

**NORTH SAN JUAN  
FIRE PROTECTION DISTRICT,  
CALIFORNIA**

**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2010**

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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# INTRODUCTORY SECTION

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- **Members of the Board**

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**BOARD OF DIRECTORS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

Pat Leach ..... Chairman  
Durinda Kelly ..... Vice Chairman  
Ed Beckenbach ..... Treasurer  
Bruce Boyd ..... Member  
JoAnn Fites-Kaufman ..... Member

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# FINANCIAL SECTION

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- **Independent Auditor's Report**
  - **Management's Discussion and Analysis**
  - **Basic Financial Statements**
  - **Required Supplementary Information**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
North San Juan Fire Protection District  
North San Juan, California

We have audited the accompanying modified cash financial statements of the governmental activities and each major fund of North San Juan Fire Protection District, North San Juan, California (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

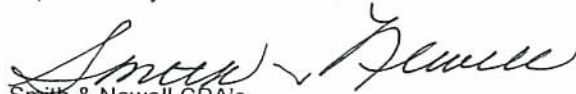
As discussed in Note 1C, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the District as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

  
Smith & Newell CPA's  
Yuba City, California  
October 8, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The North San Juan Fire Protection District evolved from a volunteer fire department begun in 1862. The District gained special district status on January 1, 1986. The District has no paid firefighters but relies on the volunteer efforts of about thirty individuals. Management of the District is performed by three part-time employees. The Board is composed of five elected Directors.

The District's mission is to provide fire protection, rescue and emergency medical services, education in fire safety and emergency standards, and other services to protect lives and property. This mission is accomplished by the purchase and management of high quality, appropriate apparatus and equipment, regular and comprehensive training of its volunteers, and community education and involvement whenever possible.

This discussion is provided to offer an overview of the annual financial report for the year ending June 30, 2010. The report is divided into the Introductory Section, listing the District's officials, and the Financial Section that contains the customary independent auditor's report, this overview, the basic financial statements, required supplementary information, and other reports. A description of the fund financial statements section of the report follows.

### Financial Statements

The District's basic financial statements contain three components: government-wide financial statements, fund financial statements, and notes to the basic financial statements.

**Government-wide Financial Statements** are designed to provide a broad overview of the District's assets and liabilities, much like the balance sheet of a private sector business. The *Statement of Net Assets* shows total District assets and liabilities with the difference between them reported as net assets. The *Statement of Activities* shows the detail of changes to the net assets during the year. Since the District functions on the modified cash basis, budgeting and reporting are based on cash in and cash out during the audit year. However, assets and liabilities may be reported in the *Statement* for some activities that will actually occur in a future fiscal period, e.g., payment of outstanding debt and interest in a future year. The District's government-wide financial statements are on pages 5 and 6.

**Fund Financial Statements** report on the various funds of the District. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, they reflect the *fiscal period* inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Although the focus of fund financial statements is narrower than that of government-wide financial statements, the information presented in both formats is tied together by the *Reconciliation* reports. Thus the *Balance Sheet* information for the fiscal period is tied to the *Statement of Net Assets*, and the *Statement of Revenues, Expenditures and Changes in Fund Balances* is tied to the *Statement of Activities*. The fund financial statements are presented on pages 7 through 10.

The District adopts an annual appropriated budget for its various funds. A *Budgetary Comparison Schedule* demonstrating compliance with the budget is presented in the Required Supplementary Information section of this report on pages 19 through 20.

**Notes to Basic Financial Statements** provide information essential to a full understanding of the data reported in the government-wide and fund financial statements and are presented on pages 11 through 18.

### Government-wide Financial Analysis

The District presents its financial statements under the reporting model required by the Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus", respectively.

The District's net assets exceeded liabilities by \$763,957 at the close of the year reported. The most significant portion of net assets is capital assets, comprised of the District's property, structures, apparatus and equipment. Net assets decreased during the year reported by approximately 9% (\$763,957 at year end compared to \$836,423 at beginning of year). This increase is explained in the *Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances* on page 10.

