

ESTERO FIRE RESCUE DISTRICT

**BASIC FINANCIAL STATEMENTS
TOGETHER WITH REPORTS OF
INDEPENDENT AUDITORS**

YEAR ENDED SEPTEMBER 30, 2013

**ESTERO FIRE RESCUE DISTRICT
TABLE OF CONTENTS
YEAR ENDED SEPTEMBER 30, 2013**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities	11
FUND FINANCIAL STATEMENTS:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	16
Fiduciary Fund:	
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	19
NOTES TO THE FINANCIAL STATEMENTS	20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Firefighters' Retirement Plan	50
Schedule of Funding Progress – Other Post Employment Benefits	51
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	52
MANAGEMENT LETTER	54
SCHEDULE OF FINDINGS AND RECOMMENDATIONS	56
RESPONSE TO MANAGEMENT LETTER	62



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Estero Fire Rescue District
Estero, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of the Estero Fire Rescue District (the "District"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fiduciary Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary Fund, is based solely on the report of the other auditors. 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. The financial statements of the Fiduciary Fund were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of the Estero Fire Rescue District as of September 30, 2013, and the respective changes in financial position and the budget comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 3 through 9 and 50 and 51 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2014 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Fort Myers, Florida
May 20, 2014

Management's Discussion and Analysis

(unaudited)

This discussion and analysis of the Estero Fire Rescue District's (the "District") financial statements is designed to introduce the basic financial statements and provide an analytical overview of the District's financial activities for the fiscal year ended September 30, 2013. The basic financial statements are comprised of the government-wide financial statements, governmental fund financial statements, and notes. We hope this will assist readers in identifying significant financial issues and changes in the District's financial position.

Estero Fire Rescue Highlights

- At close of fiscal year 2013, the District's assets exceeded its liabilities, resulting in a net position of \$17,779,527 on a government-wide basis.
- Total net position increased \$1,111,785, or 6.6 percent, in comparison to the prior year.
- The increase to net position is significantly due to the extraordinary payment accrued for the correction made to the firefighters' pension plan. The District approved the prefunding of the actuarially determined cost of moving two firefighters into the pension plan. The one-time lump sum payment was presented as the least costly to the District. The prefunding or asset will fund the incremental future cost. The unrestricted balance of \$9,510,271 can be used to meet ongoing obligations of the District and fund amounts assigned by the Board.
- General and program revenues decreased \$34,393, or .3 percent, in comparison to the prior year significantly due to the District's inability to record the insurance premium tax revenue until the correction was made to the firefighters' pension plan. The correction was subsequent to year-end. The expenditure was accrued but the State did not permit accrual of the revenue.
- Total program expenses reported a decrease of \$384,338, or 3.6 percent, in comparison to the prior year. This is significantly due to the one time expenditure for the correction made to the firefighters' pension plan. The one-time payment created a net pension asset. It is reflected on the Statement of Activities as a reduction to expenses.

Government-wide Financial Statements

Government-wide financial statements (Statement of Net Position and Statement of Activities found on pages 10 and 11) are intended to allow a reader to assess a government's operational accountability. Operational accountability is defined as the extent to which the government has met its operation objectives efficiently and effectively, using all resources available for that purpose, and whether it can continue to meet its objectives for the foreseeable future. Government-wide financial statements concentrate on the District as a whole and do not emphasize fund types.

The Statement of Net Position (page 10) presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. The District's capital assets (land, property, and equipment) are included in this statement and reported net of their accumulated depreciation, when applicable. The District implemented GASB Statement No. 63 in the current year which changed the presentation from the Statement of Net Assets to the Statement of Net Position. Specific information related to the changes can be found in Note K on page 49.

The Statement of Activities (page 11) presents revenue and expense information showing how the District's net position changed during the fiscal year. Both statements are measured and reported using the economic resource measurement focus (revenues and expenses) and the accrual basis of accounting (revenue recognized when earned and expenses recognized when a liability is incurred).

Fund Financial Statements

The accounts of the District are organized on the basis of governmental funds; a fund is considered a separate accounting entity. The operation of funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources may be 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 is reporting all financial activity in the General Fund for the fiscal year ended September 30, 2013. The activity for restricted amounts is administered separately; however, for reporting purposes there is no need or requirement to report the restricted activity in separate funds.

Governmental Fund financial statements (found on pages 12 and 14) are prepared on the modified accrual basis using the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available as net current assets. Grant revenue, however, is recognized when the grant related expense is incurred.

Notes to the Financial Statements

The notes to the financial statements explain in detail some of the data contained in the preceding statements and begin on page 20. These notes are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The government-wide financial statements were designed so the user could determine if the District is in a better or worse financial condition from the prior year.

BALANCE OF PAGE LEFT BLANK INTENTIONALLY

The following is a condensed summary of net position for the primary government for fiscal years 2013 and 2012:

Summary of Net Position

	2013	2012
Assets:		
Current Assets	\$ 13,227,666	\$ 12,279,493
Capital Assets	11,588,269	11,102,969
Total Assets	24,815,935	23,382,462
 Deferred Outflow of Resources:		
Accumulated Decreases in Fair Value Hedge	336,170	519,049
 Total Assets and Deferred Outflow of Resources	\$ 25,152,105	\$ 23,901,511
 Liabilities:		
Current Liabilities	\$ 1,569,042	\$ 845,287
Non-current Liabilities	5,803,536	6,388,482
Total Liabilities	7,372,578	7,233,769
 Net Position:		
Net Investment in Capital Assets	7,680,460	6,576,969
Restricted	588,796	484,147
Unrestricted	9,510,271	9,606,626
Total Net Position	17,779,527	16,667,742
 Total Liabilities and Net Position	\$ 25,152,105	\$ 23,901,511

Current assets represent 53.3 percent of total assets. Current assets are comprised of unrestricted cash and investments of \$11,096,266, restricted cash and investments of \$562,215, and other assets of \$1,569,185. The unrestricted cash and investments represent amounts that are available for spending at the District's discretion. Restricted cash includes impact fees restricted for debt repayment and the debt reserve required by the notes.

The investment in capital assets is comprised of land and improvements, buildings, vehicles, and equipment, net of accumulated depreciation and the outstanding related debt used to acquire the assets. The Restricted Net Position is comprised of \$588,796 for repayment of debt.

The following schedule reports the revenues, expenses, and changes in net position for the District for the current fiscal years 2013 and 2012:

Summary of Activities

	2013	2012
Revenues:		
General Revenues		
Ad Valorem taxes	\$ 10,733,432	\$ 10,720,959
Insurance Premium Tax for Firefighters' Pension	-	338,804
Interest	68,090	22,797
Gain (Loss) on Sale of Capital Assets	216,106	500
Other Revenues	23,564	82,492
Program Revenues		
Federal, State, and Local Grants	7,748	512
State Shared	21,397	21,640
Charges for Services	98,373	94,798
Impact Fees	103,100	23,701
Total Revenues	11,271,810	11,306,203
Expenses:		
Public Safety - Fire and Rescue Services	10,160,025	10,544,363
Increase (Decrease) in Net Position	1,111,785	761,840
Net Position - Beginning of the Year	16,667,742	15,905,902
Net Position - End of the Year	\$ 17,779,527	\$ 16,667,742

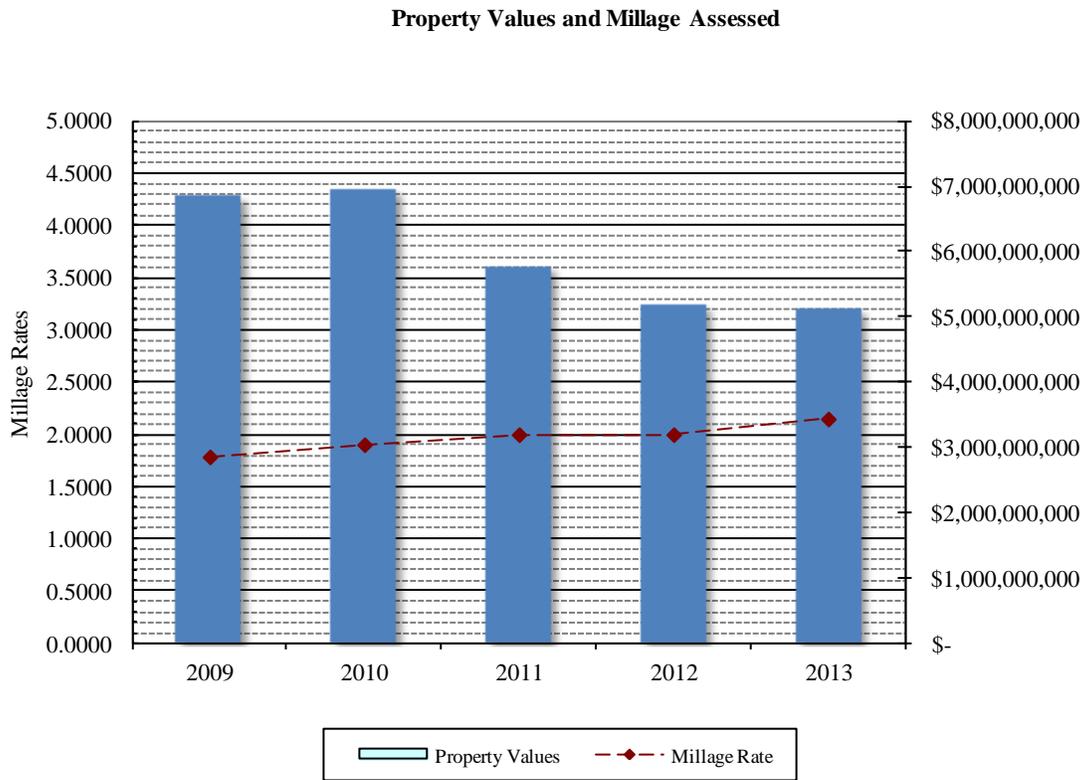
Total revenues decreased \$34,393, or .03 percent, in comparison to the prior year. Total expenses decreased by \$384,338, or 3.6 percent, in comparison to prior year, primarily the result of the one-time correction made to the firefighters' pension plan.

