Hosaka, Nagel & Company
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

NORTH COUNTY FIRE PROTECTION DISTRICT

COUNTY OF SAN DIEGO
FALLBROOK, CALIFORNIA

REPORT TO THE
BOARD OF DIRECTORS

JUNE 30, 2010

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To the Board of Directors
North County Fire Protection District
Fallbrook, California

We have audited the financial statements of North County Fire Protection District (the District), for the year ended June 30, 2010, and have issued our report thereon dated September 18, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U. S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provision.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2010. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated).

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations With Other Independent Accounts

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle, the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Audit Committee, Board of Directors, and Management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Hosaka, Nagel & Company

Hosaka, Nagel & Company
September 18, 2010

Hosaka, Nagel & Company
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NORTH COUNTY FIRE PROTECTION DISTRICT

COUNTY OF SAN DIEGO

FALLBROOK, CA

AUDIT REPORT

JUNE 30, 2010

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NORTH COUNTY FIRE PROTECTION DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2010

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NORTH COUNTY FIRE PROTECTION DISTRICT

FINANCIAL SECTION

JUNE 30, 2010

Hosaka, Nagel & Company
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North County Fire Protection District
Fallbrook, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North County Fire Protection District as of and for the year ended June 30, 2010, which collectively comprise the North County Fire Protection District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North County Fire Protection 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 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North County Fire Protection District as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2010, on our consideration of North County Fire Protection District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

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The Management's Discussion and Analysis on pages 4 through 10 and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the North County Fire Protection District's basic financial statements. The supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Harshe, Nagel & Company

San Diego, California
September 18, 2010

NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2010

As management of the North County Fire Protection District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis and, (2) Basic Financial Statements.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments.

FINANCIAL HIGHLIGHTS

- The District's ending Total Net Asset balance was $13,593,119.
- The Change in Net Assets for the year was 625,165.
- The District had Revenue in excess of expenses in the General Fund (before Transfers) in the amount of $903,674 in the current year compared to ($201,288) in the previous year.
- This year the District had $37,928 worth of additions to Capital Assets compared to $426,392 last year.
- The District's General Fund Budget for this year showed Excess Revenue over Expenditures (before Transfers) of $928,561 compared to the actual amount of $903,674.
- Capital expenditures for the period ending June 30, 2010 were $37,928 which was for Phase I of the Microwave Tower project, funded in part with a State Homeland Security Grant.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's audit report is comprised of four components: 1) financial statements and notes, 2) supplementary information, 3) reports on compliance and internal control, and 4) findings and recommendations.

Basic financial statements. The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by Reconciliations showing why they differ.

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

More detailed information about the district's most significant funds – not the district as a whole is provided in the fund financial statements. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs.

The *Statement of Net Assets*, a government-wide statement, 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*, a government-wide statement, presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Supplementary Information* gives an overview of the operations of the District and the governing body and outlines assessed property valuation.

Reports on Compliance and Internal Control encompass the independent auditor's reports showing compliance with Government Auditing Standards and provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *Findings and Recommendations* section notes material weaknesses in the system and recommendations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

To begin our analysis, a summary of the District's Statement of Net Assets is presented in Table 1 below for the current year and the prior year.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $13,593,119 as of June 30, 2010.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets as demonstrated in Table 1 below.

TABLE 1
Condensed Statement of Net Assets

	FY 09/10	FY 08/09	$ Change
Current and Other Assets	$ 8,794,281	$ 7,748,131	$1,046,150
Capital Assets (Net)	7,059,402	7,602,916	(543,514)
TOTAL ASSETS	$ 15,853,683	$15,351,047	$ 502,636
Current Liabilities	$ 1,349,174	$ 1,433,910	$ (84,736)
General Long-Term Debt	911,390	949,183	(37,793)
TOTAL LIABILITIES	$ 2,260,564	$ 2,383,093	$ (122,529)
Net Assets:			
Investment in Capital Assets	$ 7,035,052	$ 7,571,925	$ (536,873)
Restricted	4,322,699	3,510,176	812,523
Unrestricted	2,235,368	1,885,853	349,515
TOTAL FUND EQUITY	$ 13,593,119	$12,967,954	$ 625,165

Statement of Activities

- The District's total revenues for the fiscal year ended June 30, 2010, excluding inter-fund transfers, decreased to $14,056,879. Although there was another increase in ambulance revenue this year, property taxes, the District's main source of income, decreased almost 8% due to changes in assessed valuation. Continued low interest rates have also impacted the District's earnings on reserve funds.

