2,308 |
| Utilities | 17,500 | 17,500 | 16,060 | (1,440) |
| Total services and supplies | 551,709 | 553,826 | 490,025 | (63,801) |
| Capital outlay: | | | | |
| Equipment purchases | 94,500 | 94,500 | 86,760 | (7,740) |
| Principal payments | 202,637 | 202,637 | 271,405 | 68,768 |
| Interest expense | 47,125 | 47,125 | 45,776 | (1,349) |
| TOTAL EXPENSES | 3,552,616 | 3,567,733 | 3,318,502 | (249,231) |
| Change in Fund Balance | $ 37,134 | $ 2,083 | 227,594 | $ 225,511 |
| Fund Balance - beginning of the year | | | 3,714,678 | |
| Fund Balance - end of the year | | | $ 3,942,272 | |

ARCATA FIRE PROTECTION DISTRICT

FUNDED STATUS OF PLAN POOL – SAFETY PLAN AND MISCELLANEOUS PLAN

For the year ended June 30, 2011

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 |
|---|---|---|---|---|---|---|
| 6/30/04 | 5,383,922 | 4,424,587 | 959,335 | 82.2% | 575,296 | 166.8% |
| 6/30/05 | 6,367,049 | 5,295,150 | 1,071,899 | 83.2% | 664,148 | 161.4% |
| 6/30/06 | 7,278,050 | 6,102,616 | 1,175,434 | 83.9% | 754,730 | 155.7% |
| 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 | 9,405,580 | 8,117,920 | 1,287,660 | 86.3% | 997,172 | 129.3% |

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 |
|---|---|---|---|---|---|---|
| 6/30/04 | 681,517 | 580,961 | 100,556 | 85.2% | 160,107 | 62.8% |
| 6/30/05 | 872,347 | 729,557 | 142,790 | 83.6% | 203,995 | 70.0% |
| 6/30/06 | 1,280,157 | 1,069,547 | 210,611 | 83.6% | 304,898 | 69.1% |
| 6/30/07 | 1,627,026 | 1,362,059 | 264,967 | 83.7% | 376,292 | 70.4% |
| 6/30/08 | 1,823,366 | 1,529,549 | 293,818 | 83.9% | 414,589 | 70.9% |
| 6/30/09 | 2,034,778 | 1,707,775 | 327,003 | 83.9% | 458,276 | 71.4% |

# ARCATA FIRE PROTECTION DISTRICT
## SCHEDULE OF FUNDING PROGRESS
For the year ended June 30, 2011

### 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% |

# 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, 2011, and have issued our report thereon dated December 7, 2011. 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 Watts Accountancy Corp

December 7, 2011