Additional Financial Overview

Property values have decreased by approximately \$1,891,067,901, or 27.2 percent, in the past five years. The taxable property value has started to level off and the area noticed a slight increase of 3.9 percent between fiscal years 2012 and 2013. The District adopted the rolled-back millage rate of 2.1881 for fiscal year 2013. The millage rate changed from 2.1500 to 2.1881, but when the millage rate is netted with the decrease in property values, the tax revenue is essentially unchanged. Ad Valorem tax revenues increased by only \$12,473, or .1 percent, in comparison to the prior year. Estero Fire Rescue's millage rate continues to be one of the lowest fire district millage rates in the region.

On a fund basis, total revenues decreased \$249,999, or 2.2 percent, in comparison to the prior year. Total expenditures increased by \$823,777, or 7.3 percent, in comparison to the prior year, primarily the result of the one-time correction made to the firefighters' pension plan.

The following schedule compares the change in property value and growth in millage rates for the past five years:



Impact fee receipts also increased \$79,399, or 335.0 percent, in comparison to the prior year; however, overall impact fees have experienced an average increase of only 100 percent for the last five years. The current year increase is due to a spur in new construction within the District’s boundaries. This compounded with a slight increase in property values is a positive indicator the economy is stabilizing. The District will continue to anticipate conservative growth for budget purposes and long term planning.

Budgetary Highlights

Estero Fire Rescue adopts an annual budget for its General Fund as required by Florida Statute. Budget versus actual comparisons are reported on pages 16 and 17. Budget transfers are made from time to time in the General Fund to manage unanticipated costs as they relate to originally estimated amounts. The General Fund difference between the final budgeted expenditures and actual expenditures represents an unfavorable variance of \$96,320, less than 1 percent. This variance is significantly due to the correction to the firefighters’ pension plan. Additional information can be found in the Management Letter on page 54.

Debt Administration

At September 30, 2013, the District had \$3,907,809 of outstanding debt for notes payable. Total long-term liabilities of \$5,803,536, which includes notes payable, derivative instrument, an implicit subsidy for OPEB, compensated absences, and deferred compensation, decreased \$584,946, or 9.1 percent, in comparison to the prior year. The decrease is significantly due to the reduction of debt. The following is a schedule of the District's outstanding notes payable as of September 30, 2013 and 2012:

Outstanding Debt

	2013	2012
Renewal C (2002A)	\$ 1,829,914	\$ 2,299,684
Series 2007A	2,077,895	2,226,316
Total	<u>\$ 3,907,809</u>	<u>\$ 4,526,000</u>

The General Fund is currently responsible for payment of the debt. Impact Fees designated for debt will be used for debt as they become available. The District's debt was collateralized by future impact fee revenue. As such, general dollars currently paying debt will be reimbursed by future impact fee revenue. Additional information on the repayment process can be found in Note L on page 48.

Additional information on the District's long-term debt can be found in Note E on pages 32-33.

Capital Assets

Non-depreciable capital assets include land and depreciable assets include buildings and improvements, vehicles, and equipment.

The following is a schedule of the District's capital assets as of September 30, 2013 and 2012:

	2013	2012
Capital Assets		
CAPITAL ASSETS		
Land	\$ 1,941,090	\$ 1,941,090
Total Capital Assets Not Depreciated	<u>1,941,090</u>	<u>1,941,090</u>
Buildings and Improvements	9,320,467	9,312,088
Vehicles	5,561,525	4,991,420
Equipment	561,010	550,888
Total Capital Assets Being Depreciated	<u>15,443,002</u>	<u>14,854,396</u>
ACCUMULATED DEPRECIATION		
Buildings and Improvements	(2,347,262)	(2,040,369)
Vehicles	(2,998,963)	(3,248,774)
Equipment	(449,598)	(403,374)
Total Accumulated Depreciation	<u>(5,795,823)</u>	<u>(5,692,517)</u>
Total Capital Assets Being Depreciated, Net	<u>9,647,179</u>	<u>9,161,879</u>
CAPITAL ASSETS, NET	<u>\$ 11,588,269</u>	<u>\$ 11,102,969</u>

Noteworthy capital asset activity that took place in fiscal year 2013 is as follows:

- The District purchased two fire engines. Including equipment, the capital outlay to date is \$1,157,000. An obsolete fire truck was sold for \$200,000 as anticipated.
- The District purchased an administrative vehicle to replace a vehicle that was damaged beyond repair. The capital outlay was approximately \$46,000.
- The District also purchased six replacement computers, a server, and firewall in the amount of \$14,600. The District depreciates its computer stations for four years.
- The District also purchased miscellaneous equipment for approximately \$8,400, including a stove and an ice machine.

Economic Factors and Next Year's Budget Rates

The following were factors considered when next year's budget (2013-2014) was prepared:

- Property values appear to be increasing, but only a slight increase of approximately \$195,614,141 or 3.9 percent, to \$5,247,987,647. Estero Fire Rescue is anticipating property values to increase slowly. When property values increase, the rolled-back millage rate decreases so tax revenue may remain unchanged. Although the District adopted the same millage rate of 2.1881 in FY 2014, the tax levy increased by \$428,000. When the millage rate adopted exceeds the calculated rolled-back rate, the government is levying a tax increase, regardless of the change in the millage rate. The rolled-back rate formula essentially provides a rate relative to the current property values, which creates a tax levy equal to the amount in the previous year. The property values used in the rolled-back rate formula excludes, among other things, amounts for new construction and improvements, essentially rolling back a government's operating revenue to that of the prior year.
- The District has hired three firefighters and filled the vacant shift commander position. The District is anticipating hiring a part-time position and made a minor increase to the over-time budget in the amount of \$13,000.
- With the anticipated increase to revenue and expenditures, the District is anticipating a net increase to fund balance in an amount of \$82,858.

Request for Information

The financial report is designed to provide the reader an overview of Estero Fire Rescue District. Questions regarding any information provided in this report should be directed to:

Estero Fire Rescue, 21500 Three Oaks Pkwy, Estero, Florida 33928, or by calling (239) 390-8000.

ESTERO FIRE RESCUE DISTRICT
STATEMENT OF NET POSITION
September 30, 2013

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 7,982,785
Investments	3,113,481
Accounts Receivable	11,420
Due from Other Governments	80,473
Restricted Assets:	
Cash and Cash Equivalents	121,711
Investments	440,504
Due from Other Governments	33,779
Pension Asset	1,443,513
Capital Assets:	
Land	1,941,090
Depreciable Buildings, Equipment and Vehicles, Net of Accumulated Depreciation	9,647,179
TOTAL ASSETS	<u>24,815,935</u>
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decreases in fair value of hedging derivative	336,170
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 25,152,105</u>
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 1,569,042
Noncurrent Liabilities:	
Long-term Liabilities:	
Due within one year	635,487
Due in more than one year	5,168,049
TOTAL LIABILITIES	<u>7,372,578</u>
NET POSITION	
Net Investment in Capital Assets	7,680,460
Restricted for:	
Debt Service	588,796
Unrestricted	9,510,271
TOTAL NET POSITION	<u>17,779,527</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 25,152,105</u>

The accompanying notes are an integral part of these financial statements.