Statement of Net Assets Comparison

	<u>FY 2009-2010</u>	<u>FY 2008-2009</u>	<u>Difference</u>
Total Assets	\$ 848,304	\$ 946,517	(\$ 98,213)
Total Liabilities	<u>84,347</u>	<u>110,094</u>	<u>25,747</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	588,456	610,438	( 21,982)
Restricted	4,828	8,903	( 4,075)
Unrestricted	<u>170,673</u>	<u>217,082</u>	<u>( 46,409)</u>
Total Net Assets	<u>\$ 763,957</u>	<u>\$ 836,423</u>	<u>(\$ 72,466)</u>

Statement of Activities Comparison

	<u>FY 2009-2010</u>	<u>FY 2008-2009</u>	<u>Difference</u>
Program Revenue			
Charges for Services	\$ 5,901	\$ 15,292	(\$ 9,391)
Operating Grants and Contributions	38,642	28,264	10,378
General Revenue			
Property Taxes	153,408	163,484	( 10,076)
Interest	692	3,126	( 2,434)
Miscellaneous Investment Earnings	<u>10,193</u>	<u>33,214</u>	<u>( 23,021)</u>
Total Revenues	<u>208,836</u>	<u>243,380</u>	<u>( 34,544)</u>
Program Expenses			
Governmental Activities:			
Public Protection	<u>281,302</u>	<u>251,105</u>	<u>( 30,197)</u>
Total Expenses	<u>281,302</u>	<u>251,105</u>	<u>( 30,197)</u>
Changes in Net Assets	( 72,466)	( 7,725)	( 64,741)
Beginning in Net Assets	<u>836,423</u>	<u>844,148</u>	<u>( 7,725)</u>
Ending Net Assets	<u>\$ 763,957</u>	<u>\$ 836,423</u>	<u>(\$ 72,466)</u>

**Governmental Fund Financial Analysis**

As noted previously, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For the report year, the District reported a total ending fund balance of \$176,647, a decrease of \$49,338 from the previous year. This decrease represents the amount of expenditures for the year ended June 30, 2010, in excess of income.

Balance Sheet Comparison

	<u>FY 2009-2010</u>	<u>FY 2008-2009</u>	<u>Difference</u>
Total Assets	\$ 176,647	\$ 225,985	(\$ 49,338)
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>\$ 176,647</u>	<u>\$ 225,985</u>	<u>(\$ 49,338)</u>

Statement of Revenues, Expenditures and Changes in Fund Balance Comparison

	<u>FY 2009-2010</u>	<u>FY 2008-2009</u>	<u>Difference</u>
Total Revenue	\$ 217,784	\$ 243,380	(\$ 25,596)
Total Expenditures	267,122	214,660	( 52,462)
Other Sources (Uses)	-	-	-
Net Change in Fund Balance	( 49,338)	28,720	( 78,058)
Fund Equity, Beg of Year	<u>225,985</u>	<u>197,265</u>	<u>28,720</u>
Fund Equity, End of Year	<u>\$ 176,647</u>	<u>\$ 225,985</u>	<u>(\$ 49,338)</u>

**Capital Assets and Debt Administration**

At the end of the report year, the District had net capital assets totaling \$671,657 comprised of land, buildings and improvements, vehicles and fire apparatus, furniture and fixtures. (Note 2B details the assets.)

At the end of the report year, the District had outstanding long-term debt of \$84,347 for a capital lease to purchase one vehicle and three fire apparatus. (Note 2C gives pertinent details.)

**Assumptions for FY 2010/11 Budget**

Apparatus and equipment needs to provide fire protection and emergency services have been met for the near term. The District has created a capital reserve fund for equipment replacement and upgrade purposes, and has instituted procedures to insure its growth over time.

Mitigation fund revenues are combined with general revenues to pay off indebtedness for upgraded and new apparatus and equipment.