- The District's total expenses of $13,431,714 shows a significant decrease of $1,522,056 26 over the prior year. The cost savings were primarily due to the elimination of one (1) mechanic position, two (2) unfilled administrative positions and the unfilled Operations Chief position. In addition, numerous cuts were made to the budget to allow for the anticipated decrease in property tax revenue. Capital equipment purchases were also kept to a minimum.

- Overall, revenue exceeded expenses by $625,165 prior to inter-fund transfers from Reserves.

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2010.

TABLE 2
Condensed Statement of Activities

	FY 09/10	FY 08/09	$ Change
Property Taxes, Fees & Assessments	$ 11,783,242	$ 12,769,693	$ (986,451)
Charges for Services	1,442,856	1,207,886	234,970
Interest and Investment Earnings	61,360	127,941	(66,581)
Grants and Mitigation Fees	182,166	195,425	(13,259)
Miscellaneous	587,255	235,686	351,569
TOTAL REVENUE	14,056,879	14,536,631	(479,752)
Operating Expenses	12,257,992	14,114,325	(1,856,333)
Administration and Depreciation	1,173,722	839,445	334,277
TOTAL EXPENSES	13,431,714	14,953,770	(1,522,056)
Excess of Revenue Over (Under) Expenses	$ 625,165	$ (417,139)	$ 1,042,304

Significant Changes in Individual Funds

TABLE 3
Comparison of Fund Balances

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	Increase (Decrease)
General	$ 4,832,434	$ 3,455,031	$ 1,377,403
Capital Projects	2,136,863	2,539,618	(402,755)
Special Revenue	475,810	319,572	156,238
Total	$ 7,445,107	$ 6,314,221	$ 1,130,886

Due to the reduction in expenditures noted under the Statement of Activities above, the District was able to increase its overall fund balances by $1,130,886. An item of note in this fiscal year just ended is the Prop 1A raid on local government property taxes by the State of California. The District participated in the Prop 1A Securitization Program which was administered by the California Statewide Communities Development Authority. This allowed the Authority to sell bonds on behalf of the District and provide for the immediate return of the property taxes with no risk or obligation to the District.

General Fund Budgetary Highlights

Overall, the District ended the fiscal year 2.69% under budget. Although there were slight variances in some line items, the only significant account with Excess of Expenditures over Appropriations (instances where actual amounts exceeded budgeted amounts) was in workers' compensation insurance. Changes in workers' compensation laws have driven costs up, especially in the area of permanent disability.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

There was an overall decrease in Capital Assets of $290,951. The Construction in Progress is Phase I of the Microwave Tower project funded in part by a grant. The other two categories reflect the sale of the administration trailers and an ambulance.

TABLE 4
Changes in Capital Assets

Capital Assets	Balance June 30, 2010	Balance June 30, 2009	Increase (Decrease)
Land	$ 612,639	$ 612,639	$ -
Construction in Progress	37,928	-	37,928
Structures and Improvements	4,721,927	4,905,691	(183,764)
Equipment and Vehicles	9,040,575	9,185,690	(145,115)
Total	$ 14,413,069	$ 14,704,020	$ (290,951)

Long-Term Debt

The District has a long-term debt of $911,390 for annual leave and sick leave earnings to be paid out when employees leave the agency either through retirement or to work for another department. The long-term debt decreased by approximately $37,793.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Although the District has felt the effects of the downturn in the economy, the District is currently in good financial condition. When possible, Program Managers have made cuts in spending without impacting the District's ability to provide the same high level of service to the Community. Potential increases in employee costs are being monitored closely in ensure funds are available to continue this same level of service in the future.

CONTACTING THE DISTRICT

Questions regarding this report should be directed to the Finance Division (760) 723-2008 or to the Deputy Chief (760) 723-2014 or by mail at 330 S Main Avenue, Fallbrook, CA 92028.

NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
ASSETS:	
Cash in County Treasury	$ 6,335,396
Cash on Hand and in Banks	559,494
Cash in LAIF	862,319
Funds Held in PASIS	520,939
Accounts Receivable	516,133
Capital Assets:	
Land	612,639
Construction in Progress	37,928
Structures and Improvements	4,721,927
Hydrants	267,523
Equipment and Vehicles	8,773,052
Less: Accumulated Depreciation	(7,353,667)
TOTAL ASSETS	15,853,683
LIABILITIES:	
Accounts Payable	59,508
Accrued Expenses and Payables	1,289,666
Noncurrent Liabilities:	
Due Within One Year	6,641
Due in More Than One year	904,749
TOTAL LIABILITIES	2,260,564
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	7,035,052
Reserved for:	
Facilities Construction	2,053,539
Vehicles	2,269,160
Unreserved, Reported in:	
All Funds	2,235,368
TOTAL NET ASSETS	$ 13,593,119

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

NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses), Revenues and Changes in Net Assets: Governmental Activities
Government Activities:					
Fire Protection - Operations	$ 12,257,992	$ -	$ 45,295	$ -	$ (12,212,697)
General Administration	606,670	1,442,856	-	-	836,186
Unallocated Depreciation	567,052	-	-	-	(567,052)
Total Governmental Activities	$ 13,431,714	$ 1,442,856	$ 45,295	$ -	(11,943,563)
			General Revenues:		
			Property Taxes		11,783,242
			Mitigation Fees		136,871
			Interest		61,360
			Miscellaneous		587,255
			Total General Revenues		12,568,728
			Increase in Net Assets		625,165
			Net Assets - Beginning		12,967,954
			Net Assets - Ending		$ 13,593,119

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

NORTH COUNTY FIRE PROTECTION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	$ 2,996,742	$ 2,135,660	$ 1,202,994	$ 6,335,396
Cash on Hand and in Banks	559,494	-	-	559,494
Cash in LAIF	862,319	-	-	862,319
Funds Held in PASIS	520,939	-	-	520,939
Accounts Receivable	469,928	1,203	45,002	516,133
Due From Other Funds	772,186	-	-	772,186
Total Assets	$ 6,181,608	$ 2,136,863	$ 1,247,996	$ 9,566,467
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	$ 59,508	$ -	$ -	$ 59,508
Accrued Liabilities	1,289,666	-	-	1,289,666
Due To Other Funds	-	-	772,186	772,186
Total Liabilities	1,349,174	-	772,186	2,121,360
Fund Balances:				
Reserved for:				
Sick Leave Buyout	162,268	-	-	162,268
Long-Term Compensated Absenses	892,290	-	-	892,290
Facility Construction	2,053,539	-	-	2,053,539
Vehicles	2,269,160	-	-	2,269,160
Reserve for Designated Balance	-	-	-	-
Unreserved and Undesignated				
Reported in:				
General Fund	(544,823)	-	-	(544,823)
Capital Projects Fund	-	2,136,863	-	2,136,863
Other Governmental Funds	-	-	475,810	475,810
Total Fund Balances	4,832,434	2,136,863	475,810	7,445,107
Total Liabilities and Fund Balances	$ 6,181,608	$ 2,136,863	$ 1,247,996	$ 9,566,467

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

NORTH COUNTY FIRE PROTECTION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Fund Balance Sheet		$ 7,445,107
Amounts reported for governmental activities in the statement of net assets are different because:		
Amounts reported for capital assets in governmental activities are not short term financial resources, and therefore are not reported as assets in governmental funds. The historical acquisition cost of the assets is $14,413,069 and the accumulated depreciation is $7,353,667.		7,059,402
Long-term Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Liabilities at year end consist of:		
Compensated Absences	$ 887,040	
Capital Leases	24,350	(911,390)
Net Assets of Governmental Activities - Statement of Net Assets		$ 13,593,119

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

NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Revenues:				
Property Taxes	$ 11,587,107	$ -	$ 196,135	$ 11,783,242
Ambulance Fees	1,442,856	-	-	1,442,856
Mitigation Fees	-	-	136,871	136,871
Interest	42,786	7,161	11,413	61,360
Donations and Grants	41,495	-	3,800	45,295
Other Revenue	587,255	-	-	587,255
Total Revenues	13,701,499	7,161	348,219	14,056,879
Expenditures:				
Salaries	7,089,140	-	-	7,089,140
Employee Benefits	3,380,200	-	12,258	3,392,458
Administrative	198,097	-	-	198,097
Equipment and Supplies	281,412	-	19,457	300,869
Maintenance and Operations	490,918	-	875	491,793
Insurance	618,327	-	23,735	642,062
Maintenance - Equipment	-	-	-	-
Maintenance - Fleet	-	-	9,994	9,994
Maintenance - Stations	-	-	5,668	5,668
Medical Supplies	108,467	-	-	108,467
Membership	12,183	-	-	12,183
Office Expense	15,558	-	1,765	17,323
Professional Services	143,342	-	-	143,342
Printing	-	-	-	-
Radios and Pagers	36,843	-	-	36,843
Rents and Leases	108,985	-	-	108,985
Safety	44,340	-	12,057	56,397
Miscellaneous	-	-	4,308	4,308
Training	70,969	-	5,496	76,465
Utilities	132,266	-	30,534	162,800
Uniforms	22,209	-	713	22,922
Equipment	-	-	1,308	1,308
Capital Outlay - Equipment	37,928	-	-	37,928
Debt Service				
Principal	6,641	-	-	6,641
Interest	-	-	-	-
Total Expenditures	12,797,825	-	128,168	12,925,993