**ESTERO FIRE RESCUE DISTRICT
STATEMENT OF ACTIVITIES
Year Ended September 30, 2013**

	<u>Governmental Activities</u>
PROGRAM EXPENSES	
Public Safety - Fire and Rescue Services	
Personnel Services	\$ 7,738,085
Operating	1,522,793
Depreciation	732,633
Interest and Fiscal Charges	166,514
TOTAL PROGRAM EXPENSES	<u>10,160,025</u>
PROGRAM REVENUES	
Insurance Premium Tax for Firefighters' Pension	-
Federal, State, and Local Grants	7,748
State Shared	21,397
Charges for Services	98,373
Impact Fees	103,100
TOTAL PROGRAM REVENUES	<u>230,618</u>
NET PROGRAM EXPENSES	<u>9,929,407</u>
GENERAL REVENUES	
Ad Valorem Taxes	10,733,432
Interest	68,090
Gain on Sale of Capital Assets	216,106
Other Revenues	23,564
TOTAL GENERAL REVENUES	<u>11,041,192</u>
INCREASE IN NET POSITION	1,111,785
NET POSITION - Beginning of the Year	<u>16,667,742</u>
NET POSITION - End of the Year	<u><u>\$ 17,779,527</u></u>

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2013

	General Fund
ASSETS	
Cash and Cash Equivalents-Unrestricted	\$ 7,982,785
Cash and Cash Equivalents-Restricted	121,711
Investments-Unrestricted	3,113,481
Investments-Restricted	440,504
Accounts Receivable-Unrestricted	11,420
Due from Other Governments-Unrestricted	80,473
Due from Other Governments-Restricted	33,779
TOTAL ASSETS	<u>\$ 11,784,153</u>
 LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 1,569,042
 FUND BALANCES	
<i>Restricted</i>	
Debt	440,504
Impact Fees	148,292
<i>Committed</i>	
Capital Improvement Program	3,607,846
<i>Assigned</i>	
Community Safety Program	7,198
<i>Unassigned</i>	6,011,271
TOTAL FUND BALANCES	<u>10,215,111</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,784,153</u>

The accompanying notes are an integral part of these financial statements.

**ESTERO FIRE RESCUE DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
September 30, 2013**

	<u>Amounts</u>
Total Fund Balances for Governmental Funds	\$ 10,215,111
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Pension assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	1,443,513
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	
Capital assets not being depreciated:	
Land & Improvements	1,941,090
Capital assets being depreciated:	
Building, Equipment and Vehicles	\$ 15,443,002
Less accumulated depreciation	<u>(5,795,823)</u>
	9,647,179
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	
Series 2002A Promissory note payable	(1,829,914)
Series 2007A Promissory note payable	(2,077,895)
Termination Benefit	(37,223)
Compensated Absences	(972,334)
Implicit Subsidy (OPEB)	<u>(550,000)</u>
	<u>(5,467,366)</u>
Total Net Position of Governmental Activities	<u><u>\$ 17,779,527</u></u>

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended September 30, 2013

	<u>General Fund</u>
REVENUES	
Ad Valorem Taxes	\$ 10,733,432
Insurance Premium Tax for Firefighters' Pension	-
Intergovernmental:	
Federal Grant	2,167
State Shared	21,397
Local Grant	5,581
Charges for Services	98,373
Miscellaneous:	
Impact Fees	103,100
Community Safety Program Donations	3,131
Interest	68,090
Other	20,433
TOTAL REVENUES	<u>11,055,704</u>
EXPENDITURES	
Current	
Public Safety	
Personnel Services	8,539,491
Operating Expenditures	1,522,793
Capital Outlay	1,226,610
Debt Service	
Principal Reduction	618,192
Interest and Fiscal Charges	166,514
TOTAL EXPENDITURES	<u>12,073,600</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,017,896)</u>
OTHER FINANCING SOURCES	
Proceeds from Sale of Capital Assets	<u>224,784</u>
TOTAL OTHER FINANCING SOURCES	<u>224,784</u>
NET CHANGES IN FUND BALANCES	<u>(793,112)</u>
FUND BALANCE - Beginning of the Year	<u>11,008,223</u>
FUND BALANCE - End of the Year	<u><u>\$ 10,215,111</u></u>

The accompanying notes are an integral part of these financial statements.

**ESTERO FIRE RESCUE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2013**

	<u>Amounts</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	\$ (793,112)
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. This is the amount by which capital outlays exceeded depreciation in the current period.	493,977
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.	(8,678)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Repayments:	
Notes payable	618,192
Some expenses reported in the statement of activities do (do not) require the use of current financial resources and therefore are (are not) reported as expenditures in the government funds.	
Less:	
Increase in compensated absences	(94,713)
Increase in termination benefits	(4,411)
Increase in implicit subsidy (OPEB)	(117,000)
Pension contributions were more than the annual pension cost and therefore increased the net pension asset on the Statement of Position.	<u>1,017,530</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,111,785</u></u>

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
Year Ended September 30, 2013

REVENUES	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget
Taxes				
Ad Valorem Taxes	\$ 10,502,343	\$ 10,502,343	\$ 10,733,432	\$ 231,089
Subtotal - Taxes	<u>10,502,343</u>	<u>10,502,343</u>	<u>10,733,432</u>	<u>231,089</u>
Intergovernmental:				
Federal Grant	-	-	2,167	2,167
State Shared (Degree Incentive)	23,040	23,040	21,397	(1,643)
Local Grant	-	-	5,581	5,581
Subtotal - Intergovernmental	<u>23,040</u>	<u>23,040</u>	<u>29,145</u>	<u>6,105</u>
Charges for services				
EMS Standby	36,000	36,000	34,431	(1,569)
Public Safety Classes	21,660	21,660	18,543	(3,117)
Training Classes	-	-	-	-
Inspection Fees	25,000	25,000	45,399	20,399
Subtotal - Charges for Services	<u>82,660</u>	<u>82,660</u>	<u>98,373</u>	<u>15,713</u>
Miscellaneous:				
Impact Fees	12,000	12,000	103,100	91,100
Community Safety Program	1,500	1,500	3,131	1,631
Interest				
Operating Interest	41,000	41,000	67,120	26,120
Community Safety Program Interest	-	-	-	-
Impact Fees Interest - Restricted	-	-	970	970
Other				
Ambulance Bay Rent	13,926	13,926	13,926	-
Miscellaneous	-	-	6,507	6,507
Subtotal - Miscellaneous	<u>68,426</u>	<u>68,426</u>	<u>194,754</u>	<u>126,328</u>
TOTAL REVENUES	<u>10,676,469</u>	<u>10,676,469</u>	<u>11,055,704</u>	<u>379,235</u>
EXPENDITURES				
Current				
Public Safety				
Personnel Services:				
Regular Salaries/Wages/Unemployment	5,188,719	5,188,719	4,865,993	322,726
Other Salaries and Wages	83,256	83,256	73,791	9,465
Overtime	157,000	157,000	157,298	(298)
Special Pay	381,689	381,689	418,734	(37,045)
FICA Taxes	444,516	444,516	410,380	34,136
Retirement Contributions	929,644	929,644	1,638,603	(708,959)
Life, Health Insurance	898,897	898,897	783,688	115,209
Workers' Compensation Insurance	196,843	196,843	191,004	5,839
Subtotal - Personnel Services	<u>8,280,564</u>	<u>8,280,564</u>	<u>8,539,491</u>	<u>(258,927)</u>

(continued on next page)

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
Year Ended September 30, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget
Operating Expenditures:				
Property Appraiser Fees	\$ 100,240	\$ 100,240	\$ 88,673	\$ 11,567
Tax Collector Fees	223,733	223,733	214,406	9,327
Professional Services	70,150	70,150	77,972	(7,822)
Accounting and Auditing	27,250	27,250	30,475	(3,225)
Travel	45,604	45,604	33,511	12,093
Community Safety Program Travel	500	500	800	(300)
Communications and Freight Services	79,025	79,025	69,384	9,641
Utility Services	67,504	67,504	59,485	8,019
Insurance	116,982	116,982	114,501	2,481
Repair and Maintenance Services	458,078	491,584	359,375	132,209
Printing and Binding	2,580	2,580	1,114	1,466
Promotional Activities	12,450	12,450	7,268	5,182
Community Safety Program Activities	6,000	6,000	5,200	800
Other Current Charges and Obligations	29,105	29,105	23,665	5,440
Office Supplies	15,500	15,500	13,843	1,657
Operating Supplies	201,522	201,522	353,671	(152,149)
Training, Subscriptions, Memberships	107,061	107,061	69,450	37,611
Subtotal - Operating Expenditures	<u>1,563,284</u>	<u>1,596,790</u>	<u>1,522,793</u>	<u>73,997</u>
Capital outlay:				
Vehicles	1,074,550	1,116,515	1,186,030	(69,515)
Equipment	198,715	198,715	40,580	158,135
Subtotal - Capital Outlay	<u>1,273,265</u>	<u>1,315,230</u>	<u>1,226,610</u>	<u>88,620</u>
Debt Service:				
Principal Retirement-Restricted	-	-	154,548	(154,548)
Principal Retirement-Unrestricted	618,191	618,191	463,644	154,547
Interest and Fiscal Charges-Restricted	-	-	48,452	(48,452)
Interest and Fiscal Charges-Unrestricted	166,505	166,505	118,062	48,443
Subtotal - Debt Service	<u>784,696</u>	<u>784,696</u>	<u>784,706</u>	<u>(10)</u>
TOTAL EXPENDITURES	<u>11,901,809</u>	<u>11,977,280</u>	<u>12,073,600</u>	<u>(96,320)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,225,340)</u>	<u>(1,300,811)</u>	<u>(1,017,896)</u>	<u>282,915</u>
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	300,000	321,965	224,784	(97,181)
TOTAL OTHER FINANCING	<u>300,000</u>	<u>321,965</u>	<u>224,784</u>	<u>(97,181)</u>
NET CHANGE IN FUND BALANCE	<u>(925,340)</u>	<u>(978,846)</u>	<u>(793,112)</u>	<u>185,734</u>
Beginning Fund Balance	10,698,513	10,698,513	11,008,223	309,710
TOTAL FUND BALANCE - BEGINNING	<u>10,698,513</u>	<u>10,698,513</u>	<u>11,008,223</u>	<u>309,710</u>
Ending Fund Balance	9,773,173	9,719,667	10,215,111	495,444
TOTAL FUND BALANCE - ENDING	<u>\$ 9,773,173</u>	<u>\$ 9,719,667</u>	<u>\$ 10,215,111</u>	<u>\$ 495,444</u>