**Requests for Information**

This discussion and analysis was provided as a general overview of the District's finances for the report year. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the District Business Manager, North San Juan Fire Protection District, P.O. Box 299, North San Juan, CA 95960.

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**BASIC FINANCIAL STATEMENTS**  
Government-Wide Financial Statements

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<u><b>Total Governmental Activities</b></u>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 176,647
Capital assets:	
Non depreciable	38,223
Depreciable, net	<u>633,434</u>
Total capital assets	<u>671,657</u>
<b>Total Assets</b>	<u>848,304</u>
<b><u>LIABILITIES</u></b>	
Long-term liabilities:	
Due within one year	26,893
Due in more than one year	<u>57,454</u>
<b>Total Liabilities</b>	<u>84,347</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	588,456
Restricted for other purpose	4,828
Unrestricted	<u>170,673</u>
<b>Total Net Assets</b>	<u>\$ 763,957</u>

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

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Public protection	\$ 276,395	\$ 5,901	\$ 38,642	\$ -	\$ (231,852)
Interest on long-term debt	4,907	-	-	-	(4,907)
<b>Total Governmental Activities</b>	281,302	5,901	38,642	-	(236,759)
<b>Total Primary Government</b>	\$ 281,302	\$ 5,901	\$ 38,642	\$ -	(236,759)
<b>General revenues:</b>					
Taxes:					
Property taxes					153,408
Interest and investment earnings					692
Miscellaneous					10,193
<b>Total General Revenues</b>					164,293
<b>Change in Net Assets</b>					(72,466)
<b>Net Assets - Beginning</b>					836,423
<b>Net Assets - Ending</b>					\$ 763,957

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

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**BASIC FINANCIAL STATEMENTS**  
**Fund Financial Statements**

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**MODIFIED CASH BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	<b>General Fund</b>	<b>Mitigation Fees</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 171,819	\$ 4,828	\$ 176,647
<b>Total Assets</b>	<b>\$ 171,819</b>	<b>\$ 4,828</b>	<b>\$ 176,647</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Unearned revenue	\$ -	\$ -	\$ -
<b>Total Liabilities</b>	-	-	-
<b>Fund Balances</b>			
Unreserved, reported in:			
General			
Designated for capital savings	38,083	-	38,083
Undesignated	133,736	-	133,736
Special revenue funds			
Undesignated	-	4,828	4,828
<b>Total Fund Balances</b>	<b>171,819</b>	<b>4,828</b>	<b>176,647</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 171,819</b>	<b>\$ 4,828</b>	<b>\$ 176,647</b>

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

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES**  
**TO THE GOVERNMENT WIDE STATEMENT OF**  
**NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2010**

<b>Total Fund Balances - Total Governmental Funds</b>	\$ 176,647
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	671,657
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds. Capital lease payable	<u>(84,347)</u>
<b>Net Assets of Governmental Activities</b>	<u>\$ 763,957</u>

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

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**MODIFIED CASH STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>	<u>Mitigation Fees</u>	<u>Total</u>
<b>REVENUES</b>			
Taxes and assessments	\$ 153,408	\$ -	\$ 153,408
Use of money and property	668	24	692
Intergovernmental revenues	38,642	-	38,642
Mitigation fees	-	5,901	5,901
Other revenues	19,141	-	19,141
<b>Total Revenues</b>	<u>211,859</u>	<u>5,925</u>	<u>217,784</u>
<b>EXPENDITURES</b>			
Public protection:			
Salaries and benefits	84,062	-	84,062
Services and supplies	130,561	-	130,561
Debt service:			
Principal	15,747	10,000	25,747
Interest and other charges	4,907	-	4,907
Capital outlay	21,845	-	21,845
<b>Total Expenditures</b>	<u>257,122</u>	<u>10,000</u>	<u>267,122</u>
<b>Net Change in Fund Balance</b>	(45,263)	(4,075)	(49,338)
<b>Fund Balances - Beginning</b>	<u>217,082</u>	<u>8,903</u>	<u>225,985</u>
<b>Fund Balances - Ending</b>	<u>\$ 171,819</u>	<u>\$ 4,828</u>	<u>\$ 176,647</u>