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

NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Excess (Deficiency) of Revenues Over (Under) Expenditures	903,674	7,161	220,051	1,130,886
Other Financing Sources (Uses)				
Operating Transfers In	473,729	-	-	473,729
Operating Transfers Out	-	(409,916)	(63,813)	(473,729)
Total Other Financing Sources (Uses)	473,729	(409,916)	(63,813)	-
Net Increase (Decrease) in Fund Balance	1,377,403	(402,755)	156,238	1,130,886
Fund Balance, Beginning	3,455,031	2,539,618	319,572	6,314,221
Fund Balance, Ending	$ 4,832,434	$ 2,136,863	$ 475,810	$ 7,445,107

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

NORTH COUNTY FIRE PROTECTION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds	$	1,130,886
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
Payments of the principle portion of long-term debt are reported in governmental funds as expenditures on the income statement, but are not included in the statement of activities.		6,641
Compensated Absences are reported as the amount earned in the Statement of Activities, but as the amount paid in the governmental funds.		16,762
Capital Outlays are reported in governmental funds as expenditures. In the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount that depreciation expense exceeded Capital Outlay for the year.		(529,124)
Increase in Net Assets of Governmental Activities - Statement of Activities	$	625,165

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

NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of accounting policies and other necessary disclosure of pertinent matters relating to financial position and results of operations of the North County Fire Protection District (the District). The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this report.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies
B. Implementation of New Accounting Pronouncements
C. Basis of Presentation
D. Basis of Accounting
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NOTE 7 - CAPITAL ASSETS

NOTE 8 - LEASES

NOTE 9 - PENDING LITIGATION

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

NOTE 11 - EARLY RETIREMENT PROGRAM

NOTE 12 - JOINT POWERS AGREEMENT

NOTE 13 - GENERAL LONG – TERM DEBT

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Implementation of New Accounting Pronouncements

For the year ended June 30, 2004, the District adopted GASB Statement No. 34 (GASB 34), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37 (GASB 37), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38 (GASB 38), Certain Financial Statement Note Disclosures, and GASB Statement No. 39 (GASB 39), Determining Whether Certain Organizations are Component Units. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38.

C. Basis of Presentation

Government-wide Financial Statements:

The Government-wide Financial Statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the District and its component units. Internal service fund activity is eliminated to avoid doubling revenues and expenses.

The Government-wide Financial Statements are prepared using the economic resources measurement focus. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The Government-wide Statements are prepared using the economic resources measurement focus. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The Government-wide Statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund Financial Statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

D. Basis of Accounting

Basis of Accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue:

Deferred Revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

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

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major and non-major funds as follows:

Major Governmental Funds:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects funds are used to accumulate funds for future capital expenditures and equipment replacement.

Non-major Governmental Funds:

The Fire Mitigation Fund is used to account for fees collected from builders in the area that can only be used to purchase new capital assets when those assets are needed because of growth.

The Rainbow General Fund accounts for the revenues and expenditures of funds collected in the Rainbow district.

F. Budgets and Budgetary Accounting

By State law, the District's Governing Board must adopt a tentative budget no later than July 1 and adopt a final budget no later than October 1. A public hearing must

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object accounts. Appropriations do not carryover from year to year.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

H. Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full time employees, permits deferment of a portion of the current salary to future years. Benefits from the plan are not available to employees until termination, retirement, disability, death or unforeseeable emergencies.