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND
September 30, 2013

	<u>Firefighters' Trust</u>
ASSETS	
Cash and Cash Equivalents	\$ 160,766
Investments	12,205,845
Contributions Receivable	<u>1,483,570</u>
 TOTAL ASSETS	 <u>\$ 13,850,181</u>
 NET POSITION	
Held in Trust for Pension Benefits and Share Plan	<u>\$ 13,850,181</u>
 TOTAL NET POSITION	 <u>13,850,181</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 13,850,181</u>

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
FIDUCIARY FUND
Year Ended September 30, 2013

	<u>Firefighters'</u> <u>Trust</u>
ADDITIONS	
Contributions:	
Employer	\$ 728,873
Employer-Past Service Cost	1,354,476
Plan Members	120,988
Plan Members-Past Service Cost	<u>84,459</u>
Total Contributions	2,288,796
Investment Income:	
Allocated Investment Income	<u>1,287,381</u>
TOTAL ADDITIONS	<u>3,576,177</u>
DEDUCTIONS	
Benefits Paid	103,881
Administrative Expenses	<u>43,479</u>
TOTAL DEDUCTIONS	<u>147,360</u>
NET INCREASE IN PLAN NET POSITION	3,428,817
PLAN NET POSITION, October 1, 2012	<u>10,421,364</u>
PLAN NET POSITION, September 30, 2013	<u><u>\$ 13,850,181</u></u>

The accompanying notes are an integral part of these financial statements.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Estero Fire Rescue District (the "District") is an independent special taxing district located in southern Lee County, Florida. The District was established on June 25, 1976 by Laws of Florida, Chapter 76-408. The District's governing legislation was recreated, reenacted and codified by the Laws of Florida, Chapter 2000-437 on July 5, 2000. The District is governed by a five-member (5) elected Board of Commissioners. Commissioners serve on a staggered four (4) year term basis.

The District provides fire control and rescue services, fire safety inspections, fire prevention education, and EMS services. In providing these services, the District operates and maintains four (4) station houses, an administrative building and the related equipment, and employs 62 professional firefighters and administrative and support personnel.

Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in the preparation of these basic financial statements.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statement Number 14, "Financial Reporting Entity", as amended, requires the financial statements of the District (the primary government) to include its component units, if any. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. Based on the criteria established in GASB 14, as amended, there are no component units included and/or required to be included in the District's financial statements.

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the District and do not emphasize fund types. These governmental activities comprise the primary government. General governmental and intergovernmental revenues support the governmental activities. The purpose of the government-wide financial statements is to allow the user to be able to determine if the District is in a better or worse financial position than the prior year .

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (Continued)

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the pension fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement Number 33, "Accounting and Financial Reporting for Nonexchange Transactions" (GASB 33).

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability in the government-wide financial statements, rather than as expenditures.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit for goods, services, or privileges provided by a given function, such as inspection fees, and 2) grants and contributions that are restricted to meeting the operational or capital improvements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The accounts of the District are organized on the basis of funds; a fund is considered a separate accounting entity. The operation of funds are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources may be 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.

Fund financial statements for the District's governmental and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds, in the aggregate, for governmental funds. The fiduciary statement includes financial information for the firefighters' pension fund. The fiduciary fund represents assets held by the District in a trustee capacity for the benefit of other individuals.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collected within the current period or soon thereafter to pay liabilities of the current period.

The District's only major fund, the General Fund, is presented in the governmental fund financial statements. The definition of a major fund is one that meets certain criteria set forth in GASB Statement Number 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" (GASB 34).

Fiduciary Fund

A Fiduciary Fund accounts for assets held by the government in a trustee capacity or as an agent on behalf of others. Specifically, a trust fund accounts for assets held by the government under the terms of a formal trust agreement. The District has one fiduciary fund: a pension trust fund—the Retirement Plan and Trust for the Firefighters of Estero Fire Rescue District.

The Fiduciary Fund is excluded from the government-wide financial statements because the resources of that fund are not available to support the District's programs.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period and soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenues to be available if they are collected within sixty days of the end of the current fiscal period.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

Revenues susceptible to accrual are property taxes, interest on investments, charges for services, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned.

Intergovernmental revenues that are reimbursements for specific purposes or projects are recognized when all eligibility requirements are met.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt, if any, which is recognized when due and (2) expenditures are generally not divided between years by the recording of prepaid expenditures.

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.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major Funds

The District reports the following major governmental fund:

The General Fund is the District's only major governmental and operating fund. It accounts for all financial resources of the District. Restricted funds are accounted for separately within the General Fund. Restricted activities include those activities related to impact fees and projects funded by loan proceeds. The community safety program is also accounted for in the District's General Fund and those funds are assigned to activities relating to promoting safety through education, for supporting the Estero Fire Rescue Explorer Program, and providing smoke alarms and emergency relief.

Investments

The District adheres to the requirements of GASB Statement Number 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", as well as GASB Statement Number 25, "Financial Reporting for Defined Benefit Pension Plans", in which all investments are reported at fair value.

Investments, including restricted investments, consist of the Florida Municipal Pension Trust Fund, money market accounts, and time deposits.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The District's Firefighters' Retirement Plan is part of a collectively managed single-employer plan, and therefore reports all income (loss) from investments as allocated investment income as it is not feasible to allocate specific components of income to a specific plan.

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and vehicles, are reported in the government-wide financial statements in the Statement of Net Position.

The District follows a capitalization policy which calls for capitalization of all capital assets that have a cost or donated value of \$1,000 or more and have a useful life in excess of three years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. No debt-related interest expense is capitalized as part of general capital assets in accordance with GASB 34.

The acquisition of land and construction projects utilizing resources received from federal and state agencies are capitalized when the related expenditure is incurred.

Maintenance, repairs and minor renovations are not capitalized. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement, the cost and related accumulated depreciation is eliminated from the respective accounts.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	3-35
Equipment	3-7
Vehicles	4-15

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

The District adopted an annual budget for the General Fund which included budgeted appropriated expenditures equal to budgeted revenue and beginning fund balance.

The District follows these procedures in establishing budgetary data for the General Fund:

1. During the summer of each year, the District's Fire Chief submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing on the upcoming October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is adopted by approval of the Board of Commissioners.
4. Budget amounts, as shown in these financial statements, are as originally adopted and as amended by the Fire Chief and Board of Commissioners.
5. The budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America. From time to time there may be activity that differs from a basis consistent with GAAP. For the year ended September 30, 2013, no differences were noted.
6. The level of control for appropriations is exercised at the account level.
7. Appropriations for expenditures lapse at year-end.

The Board of Commissioners approved two (2) separate requests to transfer budget amounts at the program level and/or the account level during the year ended September 30, 2013. The Fire Chief has the authority to reclassify budgeted amounts at the account level up to \$10,000, and such reclassifications are performed as needed. During the year ended September 30, 2013, the Fire Chief approved no separate requests to transfer budgeted amounts at the account level. These transfers are reclassification transactions necessary to appropriately manage the budget. Overall expenditure amounts would not change as a result of these types of transfers.

Other Post Employment Benefits (OPEB)

The District adheres to the requirements of GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension". GASB 45 provides (1) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (2) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The actuarial value of the OPEB cost and liability for benefits is recorded in the government-wide financial statements.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The District's employees accumulate annual personal leave, based on the number of years of continuous service and the bargaining unit contract. Upon termination of employment, employees can receive payment of accumulated annual leave, if certain criteria are met. Annually the District will purchase banked hours in excess of 200 hours for administrative employees; 500 hours for 40 hour chief officers, executive staff, and bargaining unit employees; and 600 hours for 56 hour chief officers and bargaining unit employees. The cost of personal leave benefits (compensated absences) are expended in the General Fund when payments are made to employees. However, the liability for all accrued personal leave benefits is recorded in the government-wide financial statements—Statement of Net Position.

Accounts Receivable

No allowance for losses on uncollectible accounts has been recorded since the District considers all amounts to be fully collectible.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Balance

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned, and unassigned.

The components of Fund Balance are:

Nonspendable

The portion of net resources or fund balance that cannot be spent because of their form. These amounts will never convert to cash or not convert soon enough to affect the current period (e.g., long-term receivables or prepaid items).

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

Restricted

The restricted fund balance is the portion that reflects resources that are subject to externally enforceable legal restrictions such as debt covenants or county ordinances.

Since the Board has no authority to expend restricted fund balances, the restricted component is typically excluded from discussions in which the Board and management at their discretion may approve to expend, commit, or assign. All other components may be generally referred to as “unrestricted”, even though constraints imposed by the District may exist.