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

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**Net Change in Fund Balances - Total Governmental Funds** \$ (49,338)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital outlay	21,845
Depreciation expense	(61,772)
Various adjustments affecting capital assets (including sales, trade-ins, and developer contributions)	(8,948)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal retirements	25,747
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**Change in Net Assets of Governmental Activities** \$ (72,466)

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

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**BASIC FINANCIAL STATEMENTS**  
**Notes to Basic Financial Statements**

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The North San Juan Fire Protection District was organized pursuant to section 14001 - 14314 of the California Health and Safety Code. The District provides fire protection services to the North San Juan area of Nevada County and maintains facilities in North San Juan.

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

The governmental reporting entity consists of the District (Primary Government) and its component units. Component units are legally separate organizations for which the District is financially accountable or other organizations whose component units nature and significant relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the District's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the District.

Reporting for component units on the District financial statements can be blended or discretely presented. Blended component units are, although legally separate entities, in substance part of the District's operations and, therefore, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, would be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

**B. Basis of Presentation**

**Government-Wide Financial Statements**

The statement of net assets and statement of activities display information about the District. These statements include the financial activities of the overall District activities. These statements report the governmental activities of the District, which are normally supported by property taxes and special assessments. The District had no business-type activities at June 30, 2010. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program and 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

**Fund Financial Statements**

Fund financial statements of the District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds of the District are organized into the governmental category. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (Continued)**

The District reports the following major governmental funds:

- The General Fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not accounted for through other funds. For the District, the General Fund includes such activities as fire safety and protection.
- The Mitigation Fees fund is a special revenue fund used to account for revenues and expenditures related to mitigation fees.

**C. Basis of Accounting**

The government-wide financial statements are reported using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America (GAAP) in that certain revenues are recognized when received rather than earned and certain expenses are recognized when paid rather than when the obligation is incurred. Such variances are presumed to be material. However similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of equipment and related depreciation, and long-term debt.

Governmental funds are reported using the modified cash basis of accounting. However, in the governmental funds general capital assets acquisitions are reported as expenditures and proceeds of general long-term debt and capital leases are reported as other financing sources.

**D. Cash and Investments**

The District pools all cash and investments, other than cash on hand, with the County of Nevada. The Nevada County Treasury is an external investment pool for the District and the District is considered an involuntary participant. The Treasurer invests on behalf of most funds of the County and external participants in accordance with the California State Government Code and the County's Investment Policy. State statutes authorize the District and County to invest its cash surplus in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds, medium term notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund.

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter based on the participant's average daily cash balance at quarter end in relation to the total pool investments. This method differs from the fair value method used to value investments in these financial statements. In these financial statements, the fair value of the District's investments in the pool was based on unaudited quoted market values as provided by the County Treasurer. The pool has not provided or obtained any legally binding guarantees during the period to support the value of the investments.

The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Nevada's financial statements may be obtained by contacting the County of Sutter Auditor-Controller's Office at 463 Second Street, Yuba City, CA 95991.

**E. Inventory**

Governmental fund inventories are recorded as expenditures at the time the inventory is purchased. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Interfund Transactions**

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are treated as an adjustment to expenditures or expenses; that is, a corresponding increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**G. Capital Assets**

The accounting treatment over property, buildings and improvements, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

**Government-Wide Financial Statements**

In the government-wide financial statements, property, plant, and equipment, are accounted for as exhaustible capital assets. Capital assets are defined by the District as an asset with a cost greater than \$500 and a useful life of more than one year. Such assets are valued at historical or estimated historical cost. Contributed capital assets are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-25 years
Structures and Improvements	5-50 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increases values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the result of operations.

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund at the time of acquisition.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Long-Term Debt**

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of capital lease payable.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. Debt proceeds would be reported as other financing sources and payment of principal and interest reported as expenditures.