All assets and income of the plan are held in trust by Lincoln Financial Group, Nationwide Retirement Solutions, and CalPERS for the exclusive benefit of the participants and their beneficiaries. The District does not meet criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or performs the investment function. Therefore, the fair market value of the plan assets at June 30, 2010, in the amount of $3,316,966 is not included in the District's financial statements.

I. Accumulated Vacation and Sick Leave

The District does not allow carryover of vacation or sick leave benefits. Unused vacation or sick leave at year end is part of the final payroll of the District's year end.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Employee Retirement Plans

Plan Description and Funding Policy

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 9.0% for safety employees and 7% for miscellaneous employees of their annual covered salary. The District makes the contributions required of the District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate: the current rate is 23.926% for non-safety employees and 28.528% for safety employees, of annual covered payroll. The contribution of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost

For the year ended June 30, 2010, the District's annual pension cost of $2,288,188 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined through the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75% per year cost-of living adjustments. Both (a) and (b) included an inflation component of 3.5%.

The actuarial value of CalPERS assets was determined using techniques that smooth the effect of shor-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2007, was five years for prior service unfunded, and eleven years for remaining unfunded.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Employee Retirement Plans (Continued)

THREE YEAR TREND INFORMATION FOR CalPERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	$ 2,767,386	100%	$ -
6/30/09	$ 2,431,897	100%	$ -
6/30/10	$ 2,288,188	100%	$ -

FUNDED STATUS OF THE SAFETY PLAN

Valuation Date	Entry Age Normal Accrual Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a) - (b)	Funded Status (b) / (a)	Annual Covered Payroll (c)	UAAL As a % of Payroll [(a) - (b)] / (c)
6/30/06	$ 1,473,284,852	$ 1,252,059,468	$ 221,225,384	85.0%	$ 177,088,890	124.9%
6/30/07	$ 1,648,159,522	$ 1,422,159,522	$ 226,016,417	86.3%	$ 200,537,256	112.7%
*6/30/08	$ 1,755,559,311	$ 1,517,609,609	$ 237,949,702	86.5%	$ 210,590,567	113.0%

FUNDED STATUS OF THE MISCELLANEOUS PLAN

Valuation Date	Entry Age Normal Accrual Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a) - (b)	Funded Status (b) / (a)	Annual Covered Payroll (c)	UAAL As a % of Payroll [(a) - (b)] / (c)
6/30/06	$ 1,280,157,040	$ 1,069,546,974	$ 210,610,066	83.5%	$ 304,898,179	69.1%
6/30/07	$ 1,627,025,950	$ 1,362,058,317	$ 264,966,633	83.7%	$ 376,292,121	70.4%
*6/30/08	$ 1,823,366,479	$ 1,529,548,799	$ 293,817,680	83.9%	$ 414,589,514	70.9%

*The most current available financial information available.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Excess of Expenditures Over Appropriations

The District had the following excess of expenditures over appropriations in the General Fund:

General Fund		
Employee Benefits	$	37,615
Insurance	$	100,827
Memberships	$	768
Office Expense	$	14,592
Rents and Leases	$	5,085
Capital Outlay - Equipment	$	23,907
Debt Service - Principle	$	6,641

The District incurred unanticipated expenditures.

L. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

M. Assets, Liabilities, and Equity

1. Capital Assets

Capital Assets are those purchased or acquired with an original cost of $5000 or more ($500 or more prior to May 2007), and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Assets, Liabilities, and Equity (Continued)

1. Capital Assets (Continued)

Asset Class	Examples	Estimated Useful Life In Years
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
Roofing		20
Interior Construction		25
Furniture and Accessories	Office and other furniture	7
Business Machines	Fax, duplicating and printing equipment	10
Communication Equipment	Mobile, portable radios, non-computerized	10
Computer Hardware	PC's, printers, network hardware	5
Licensed Vehicles	Heavy duty general purpose, other on-road vehicles	5

2. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. At June 30, 2010, the District did not have any deferred revenue.

3. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. At June 30, 2010, the District was obligated under one long-term capital lease, and was also obligated for accrued vacation and sick leave due that will be used in future years.

4. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Assets, Liabilities, and Equity (Continued)

4. Revenue Limit/Property Tax (Continued)

on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

N. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. At June 30, 2010, the District had the following designations:

Designated for Facilities	$2,053,538
Designated for Vehicles	$2,269,160
Capital Equipment	$ 120,000
Compensated Absences	$ 528,239
Sick Leave Buyout	$ 162,268

NOTE 2 - USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

NOTE 3 - CLASSIFICATION OF ITEMS

Certain items may have been classified differently from one year to another.