Committed

The portion of fund balance that represents resources whose use is constrained by a formal action (resolution) of the District’s Board of Fire Commissioners, the District’s highest level of decision making authority. Constraints made by the Board remain binding unless removed in the same manner. The Board has committed fund balance for the capital improvement program.

Assigned

The portion of fund balance that reflects the District’s intended use of resources. Such intent can be established by the Board or delegated to the Fire Chief for unforeseen expenses below \$10,000 that were not budgeted for and advance Board approval is deemed unnecessary in order to maintain the normal operation of the District. The Board has assigned the activities of the Community Safety Program to the Fire Chief. Additionally, any amounts appropriated for projected deficits in the subsequent year will be assigned.

Unassigned

The portion of fund balance representing net resources in excess of what can properly be classified in one of the three categories described above and whose use is constrained by limitations set by the Board. Only the Board may, from time to time, as deemed necessary increase or decrease fund balance commitments and assignments. Annually, the Board will evaluate, or assign or commit estimated net resources that are in excess of those amounts already committed and assigned.

The District expends restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents that prohibit doing this. Additionally, the District would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes in which amounts are available from any of these unrestricted fund balance classifications.

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE A ORGANIZATION AND NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives

The District adheres to the requirements of GASB Statement Number 53, "Accounting and Financial Reporting for Derivative Instruments". GASB 53 requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGIC) that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. This should allow users of the financial statements to more fully understand a government's resources available to provide services. The application of inter-period equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The disclosures provide a summary of the government's derivative instrument activity (hedging) and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The fair market value of the Districts hedging derivative instruments is reported as deferrals in the Statement of Net Position.

NOTE B CASH AND CASH EQUIVALENTS

As of September 30, 2013, the District's cash and cash equivalents were as follows:

Governmental Funds	
Cash on Hand	\$ 400
Demand Deposits	8,104,096
Total Governmental Funds	<u>8,104,496</u>
Pension Trust	
Cash with Fiscal Agent	<u>160,766</u>
Total Governmental Funds and Pension Trust	<u><u>\$ 8,265,262</u></u>

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE B CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. In accordance with its policy, all District depositories are banks designated by the Florida Chief Financial Officer as qualified public depositories. Chapter 280 of the Florida Statutes, "Florida Security for Public Deposits Act", provides procedures for public depositories to ensure public monies in banks and saving and loans are collateralized with the Florida Chief Financial Officer as agent for the public entities. Chapter 280 defines deposits as demand deposit accounts, time deposit accounts, and nonnegotiable certificates of deposit.

Financial institutions qualifying as public depositories shall deposit with the Florida Chief Financial Officer, eligible collateral at the pledging level required pursuant to Chapter 280. The Florida Security for Public Deposits Act has procedures for the payment of losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof and therefore, the District is not exposed to custodial credit risk for its deposits.

The Pension Trust Fund cash and cash equivalents were held by a financial and investment institution and insured up to certain limits specific to the Trustee/Custodian institution and Retirement Trust Funds.

NOTE C INVESTMENTS

As of September 30, 2013, the District's investments had the following credit risk structure:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating - Rating Agency</u>
Governmental Funds			
Certificate of Deposit	8/1/2014	\$ 440,504	
Certificate of Deposit	9/16/2015	<u>3,113,481</u>	
Total Governmental Funds		3,553,985	
Pension Trust			
External Investment Pool	N/A		
Fixed Income Funds		4,798,245	AA/V4 - Fitch Ratings
Equity Funds		<u>7,407,600</u>	Not Rated
Total Pension Trust		<u>12,205,845</u>	
Total Governmental Funds and Pension Trust		<u>\$ 15,759,830</u>	

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE C INVESTMENTS (CONTINUED)

Custodial Credit Risk

By Florida Statutes 218.415, the District is authorized to invest in the Florida Local Government Surplus Funds Trust Fund, Florida Local Government Investment Trust, Securities and Exchange Commission registered money market funds, interest-bearing savings accounts, certificates of deposit, federal agencies and instrumentalities, and direct obligations of the U.S. Treasury.

The certificates of deposits are considered a public deposit and are entirely covered by federal depository insurance or by collateral pursuant to the Public Depository Security Act (Florida Statute 280) of the state of Florida.

The Pension Trust Funds' investment policy pursuant to Section 112.661(10), Florida Statutes, states that securities should be held with a third party custodian; and all securities purchased by, and all collateral obtained by the Pension Fund, should be properly designated as an asset of the Pension Fund.

As of September 30, 2013, the Firefighters' Retirement Pension Trust Fund equity investments were held with a third-party custodian as required by Florida Statutes. Its investments in the external pool are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical book entry form.

Credit Risk

The Firefighters' Retirement Pension Trust investment with the Florida Municipal Pension Trust Fund Investment Pool (the Pool) totaled \$12,205,845 at September 30, 2013, and is controlled by the Firefighters' Retirement Plan Board of Trustees' policy. This policy provides for investments in Florida Municipal Investment Trust (FMIvT) Portfolios, Securities and Exchange Commission registered money market funds, certificates of deposit, direct obligations of the U.S. Treasury, federal agencies and instrumentalities, repurchase agreements, collateralized mortgage obligations, prime commercial paper of a United States corporation, finance company or banking institution, regulated bond mutual funds, corporate bonds or other corporate debt securities, investment grade obligations of state and local governments and public authorities, and equity securities.

The Pool's investment guidelines establish a minimum bond fund credit rating of A. As of September 30, 2013, the Pool's fixed income fund, the Broad Market High Quality Bond Fund, was rated AA/V4 by Fitch Ratings.

Interest Rate Risk

Investments shall be invested to provide sufficient liquidity to pay obligations as they come due per F.S. 218.415(17). As a means of managing its exposure to fair value losses arising from volatile interest rates, the District limits the duration of its investments to five years. The Firefighters' Pension Trust's investment policy does not limit the duration. Instead its primary objective is to seek long-term growth of capital income consistent with the conservation of capital. Emphasis is placed on achieving consistent returns and avoiding extreme volatility in market value.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE D CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2013:

	Balance September 30, 2012	Increases/ Additions	Decreases/ Deletions	Balance September 30, 2013
Capital Assets Not Being Depreciated:				
Land	\$ 1,941,090	\$ -	\$ -	\$ 1,941,090
Total Capital Assets Not Being Depreciated	1,941,090	-	-	1,941,090
Capital Assets Being Depreciated:				
Buildings and Improvements	9,312,088	8,379	-	9,320,467
Vehicles	4,991,420	1,201,021	(630,916)	5,561,525
Equipment	550,888	17,211	(7,089)	561,010
Total Capital Assets Being Depreciated	14,854,396	1,226,611	(638,005)	15,443,002
Less Accumulated Depreciation:				
Buildings and Improvements	(2,040,369)	(306,893)	-	(2,347,262)
Vehicles	(3,248,774)	(372,426)	622,237	(2,998,963)
Equipment	(403,374)	(53,314)	7,090	(449,598)
Total Accumulated Depreciation	(5,692,517)	(732,633)	629,327	(5,795,823)
Total Capital Assets Being Depreciated, Net	9,161,879	493,978	(8,678)	9,647,179
Capital Assets, Net	<u>\$ 11,102,969</u>	<u>\$ 493,978</u>	<u>\$ (8,678)</u>	<u>\$ 11,588,269</u>

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE E LONG-TERM LIABILITIES

Summary of Long-term Obligations

The following is a summary of the long-term obligations at September 30, 2013:

	<u>Amount</u>
\$4,440,086 Renewal Note C, dated September 11, 2007, payable to a financial institution. This note amends the original Promissory Note 2002A for \$6,100,000. The amendment increased the amortization schedule from 7 years to 15 years and revised the variable interest rate of 65% of LIBOR plus 0.9% to 0.80%. Additionally, the original fixed rate via an ISDA Master Agreement (Swap) was reduced from 3.72% to 3.62%. The note proceeds (held in the Capital Project Account) are to be used for financing and refinancing the improvement of fire department facilities. The note is collateralized by a pledge of impact fees and other non-ad valorem revenue with the final principal and interest due April 24, 2017.	\$ 1,829,914
\$4,000,000 Promissory Note, Series 2007A dated September 11, 2007, payable to a financial institution. The District only borrowed \$2,820,000. The note is payable over 20 years in monthly principal payments of \$12,368 plus interest. The variable interest rate of 63.7% of LIBOR plus .80% has changed to a fixed rate of 4.16% commencing on October 24, 2008 via the amendment to the original ISDA Master Agreement (Swap) dated September 11, 2007. The fixed rate applies to \$2,820,000. The District is obligated to pay principal and interest on the \$2,820,000 fixed Swap arrangement beginning in October 2008. The note proceeds have been used for financing the construction of fire department facilities. The note is collateralized by a pledge of impact fees and other non-ad valorem revenue with the final installment due September 24, 2027.	2,077,895
Outside of the bargaining unit, the Fire Chief is the only contracted employee of the District. The employment contract includes a deferred compensation benefit equal to one week of salary for every year of service, from November 2, 1998.	37,223
Fair market value of the District's hedging derivative instruments (Swaps).	336,170
Implicit subsidy - actuarial annualized funding estimates in the event the District chooses to fund its future obligation to provide optional post-employment healthcare, dental, vision, and life insurance coverage to eligible individuals.	550,000
Non-current portion of compensated absences. Employees of the District are entitled to annual personal leave time, based on length of service and job classification.	972,334
	<u><u>\$ 5,803,536</u></u>