**I. Compensated Absences and Post-Employment Benefits**

At June 30, 2010, the District did not have any full-time employees who would be eligible for vacation, sick leave or compensatory time off.

The District does not currently provide post-employment benefits.

**J. Net Assets/Fund Balance**

**Government-Wide Financial Statements**

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the District’s policy to use unrestricted resources as they are needed.

**Fund Statements**

In the governmental fund financial statements reserves and designations segregated a portion of fund balance. Reservations of fund balance are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are established by action of management and represent tentative plans that are subject to change. At June 30, 2010, the District had no reservations of fund balance.

At June 30, 2010, designations of fund balance included:

Designated for Capital Savings - to reflect the portion of fund balance set aside for future purchases of equipment, improvements, and facilities.

**K. Property Tax**

Nevada County assesses properties, bills, collects, and distributes property taxes to the District. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1. Secured property taxes become a lien on real property on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and March 1. Property taxes become delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Grant Revenues**

Certain grant revenues are recognized when specific related expenditures have been incurred. In other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt.

**M. Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function.

In the fund financial statements, expenditures are classified as follows:

Government Funds – By Character  
 Current (further classified by function)  
 Debt Service  
 Capital Outlay

**N. Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**NOTE 2: DETAILED NOTES**

**A. Cash and Investments**

As of June 30, 2010, the District's cash and investments consisted of the following:

Deposits	\$	607
Nevada County Treasurer's Pool		<u>176,040</u>
Total Cash and Investments	\$	<u><u>176,647</u></u>

**Cash**

At year end, the carrying amount of the District's cash deposits (including amounts in checking accounts) was \$607 and the bank balance was \$607.

**Custodial Credit Risk for Deposits** - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. Government Code requires that deposits in excess of the Federal Deposit Insurance Corporation coverage must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The District does not have a formal investment policy that further limits its deposits.

**Investments**

**Interest Rate Risk** - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All investments of the District are pooled with the County of Nevada. The District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 2: DETAILED NOTES (CONTINUED)**

**A. Cash and Investments(Continued)**

**Investments (Continued)**

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and County investment pool policy limit investments in commercial paper to the rating of A1 or better by Standards & Poor's or P-1 or better by Moody's Investors Service; and corporate bonds to the rating of A or better by both Standards & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S. Treasuries. The District does not have a formal investment policy that would further limit its investment choices.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the district will not be able to recover its deposits or collateral securities that are in the possession of an outside party. All investments of the District are pooled with the County of Nevada. The District does not have a formal investment policy that would limit the exposure to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District has invested all cash other than deposits in the County investment pool which contains a diversification of investments.

**B. Capital Assets**

Capital assets activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Capital Assets, Not Being Depreciated:				
Land	\$ 38,223	\$ -	\$ -	\$ 38,223
Total Capital Assets, Not Being Depreciated	<u>38,223</u>	<u>-</u>	<u>-</u>	<u>38,223</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	348,150	-	-	348,150
Vehicles and fire apparatus	742,860	-	-	742,860
Furniture and fixtures	<u>179,326</u>	<u>21,845</u>	<u>( 11,358)</u>	<u>189,813</u>
Total Capital Assets, Being Depreciated	<u>1,270,336</u>	<u>21,845</u>	<u>( 11,358)</u>	<u>1,280,823</u>
Less Accumulated Depreciation For:				
Buildings and improvements	( 105,164)	( 8,377)	-	( 113,541)
Vehicles and fire apparatus	( 359,078)	( 37,064)	-	( 396,142)
Furniture and fixtures	<u>( 123,785)</u>	<u>( 16,331)</u>	<u>2,410</u>	<u>( 137,706)</u>
Total Accumulated Depreciation	<u>( 588,027)</u>	<u>( 61,772)</u>	<u>2,410</u>	<u>( 647,389)</u>
Total Capital Assets, Being Depreciated, Net	<u>682,309</u>	<u>( 39,927)</u>	<u>( 8,948)</u>	<u>633,434</u>
Governmental Activities Capital Assets, Net	<u>\$ 720,532</u>	<u>(\$ 39,927)</u>	<u>(\$ 8,948)</u>	<u>\$ 671,657</u>