NOTE 4 - ACCOUNTS RECEIVABLES

The Accounts Receivable balances at June 30, 2010, consist of the following:

NOTE 4 - ACCOUNTS RECEIVABLES (CONTINUED)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total
Federal	$ 17,515	$ -	$ -	$ 17,515
Interest	11,050	1,203	2,463	14,716
Mitigation Fees	-	-	42,377	42,377
Cost Recovery	357,441	-	-	357,441
Other	83,922	-	162	84,084
TOTAL	$ 469,928	$ 1,203	$ 45,002	$ 516,133

NOTE 5 - INTERFUND TRANSFERS

Interfund Receivables/Payables

At June 30, 2010, Interfund Receivables/Payables consisted of the following:

Due To	Due From	Amount
General Fund	Other Governmental Funds	$ 772,186
	Total	$ 772,186

Interfund Transfers

At June 30, 2010, Interfund Transfers consisted of the following:

Transfers From	Transfers To	Amount
Other Governmental Fund	General Fund	$ 63,813
Capital Facilities Fund	General Fund	409,916
	Total	$ 473,729

NOTE 6 - CASH AND INVESTMENTS

Cash at June 30, 2010 consisted of the following:

Pooled Funds	
Cash in County Treasury	$ 6,335,396
Cash in LAIF	862,319
Deposits	
Cash in Banks and on Hand	559,494
Total Cash	$ 7,757,209

Cash balance held in banks and in revolving funds are insured up to $250,000 by Federal agencies.

The District maintains cash in the San Diego County Treasury as part of the common investment pool. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

These pooled funds are carried at cost which approximates market value. The difference between cost and market value is considered to be immaterial.

At June 30, 2010, the fair market value of the pooled funds, as determined by the County Treasury is approximately 100.73% of cost. The District's share of the unrealized gain is as follows:

	Carrying Amount	Fair Market Value	Unrealized Gain
Pooled Funds:			
Cash in County Treasury	$ 6,335,396	$ 6,386,079	$ 50,683

The District maintains cash in the Local Agency Investment Fund (LAIF) as part of a common investment pool. LAIF funds are part of the California State Treasurer's investment pool.

NOTE 7 - CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2010, is shown below:

Governmental Activities	Beginning Balances	Additions	Deletions	Ending Balances
Capital Assets, Not Being Depreciated:				
Land	$ 612,639	$ -	$ -	$ 612,639
Construction in Progress	-	37,928	-	37,928
Total Capital Assets, Not Being Depreciated	612,639	37,928	-	650,567
Capital Assets, Being Depreciated:				
Structures and Improvements	4,905,691	-	183,764	4,721,927
Hydrants	267,523	-	-	267,523
Equipment and Vehicles	8,918,167	-	145,115	8,773,052
Total Capital Assets, Being Depreciated	14,091,381	-	328,879	13,762,502
Less Accumulated Depreciation for:				
Structures and Improvements	2,608,733	116,585	183,764	2,541,554
Hydrants	267,523	-	-	267,523
Equipment and Vehicles	4,224,848	450,467	130,725	4,544,590
Total Accumulated Depreciation	7,101,104	567,052	314,489	7,353,667
Total Capital Assets, Being Depreciated, Net	6,990,277	567,052	14,390	6,408,835
Capital Assets, Net of Depreciation	$ 7,602,916	$ 604,980	$ 14,390	$ 7,059,402

NOTE 8 - LEASES

Operating Leases

The District has entered into Operating Lease Agreements for assorted office equipment, and an administration building. Future minimum lease payments under the signed lease agreements are as follows:

Year Ending June 30,	Lease Payments
2011	$ 94,499
2012	81,907
2013	80,598
2014	48,464
2015	-
TOTAL	$ 305,468

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these operating leases. Rent expense for the fiscal year ended June 30, 2010, was $108,985.

Capital Leases

The District has entered into a long-term capital lease to purchase a telephone system.

Future minimum lease payments under the signed agreement are as follows:

NOTE 8 - LEASES (CONTINUED)

Future Capital Leases (Continued)

Year Ending June 30,	Lease Payments
2011	$ 6,641
2012	6,641
2013	6,641
2014	4,427
2015	-
Total	$ 24,350

NOTE 9 - PENDING LITIGATION

The District did not have any pending litigation at June 30, 2010.