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE E LONG-TERM LIABILITIES (CONTINUED)

Summary of Long-term Obligations (Continued)

The following is a summary of changes in long-term liabilities for the fiscal year ended September 30, 2013:

	Balance October 1 2012	Additions	Retirements / Adjustments	Balance September 30 2013	Amounts Due Within One Year
Renewal C (2002A)	\$ 2,299,684	\$ -	\$ (469,770)	\$ 1,829,914	\$ 487,066
Series 2007A	2,226,316	-	(148,421)	2,077,895	148,421
Deferred compensation	32,812	4,411	-	37,223	-
Derivative Instruments	519,049	-	(182,879)	336,170	-
Implicit Subsidy (OPEB)	433,000	117,000	-	550,000	-
Compensated Absences	877,621	689,344	(594,631)	972,334	-
	<u>\$ 6,388,482</u>	<u>\$ 810,755</u>	<u>\$(1,395,701)</u>	<u>\$ 5,803,536</u>	<u>\$ 635,487</u>

The annual debt service requirements are as follows at September 30:

	Renewal C (2002A)		Series 2007A		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 487,066	\$ 58,186	\$ 148,421	\$ 84,764	\$ 635,487	\$ 142,950
2015	505,002	40,249	148,421	78,504	653,423	118,753
2016	523,513	21,738	148,421	72,442	671,934	94,180
2017	314,333	3,752	148,421	65,984	462,754	69,736
2018	-	-	148,421	59,724	148,421	59,724
2019-2023	-	-	742,105	204,847	742,105	204,847
2024-2027	-	-	593,685	51,154	593,685	51,154
	<u>\$ 1,829,914</u>	<u>\$ 123,925</u>	<u>\$ 2,077,895</u>	<u>\$ 617,419</u>	3,907,809	741,344
			Deferred Compensation Benefit		37,223	-
			Derivative Instruments		336,170	-
			Implicit Subsidy (OPEB)		550,000	-
			Accrued Compensated Absences		972,334	-
			Total Long-Term Debt		<u>\$ 5,803,536</u>	<u>\$ 741,344</u>

The District was required by the lender to establish a reserve account of \$435,000 which, as of September 30, 2013, was funded by the loan proceeds. The reserve account is recorded in the General Fund.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE F INTEREST RATE SWAP

In order to protect against the potential of rising interest rates, the District entered into interest rate swap agreements in fiscal 2003. On September 11, 2007, the District amended its swap agreements by reducing the two existing fixed rates and including a fixed rate for the new debt acquired in 2007. The existing fixed rates were decreased from 3.72% to 3.62%. The new debt swapped to a fixed rate of 4.16% on October 24, 2008. The intention of the swaps is to effectively change the District's variable interest rate on the associated loans to fixed rates.

The terms, including the fair values and credit ratings of the outstanding swaps as of September 30, 2013, are listed in the following table. The notional value of the swaps declines as the associated loan balance declines.

Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values at September 30, 2013	Swap Termination	Counterparty Credit Rating
\$ 1,829,913	06/24/03	3.620%	65.0% of LIBOR + 0.80%	\$ (81,088)	4/24/2017	Aaa/AA+/AA
2,077,895	09/24/08	4.160%	63.7% of LIBOR + 0.80%	(255,082)	9/24/2027	Aaa/AA+/AA
<u>\$ 3,907,808</u>				<u>\$ (336,170)</u>		

The swaps are associated with the promissory notes reported in Note E. The fair value of swaps at September 30, 2013 is included in long-term liabilities due in more than one year on the Statement of Net Position. The combined fair value of the two remaining swap agreements decreased by \$182,879 during the year ending September 30, 2013.

Because the variable interest rates have decreased below the fixed rates, the swaps have a negative fair value as of September 30, 2013. The negative fair value may be countered by increases in total interest payments required under the variable rate loans, creating higher synthetic interest rates. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the loans do not have corresponding fair value increases. The fair value is estimated using a proprietary pricing service and are provided to the District by the counterparty financial institution known to be high volume participants in this market.

As of September 30, 2013, the District was exposed to credit risk because the swaps had a negative fair value. The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swaps have a negative fair value, the District would be liable to the counterparty for a payment equal to the swaps' fair value.

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE F INTEREST RATE SWAP (CONTINUED)

As of September 30, 2013, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate debt interest payments and net swap payments will vary.

Fiscal Year Ending September, 30	<u>Variable Rate Debt</u>		Interest Rate Swap, Net	Total
	Principal	Interest		
2014	\$ 635,487	\$ 37,281	\$ 105,669	\$ 778,437
2015	653,423	30,970	87,783	772,176
2016	671,934	24,562	69,618	766,114
2017	462,754	18,187	51,549	532,490
2018	148,421	15,576	44,148	208,145
2019-2023	742,105	53,423	151,424	946,952
2024-2027	593,685	13,341	37,813	644,839
	<u>\$ 3,907,809</u>	<u>\$ 193,340</u>	<u>\$ 548,004</u>	<u>\$ 4,649,153</u>

NOTE G RETIREMENT PLANS

The District has funded retirement costs in two ways:

1. Plan 1 – Florida Municipal Pension Trust – Certified firefighters as qualified under the Plan (F.S. 175) – Retirement Plan and Trust for the Firefighters of the Estero Fire Rescue District.
2. Plan 2 – 401(a) Defined Contribution Retirement Plan – Employees not within Plan 1.

Except for those provisions that are mandated in Note H, the District does not currently provide benefits to its retired employees other than the benefits indicated below:

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan

On December 1, 2000, the District resolved to establish a retirement plan for its full-time firefighters. All full-time certified firefighters of the District are eligible to participate in the Chapter 175 Municipal Firefighters Pension Trust Fund of Estero Fire Rescue (the "Plan"). The Plan is a defined benefit plan and became effective December 1, 2000. Firefighters become participants in the Plan immediately upon hire. For the year ended September 30, 2013, the District was required to contribute 24.71% of covered payroll (excludes regular overtime, bonuses, and lump sum payments for accrued annual leave, and sick time) of the qualified and participating employees. Participating employees are required to make regular contributions to the Plan in the amount of 3% of their covered payroll. Employees vest immediately in their own contributions.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)

Contributions – Contributions to the Plan are derived from three sources: employees, 3% of compensation paid by the employee; state funds, (insurance premium tax per Florida Statute Chapter 175); and the employer, remaining amount necessary to meet the actuarial funding requirement. The state contribution is based on property fire insurance premiums collected within the District and may be applied up to an approved "frozen" limit. The District (employer) is required to fund the difference each year between the total contributions from all other sources for the year and the total funding cost for the year pursuant to the most recent actuarial valuation of the Plan. The total cost for any year equals total normal cost plus the additional amounts sufficient to amortize the unfunded past service liability over a 30 year period commencing on the valuation date.

The District contributed 100% of its required contributions. As such, the District made employer contributions of \$996,618, \$955,254, and \$890,424 for the years ended September 30, 2013, 2012, and 2011, respectively. Covered payroll for the years ended September 30, 2013, 2012, and 2011 was \$4,032,937, \$4,178,005, and \$4,071,439, respectively.

The employees contributed 100% of their respective required contributions to the Plan during the year ended September 30, 2013. Employee contributions for the years ended September 30, 2013, 2012, and 2011 were \$120,988, \$125,340, and \$122,143, respectively.

Pension benefits – Employees with 10 or more years of service are entitled to annual pension benefits, beginning at the earlier of age 55 with 10 years of credited service or 25 years credited service and attainment of age 52. The benefit is equal to 2.00% of Average Final Compensation (AFC) multiplied by Credited Service earned prior to December 1, 2000, plus 3.70% of AFC multiplied by Credited Service earned during the period December 1, 2000 through September 30, 2010, plus 3.00% of AFC multiplied by Credited Service earned after September 30, 2010. The average final monthly compensation (AFC) is averaged over the five highest years within the last 10 years of service; however, if salary records are unavailable, AFC can be determined based on data since Plan inception. Maximum benefit is 100% of AFC, paid during the retiree's lifetime with a minimum of 120 monthly benefit payments. Monthly payments can be modified to provide a social security level income payment or several other actuarially equivalent payment options are available. A lump sum payment is required if the single sum value of the participant's benefit is less than or equal to \$1,000.

In fiscal year ending September 30, 2011, the District adopted what is known as a Stop Start Plan. This essentially simultaneously stopped the Plan and restarted the Plan at its original benefit rates. The benefit multiplier was then increased for a 10 year period of credited service. A supplemental benefit now provided to participants is a Share Account that is to be funded solely and entirely by Chapter 175 premium tax revenues in excess of the frozen amount. Each participant's "share" of this supplemental benefit will be based on credited years of service. The assets in the Share Account at September 30, 2013 totaled \$397,790. Increasing the benefits of the Plan also increased the frozen amount of insurance premiums to \$267,811. This amount is now available for the District to use towards current contribution requirements.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)

The Plan permits early retirement with 10 years of credited service. Applicable benefits are reduced by 3% for each year before normal retirement. If employees terminate before rendering 10 years of credited service, they forfeit the right to receive their portion of the accumulated Plan benefits, except for the employee contributed portion. Employees may purchase credit years of service up to a maximum of five years for prior military or fire service when specific criteria are met. Additionally, employees eligible for normal retirement can elect to participate in a Deferred Retirement Option Plan in lieu of terminating employment as a firefighter.