**Depreciation**

Depreciation expense was charged to governmental activities as follows:

Public Protection	\$ 61,772
Total Depreciation Expense – Governmental Activities	<u>\$ 61,772</u>

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 2: DETAILED NOTES (CONTINUED)**

**C. Long-Term Liabilities**

The following is a summary of long-term liabilities for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions/ Adjustments</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Capital Leases Payable (Note 2D)	\$ 110,094	\$ -	(\$ 25,747)	\$ 84,347
Total	<u>\$ 110,094</u>	<u>\$ -</u>	<u>(\$ 25,747)</u>	84,347
Less Current Portion				( 26,893)
Total Long-Term Portion				<u>\$ 57,454</u>

**D. Leases**

**Capital Leases**

The District has entered into certain capital lease agreements under which the related equipment will become the property of the District when all terms of the lease agreements are met.

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments at June 30, 2010</u>
Governmental Activities	4.46	\$ 84,347
Total Capital Lease Obligations		<u>\$ 84,347</u>

Vehicles and related accumulated depreciation under capital lease are as follows:

	<u>Governmental Activities</u>
Vehicles and fire apparatus	\$ 417,851
Less: accumulated depreciation	( 219,596)
Net Value	<u>\$ 198,255</u>

As of June 30, 2010, capital lease annual amortization is as follows:

	<u>Governmental Activities</u>
Year Ending June 30:	
2011	\$ 30,654
2012	30,654
2013	<u>30,654</u>
Total requirements	91,962
Less interest	( 7,615)
Present Value of Remaining Payments	<u>\$ 84,347</u>

**NOTE 3: 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 natural disasters. The District carries commercial coverage for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 4: OTHER INFORMATION**

**A. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the appreciable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**B. Subsequent Events**

Management has evaluated events subsequent to June 30, 2010 through XXX, 2010, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**C. Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$9,830.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

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**REQUIRED SUPPLEMENTARY INFORMATION**

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 163,850	\$ 163,850	\$ 153,408	\$ (10,442)
Use of money and property	500	500	668	168
Intergovernmental revenues	32,023	27,647	38,642	10,995
Other revenues	17,000	17,000	19,141	2,141
<b>Total Revenues</b>	<u>213,373</u>	<u>208,997</u>	<u>211,859</u>	<u>2,862</u>
<b><u>EXPENDITURES</u></b>				
Public protection:				
Salaries and benefits	78,665	78,665	84,062	(5,397)
Services and supplies	122,259	122,259	130,561	(8,302)
Contingency	21,337	21,337	-	21,337
Debt service:				
Principal	15,750	15,750	15,747	3
Interest and other charges	4,950	4,950	4,907	43
Capital outlay	26,897	26,897	21,845	5,052
<b>Total Expenditures</b>	<u>269,858</u>	<u>269,858</u>	<u>257,122</u>	<u>7,684</u>
<b>Net Change in Fund Balance</b>	(56,485)	(60,861)	(45,263)	10,546
<b>Fund Balances - Beginning</b>	<u>217,082</u>	<u>217,082</u>	<u>217,082</u>	<u>-</u>
<b>Fund Balances - Ending</b>	<u>\$ 160,597</u>	<u>\$ 156,221</u>	<u>\$ 171,819</u>	<u>\$ 15,598</u>

See the accompanying note to the required supplementary information.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR SPECIAL REVENUE FUND - MITIGATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>REVENUES</u></b>				
Use of money and property	\$ 100	\$ 30	\$ 24	\$ (6)
Mitigation fees	6,500	6,500	5,901	(599)
<b>Total Revenues</b>	<u>6,600</u>	<u>6,530</u>	<u>5,925</u>	<u>(605)</u>
<b><u>EXPENDITURES</u></b>				
Debt service:				
Principal	<u>30,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
<b>Total Expenditures</b>	<u>30,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	(23,400)	(3,470)	(4,075)	(605)
<b>Fund Balances - Beginning</b>	<u>8,903</u>	<u>8,903</u>	<u>8,903</u>	<u>-</u>
<b>Fund Balances - Ending</b>	<u>\$ (14,497)</u>	<u>\$ 5,433</u>	<u>\$ 4,828</u>	<u>\$ (605)</u>