NOTE 10 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District did not have post-retirement benefits at June 30, 2010.

NOTE 11 - EARLY RETIREMENT PROGRAM

In addition to the pension benefits described in Note 1J, the District provides post-retirement health care benefits to all employees who retire from the District. At June 30, 2010, nineteen (19) retirees are receiving this benefit. The cost of the benefits was $20,244.

NOTE 12 - JOINT POWERS AGREEMENT

The District entered into a Joint Powers Agreement (JPA), known as the "Public Agencies Self Insurance System" (PASIS), a self-insurance plan for worker's compensation insurance. PASIS is governed by an 8 member Board appointed by the members.

The intent of PASIS is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, capital and operating grants and similar funding. The JPA is a separate entity which is independently audited.

Condensed financial information from the PASIS audited financial statements at June 30, 2010, is as follows:

NOTE 12 - JOINT POWERS AGREEMENT (CONTINUED)

BALANCE SHEET

	District's Share	Total PASIS
Assets		
Cash and Cash Equivalents	$ 509,847	$ 4,715,395
Accrued Interest Receivable	777	7,181
Total Assets	$ 510,624	$ 4,722,576
Liabilities and Fund Balance:		
Liabilities	$ -	$ 495,231
Net Assets, Restricted for Member's Claims	510,624	4,227,345
Total Liabilities and Net Assets	$ 510,624	$ 4,722,576

INCOME STATEMENT

	District's Share	Total PASIS
Non-Operating Revenues		
Interest Earnings	$ 3,738	$ 34,573
Net Income Before Capital Contributions	3,738	34,573
Capital Contributions and Distributions		
Capital Distributions to Members	-	(433,184)
Increase (Decrease) in Net Assets	3,738	(398,611)
Net Assets, Beginning	506,886	4,625,956
Net Assets, Ending	$ 510,624	$ 4,227,345

NOTE 13 - GENERAL LONG - TERM DEBT

At June 30, 2010, General Long – Term Debt consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Capital Lease Payable	$ 36,991	$ -	$ (6,641)	$ 30,350	$ 6,641
Compensated Absences*	918,192	-	(31,152)	887,040	-
Total Governmental Activities	$ 955,183	$ -	$ (37,793)	$ 917,390	$ 6,641

NORTH COUNTY FIRE PROTECTION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION SECTION

JUNE 30, 2010

NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Property Taxes	$ 12,448,590	$ 12,400,090	$ 11,587,107	$ (812,983)
Ambulance Fees	-	-	1,442,856	1,442,856
Donations and Grants	-	-	41,495	41,495
Interest	112,000	111,000	42,786	(68,214)
Other Revenue	1,542,890	1,570,500	587,255	(983,245)
Total Revenues	14,103,480	14,081,590	13,701,499	(380,091)
Expenditures				
Salaries	7,500,000	7,463,262	7,089,140	374,122
Employee Benefits	3,726,347	3,342,585	3,380,200	(37,615)
Administrative	186,595	212,077	198,097	13,980
Equipment and Supplies	20,608	324,194	281,412	42,782
Maintenance and Operations	-	536,397	490,918	45,479
Insurance	515,200	517,500	618,327	(100,827)
Medical Supplies	-	110,000	108,467	1,533
Membership	11,115	11,415	12,183	(768)
Office Expense	69,800	14,800	15,558	(758)
Professional Services	118,557	128,750	143,342	(14,592)
Radios and Pagers	319,160	43,900	36,843	7,057
Rents and Leases	103,000	103,900	108,985	(5,085)
Safety	24,000	48,313	44,340	3,973
Training	88,300	96,300	70,969	25,331
Utilities	150,100	151,600	132,266	19,334
Uniforms	34,715	34,015	22,209	11,806

NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Capital Outlay - Equipment	-	14,021	37,928	(23,907)
Debt Service				
Principal	-	-	6,641	(6,641)
Interest	-	-	-	-
Total Expenditures	13,566,878	13,153,029	12,797,825	355,204
Excess (Deficiency) of Revenues Over (Under) Expenditures	536,602	928,561	903,674	(24,887)
Other Financing Sources (Uses)				
Operating Transfers In	-	-	473,729	(473,729)
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	473,729	(473,729)
Net Change in Fund Balance	536,602	928,561	1,377,403	448,842
Fund Balance, Beginning	3,455,031	3,455,031	3,455,031	-
Fund Balance, Ending	$ 3,991,633	$ 4,383,592	$ 4,832,434	$ 448,842