Death and disability benefits – Upon the death of any vested member, whether or not still in active employment, a survivor benefit is payable to a beneficiary or joint pensioner starting when the member would have reached early or normal retirement age. The benefit is equal to the vested pension benefit and is payable for 10 years. The beneficiary may also elect to receive an immediate benefit payable for 10 years which is actuarially reduced to reflect the commencement of benefits prior to retirement date.

Active employees who become totally and permanently disabled directly from the performance of their duty as a firefighter shall receive a Normal Retirement Benefit with the minimum benefit equal to 42% of AFC. Any member with 10 years or more of credited service who become totally and permanently disabled which disability is not directly caused by the performance of his duties as a firefighter shall also receive a Normal Retirement Benefit, with no minimum limit.

Income recognition – Allocated investment income is recorded on the accrual basis. Investments are reported at market value. Short-term investments are reported at cost, which approximates market value. Since the Plan is collectively managed with other government's plans, investment income is allocated to each plan as a net amount, as it is not feasible to specifically allocate income (loss) by individual component of income (loss).

Actuarial present value of accumulated plan benefits – Accumulated Plan benefits are those future periodic payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Under the aggregate actuarial cost funding method, the present value of benefits, less all assets, are equated to the present value of future employer contributions, and of future employee contributions, if any. The required contribution is then expressed as a percentage of current payroll. Benefits payable under all circumstances; retirement, death, disability, and termination of employment, are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)

The actuarial present value of accumulated Plan benefits is determined by an actuary and is the amount that results from applying actuarial assumptions to adjust the accumulated Plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of September 30, 2013 were (a) life expectancy of participants (the RP-2000 Annuity Mortality Table was used), (b) retirement age assumptions (the assumed average retirement age was 55), and (c) investment return. The October 1, 2013 actuary valuation reflected assumed average rates of return of 7.0%. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminated, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Payment of benefits – Benefit payments to participants are recorded upon distribution. A summary of certain Plan details and trend information is included below.

The Plan is a single-employer defined benefit retirement plan and trust. The Plan is totally administered by the Florida Municipal Pension Trust Fund/Florida League of Cities, Inc. The Florida Municipal Pension Trust Fund acts as the trustee of the Plan.

A copy of the Plan's annual report for September 30, 2013 and a complete detail of the Plan can be obtained by writing the Florida League of Cities, Inc., P.O. Box 1757, Tallahassee, Florida, 32302-1757 or by calling (850) 222-9684.

BALANCE OF PAGE LEFT BLANK INTENTIONALLY

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)

The following is a summary of the Single Employer-Defined Benefit Plan, including funding policies, contribution methods, benefit provisions, and trend information:

	Florida Municipal Pension Trust Fund for Certified Firefighters <u>within the Bargaining Unit (F.S. 175)-Plan 1</u>
Year established and governing authority	District Resolution (Effective 12/1/00)
Governing authority	District Board of Commissioners
Administration authority	Board of Trustees of Plan
Determination of contribution requirements:	Actuarially determined
Employer (District)	Based upon age of employees. Contributions are required in addition to State Revenue received under Chapter 175 (insurance premium tax refunds).
Plan members	3% of Covered payroll
Funding of administrative costs	Employer
Period required to vest	10 years
Post retirement benefit increase	Cost of living increase of 0% each year
Eligibility for distribution (Normal retirement)	Earlier of age 55 with 10 years of credited service or age 52 and 25 years credited service
Provisions for:	
Disability benefits	Yes
Death benefits	Yes
Early retirement	Yes
Deferred Retirement Option Plan	Yes
Credited Service Buy Back	Yes
Share Plan	Yes
Normal form of benefit	Ten year certain and life

**ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)

Membership of the Plan consisted of the following at September 30, 2013:

Retirees and beneficiaries receiving benefits	4
Terminated Plan members entitled to but not yet receiving benefits	1
Vested active members	21
Non-vested active members	32
Total Active Members	58
Number of participating employers	1
Number of participating state agencies	1

Funding and Financial Planning

A schedule of employer contributions is presented in the table below:

Firefighters' Retirement Plan - Plan 1						
Fiscal Year	Annual Pension Cost	Actual District Contribution	State Contribution	State Frozen Contribution	Percentage Contributed	Net Pension Obligation (Asset) ³
2013	\$ 1,065,819	\$ 2,083,349 ^{4,1}	\$ -	\$ -	100%	\$(1,443,513) ²
2012	\$ 1,053,057	\$ 720,076 ¹	\$ 70,993	\$ 267,811	100%	\$ (425,983)
2011	\$ 893,584	\$ 890,424 ¹	\$ 68,450	\$ 267,811	100%	\$ (491,153)

¹ Shortfall was funded by the Net Pension Asset.

² Contribution surplus reserve was \$269,920 at September 30, 2013. This amount is based on state rules.

³ Net pension asset is based on cumulative contributions in excess of the ARC.

⁴ Includes a one-time contribution of \$1,354,476 to move two firefighters into the Plan. See page 41.

The state of Florida makes contributions from taxes on casualty insurance premiums to the Firefighters' Retirement Plan – Plan 1. The state contributions noted above are recognized by the District as on behalf payments and are reported as revenues and expenditures in the general fund statements.

A schedule of funding progress is included as required supplementary information to the financial statements. The schedule of funding progress presents multi-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)
Funding and Financial Planning (Continued)

Current year annual pension costs for the Firefighters' Pension Trust Fund are shown in the trend information provided. The District has funding in excess of the annual required contribution as of September 30, 2013 in the amount of \$1,443,513. This amount is presented as a net pension asset in the statement of net position.

During the current fiscal year the District conducted an administrative review of F.S. 175 at which time it was determined that during inception of the Plan in 2000, an administrative error occurred resulting in the exclusion from the Plan of Estero Fire Rescue's chief officers. In December of 2013, the District's Board approved a one time lump sum payment for the purchase of credited years of service for three chief officers. The actuarial projected liability was estimated at \$1,438,935. The cash component of the liability was accrued to the fiscal year ended September 30, 2013 and reported in the fund statements. The entire liability amount is reported as a past service cost in the fiduciary fund statements and included as contributions receivable.

The District funds the Plan based on a funding method recommended by the Florida Department of Revenue. A contribution surplus reserve in the amount of \$269,920 is available at September 30, 2013. The contribution surplus reserve is restricted to funding the Plan and it will be utilized in future years.

The Plan assets are legally reserved for the payment of the respective Plan member benefits within the Plan. There are no assets legally restricted for Plan benefits other than those assets within the Plan. The Firefighters' Pension Trust Fund held certain investments at year-end. There are no long-term contracts for contributions.

The share account is essentially a defined contribution benefit, and the assets are not included in the actuarial value of assets available to fund accumulated Plan benefits. The following is a summary of the Plan's net position:

	Firefighters' Retirement	Share Account	Total Firefighters' Trust
Cash and cash equivalents	\$ 155,595	\$ 5,171	\$ 160,766
Investments	11,813,226	392,619	12,205,845
Contributions receivable	1,483,570	-	1,483,570
TOTAL NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$ 13,452,391	\$ 397,790	\$ 13,850,181

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 1 – Plan Description and Provisions – Firefighters' Retirement Plan (Continued)

Additional Information

The following is a summary of the Single Employer-Defined Benefit Plan, including valuation methods and assumptions:

	<u>Firefighters' Retirement Plan - Plan 1</u>
Valuation date	10/1/2013
Actuarial cost method	Aggregate Actuarial Cost Method
Amortization method	Level Percentage, Open
Remaining amortization period	30
Actuarial asset valuation method	Five-year Smoothed Average Market Value
Actuarial assumptions:	
Investment rate	7%
Projected salary	4.50%

Plan 2 – Defined Contributions Retirement Plan – Employees Not Within the Bargaining Unit

The District established a Governmental Money Purchase Plan (401(a)), a defined contribution plan, on October 5, 2001, for the District's full time general employees who are not participants in the firefighters' pension trust. Participants are eligible to participate upon their hire date. The Plan is completely administered by the Plan custodian, the Florida Municipal Pension Trust Fund. Employees are immediately vested 100% in their own contributions. Participants vest in the employer's Plan contributions 100% after completion of five years of credited service. Vesting begins at 40% after completion of two years of credited service and increases at 20% per year. Normal retirement age is 52 years of age.