See the accompanying note to the required supplementary information.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**BUDGETARY BASIS OF ACCOUNTING**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The fiscal officer submits to the Board of Directors a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The Board of Directors reviews the proposed budget at regularly scheduled meetings, which are open to the public. The Board also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is adopted through the passage of a resolution.
4. From the effective date of the budget, the amounts stated therein, as proposed expenditures become appropriations to the District. The Board of Directors may amend the budget by motion during the fiscal year.

Formal budgetary integration is employed as a management control device during the year. The District presents a comparison of annual budgets to actual results for all governmental funds. The amounts reported on the budgetary basis are generally on the basis of accounting described in Footnote Note 1C.

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**OTHER REPORT AND SCHEDULES**

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

To The Board of Directors  
North San Juan Fire Protection District  
North San Juan, California

We have audited the modified cash financial statements of the governmental activities and each major fund of the North San Juan Fire Protection District, North San Juan, California (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations that we consider to be significant deficiencies in internal control over financial reporting. (10-FS-01) A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and others within the organization and its regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPAs  
Yuba City, California  
October 8, 2010

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**10-FS-01 STATEMENT ON AUDITING STANDARDS NO. 112 and 115 (Reporting Requirement: Significant Deficiency)**

**Condition**

Currently, the District relies on the external auditors to ensure its financial statements are in accordance with generally accepted accounting principles (GAAP). This is a repeat of a prior year finding.

**Cause**

Prior to issuance of SAS 112 and SAS 115, the District was able to rely on the external auditors to assist with the financial statements and related notes without being subject to deficiencies in internal control.

**Criteria**

In October 2008, a new auditing standard, Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit (SAS 115), was issued and applies to all financial statements after December 15, 2009. The core standards in SAS 112 are retained; however, the definitions have been revised. The standard provides guidance in that if an entity is unable to draft its own financial statements, there may be a material weakness or significant deficiency. External auditors cannot be part of the Commission's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence.

The District should have the capacity to prepare full disclosure financial statements in accordance with generally accepted accounting principles. To carry out this responsibility, the District must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the financial records, retaining staff competent in financial reporting and related oversight roles, and adequate design of internal control over the preparation of the financial statements.

**Effect of Condition**

The risk of misstatement in the financial statements increases when management is not able to apply GAAP in recording the entity's financial transactions or preparing its financial statements, including the related notes. Also, by relying on the external auditors to ensure its financial statements are in accordance with GAAP, the Commission is considering the external auditors a part of its internal controls over the preparation of the financial statements.

**Recommendation**

We recommend that the District provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the use of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.

The District may find that the costs outweigh the benefits to adhere to this standard. No action will continue to result in a significant deficiency in the District's internal controls over preparation of the financial statements.

**Corrective Action Plan**

The District will not implement at this time.

**NORTH SAN JUAN FIRE PROTECTION DISTRICT, CALIFORNIA**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
09-FS-01	<p><b>STATEMENT ON AUDITING STANDARDS NO. 112</b></p> <p><b>Recommendation</b></p> <p>The District may consider the following possible actions:</p> <ol style="list-style-type: none"><li>1. Provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the use of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.</li><li>2. Hire an external accountant to confirm that the financial statements and related disclosures are in accordance with GAAP.</li><li>3. Take no action. The District may find that the costs outweigh the benefits to adhere to this standard. No action will continue to result in a significant deficiency in the District's internal controls over the preparation of the financial statements.</li></ol> <p><b>Status</b></p> <p>Not Implemented</p>