NORTH COUNTY FIRE PROTECTION DISTRICT

OTHER SUPPLEMENTARY INFORMATION SECTION

JUNE 30, 2010

NORTH COUNTY FIRE PROTECTION DISTRICT
ORGANIZATION STRUCTURE
JUNE 30, 2010

The North County Fire Protection District (the District), was formed as a fire protection district in 1982, and operates under the Health and Safety Code Sections 13801-13999 of the State of California and provides fire protection services to approximately 87 square miles in Valley Center, California. The activities of the District are supervised by a board consisting of five (5) Directors who are elected to a four (4) year term. Directors who are appointed serve a two (2) year term.

The Board of Directors for the fiscal year ended June 30, 2010 was composed of the following members:

Name	Office	Term Expires
Kathleen Thuner	President	2010
Ruth Harris	Vice-President	2012
Wayne Hooper	Director	2012
Paul Schaden	Director	2012
Kenneth Munson	Director	2010

Fire Chief
William Metcalf

Finance Specialist
Becky Timmers

NORTH COUNTY FIRE PROTECTION DISTRICT
ASSESSED VALUATION
JUNE 30, 2010

Assessed Valuation:	
Secured Property	$ 6,101,730,612
Unsecured Property	60,121,291
Total Assessed Valuation	$ 6,161,851,903

NORTH COUNTY FIRE PROTECTION DISTRICT

OTHER INDEPENDENT AUDITORS' REPORTS SECTION

JUNE 30, 2010

Hosaka, Nagel & Company
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors
North County Fire Protection District
Fallbrook, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North County Fire Protection District (Organization), as of and for the year ended June 30, 2010, which collectively comprise the North County Fire Protection District's basic financial statements and have issued our report thereon dated September 18, 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 North County Fire Protection 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 North County Fire Protection District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North County Fire Protection 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, to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

1011 CAMINO DEL RIO SOUTH, SUITE 410 SAN DIEGO, CALIFORNIA 92108
(619) 543-9702 FAX (619) 543-0116

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North County Fire Protection 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 statements 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*.

This report is intended solely for the information and use of management, Board of Directors, the audit / finance committee, others within the entity, 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.

Haskle, Nagel & Company

San Diego, California
September 18, 2010

Hosaka, Nagel & Company
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

ROY T. HOSAKA, C.P.A.
JAMES C. NAGEL, C.P.A.

MEMBER
CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
North County Fire Protection District
Fallbrook, California

We have audited the financial statements of the North County Fire Protection District (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 18, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures In Audit Guide	Procedures Performed
GANN Limit Calculation	1	Yes

Based on our audit, we found that, for the item tested, North County Fire Protection District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the North County Fire Protection District had not complied with the state laws and regulations.

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This report is intended solely for the information and use of the Audit / Finance Committee, Board of Directors, Management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, where applicable, and is not intended to be and should not be used by anyone other than these specified parties.

Hasaka, Nagel & Company

San Diego, California
September 18, 2010

NORTH COUNTY FIRE PROTECTION DISTRICT

FINDINGS AND RECOMMENDATIONS SECTION

JUNE 30, 2010

NORTH COUNTY FIRE PROTECTION DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
One or more material weaknesses identified?	___ Yes _X_ No
One or more significant deficiencies identified that are not considered to be material weaknesses?	___ Yes _X_ None Reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

2. Federal Awards

Internal control over major programs:	
One or more material weaknesses identified?	___ Yes N/A No
One or more significant deficiencies identified that are not considered to be material weaknesses?	___ Yes N/A None Reported
Type of auditors' report issued on compliance for major programs:	N/A
Any audit findings disclosed that are required to be reported in accordance with section 510(a) or Circular A-133?	N/A

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
N/A	N/A

Dollar threshold used to distinguish between type A and type B programs:	N/A
Auditee qualified as low-risk auditee?	N/A

NORTH COUNTY FIRE PROTECTION DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

A. Summary of Auditors' Results (Continued)

3. State Awards

Internal control over state programs:

One or more material weaknesses identified?	____ Yes	_X_ No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	_X_ None Reported
Type of auditors' report issued on compliance for state programs:	Unqualified	

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. State Award Findings and Questioned Costs

NONE

NORTH COUNTY FIRE PROTECTION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

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