The Plan requires the District to make contributions equal to 10% of the qualified employee's compensation, excluding bonuses and lump sum payments, except for the Fire Chief, as the Board resolved to contribute 18% of his compensation which is to be inclusive of the required employer match portion. The Plan also allows the employee participants to make contributions. Employee contributions are deposited into the respective employee's deferred compensation plan (Section 457 Plan) account. Therefore, the employee's contributions are maintained separately from those of the employer (District) contributions. The Plan also requires the employer to match the employee's voluntary contributions dollar for dollar up to 5% of the employee's eligible compensation. Total District contributions to the Plan, including the employer 10% contributions and the employer match amount, for the years ended September 30, 2013, 2012, and 2011 were \$125,537, \$123,121, and \$145,080, respectively.

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE G RETIREMENT PLANS (CONTINUED)

Plan 2 – Defined Contributions Retirement Plan – Employees Not Within the Bargaining Unit (Continued)

The District contributed 100% of its required contributions for the year ended September 30, 2013. Employee contributions to the Plan were \$192,396, \$191,120, and \$205,011 for the years ended September 30, 2013, 2012, and 2011, respectively. The employee contributions are deposited to a Section 457 account which is a deferred compensation plan that is available to all employees of the District, as such, employee contribution amounts provided are made by participants of both District provided retirement plans.

During the current fiscal year the Fire Chief and two firefighters were moved from the defined contribution plan to the defined benefit plan. Additional information can be found on page 41.

NOTE H OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Description and Provisions

As mandated by F.S. 112.0801, the District provides optional post-employment healthcare, dental, vision, and life insurance coverage to eligible individuals.

Eligible individuals include all regular employees of the District who retire from active service and are eligible for retirement or disability benefits under one of the two retirement plans sponsored by the District. Under certain conditions, eligible individuals for healthcare coverage also include spouses and dependent children.

Retirees must pay a monthly premium as determined by the insurance carrier that is equal to the actual premiums paid by the District. The premium varies depending on whether the retiree elects single, couple, single plus children, or family coverage.

Membership of the Plan consisted of the following at September 30, 2013:

	<u>OPEB Plan</u>
1. Number of participants included:	
Current retirees:	
Under age 65	1
Over age 65	0
Total current retirees	<u>1</u>
Active employees:	
Active employees fully eligible for benefits	3
Active employees not yet fully eligible for benefits	57
Total active employees	<u>60</u>
Total number of participants	<u><u>61</u></u>
2. Average age of active employees	40.1 years

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE H OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Funding and Financial Planning

There is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average.

In order for the District to anticipate its future obligation with respect to the post-employment healthcare coverage provided to retirees and their dependents, the District has projected the OPEB liability for a 20-year period beginning October 1, 2012.

The value of the future liability is recorded in the government-wide statements as required by GASB 45; however, the District is not currently funding this future liability and instead, uses the estimates and assumptions for financial planning only. The information provided below provides the District with annualized funding estimates in the event the District chooses to fund the estimated future obligation. The contributions noted are not actual amounts contributed by the District, but instead represent an allowable credit to substitute the premium portion that would be paid by the retiree.

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, "if" paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed fifteen years.

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

Net OPEB Obligation

Annual required contribution	\$ 142,000
Interest on net OPEB obligation	17,000
Adjustment to annual required contribution	<u>(37,000)</u>
Annual OPEB cost	122,000
Contributions made	
Estimated Implicit Subsidy	<u>5,000</u>
Change in net OPEB obligation	117,000
Net OPEB obligation, beginning of year	<u>433,000</u>
Net OPEB obligation, end of year	<u><u>\$ 550,000</u></u>

^a The implicit subsidy or implicit rate subsidy is the difference between the actual and apparent cost of OPEB coverage. The actual cost for early retirees is higher than the average per-person premium for the active/retiree group. Plans in which retirees pay the average active/retiree rate (the apparent cost) give rise to an implicit rate subsidy; the employer pays the difference between the actual and apparent cost.

**ESTERO FIRE RESCUE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2013**

NOTE H OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Funding and Financial Planning

A schedule of employer contributions is presented in the table below:

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended September 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2013	\$ 122,000	4%	\$ 550,000
2012	\$ 118,000	4%	\$ 433,000
2011	\$ 170,000	5%	\$ 320,000

A schedule of funding progress is included as required supplementary information to the financial statements.

Additional Information

The following is a summary of the OPEB plan valuation methods and assumptions:

	<u>OPEB</u>
Valuation date	10/1/2012
Actuarial cost method	Projected unit credit
Amortization method	15-year open period; level-dollar payment
Investment return	4.00% per annum (includes inflation at 2.75% per annum)
Healthcare cost trend rate(s):	
Select rates	<u>Insurance Premiums</u> 8.00% for 2012/13 graded to 5.50% for 2017/18
Ultimate rate	5% per annum

NOTE I PROPERTY TAXES

Property taxes are levied after formal adoption of the District's budget and become due and payable on November 1 of each year and are delinquent on April 1 of the following year. Discounts on property taxes are allowed for payments made prior to the April 1 delinquent date. Tax certificates are sold to the public for the full amount of any unpaid taxes and must be sold not later than June 1 of each year. The billing, collection, and related recordkeeping of all property taxes are performed for the District by the Lee County Tax Collector. No accrual for the property tax levy becoming due in November 2013 is included in the accompanying financial statements, since such taxes are collected to finance expenditures of the subsequent period.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE I PROPERTY TAXES (CONTINUED)

Procedures for collecting delinquent taxes, including applicable tax certificate sales and tax deed sales, are provided for by Florida Statutes. The enforceable lien date is approximately two years after taxes become delinquent and occurs only upon request of a holder of a delinquent tax certificate.

Important dates in the property tax cycle are as follows:

Assessment roll certified	July 1
Millage resolution approved	No later than 93 days following certification of assessment roll
Taxes due and payable (levy date)	November/with various discount provisions through March 31
Property taxes payable-maximum discount (4 percent)	30 days after levy date
Beginning of fiscal year for which taxes have been levied	October 1
Due date	March 31
Taxes become delinquent (lien date)	April 1
Tax certificates are sold by the Lee County Tax Collector	Prior to June 1

The Board of Commissioners of the District levied ad valorem taxes at a millage rate of \$2.19 per \$1,000 (2.1881 mils) of the 2012 net taxable value of real property located within the District.

NOTE J COMMITMENTS AND CONTINGENCIES

The District is involved from time to time in certain routine litigation, the substance of which either as liabilities or recoveries would not materially affect the financial position of the District. Although the final outcome of the lawsuits, assertions and claims or the exact amount of costs and/or potential recovery is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a materially adverse affect on the financial condition of the District. As a general policy, the District plans to contest any such matters.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE J COMMITMENTS AND CONTINGENCIES (CONTINUED)

On April 8, 2003, the District entered into an agreement with Lee County in which the County paid the District \$118,836 for the right to use space at the Three Oaks Fire Station for Lee County owned emergency vehicles and assigned Lee County personnel. This agreement is for a term of 25 years and can be terminated by either party upon giving the other party a written 365 day notice. Should the right to use be terminated by the District, the sums paid to the District by the County shall be repaid to the County on a pro-rata basis for the years that the space was made available over the term of this agreement. At September 30, 2013, the amortized balance of the liability owed by the District if the agreement was terminated is approximately \$69,321. Currently, there has been no interest by either party to terminate the agreement.

The District entered into a Traffic Signal Agreement in 2007 with a local developer or its assigns to share the cost of the construction of an emergency flashing traffic signal. Under this agreement, the financial obligation to the District for this improvement is 50% of the total design/permit/construction costs up to \$150,000. At September 30, 2013, the District had contributed \$106,581. Upon the emergency flashing traffic signal converting to a fully operational traffic signal, the District is entitled to a reimbursement of their contributed cost share less their pro rata share of the total cost of the fully operating traffic signal based on the District's traffic impact to the signal. Currently there is no anticipated date as to when or if the emergency flashing signal will convert to a fully operational traffic signal.

The District also entered a Reciprocal Easement and Access Agreement in 2006 with a Developer Trust or its assigns for the construction of a Joint Entry Drive (east of the fire station) at Coconut Point. Contingent upon the property (Tract 1D-3) directly east to the fire station being sold, the District is entitled to a reimbursement of approximately \$22,000 from the purchaser for their share of the construction cost of the joint driveway incurred by the District. There is no scheduled sale of this property at this time.

The District's Fire Chief is the only employee with an employment contract, outside of the bargaining unit. The contract contains various commitments associated with the potential termination of the Fire Chief, including, but not limited to, deferred compensation benefit. The estimated liability for the deferred compensation benefit at September 30, 2013 was \$37,223. This liability is considered a long-term liability and is recorded in the Statement of Net Position as deferred compensation benefits expected to be paid after one year. There is currently no expected termination of the Fire Chief.

NOTE K RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE K RISK MANAGEMENT (CONTINUED)

Insurance for workers' compensation, general/management liability, automobile, and property is provided by a commercial insurance carrier. Workers' compensation risk of loss is transferred to the insurance carrier with limits of liability of \$1,000,000 per accident or disease. The District retains the risk of loss up to a deductible amount (ranging from \$500 to \$2,500) with the risk of loss in excess of this amount transferred to the insurance carrier with limits of liability amounts (ranging from \$2,000 to \$1,000,000 per occurrence) for general/management liability, automobile and property; except for those essential assets that have a guaranteed replacement value. An umbrella policy minimizes the District's exposure with an additional amount of coverage (up to \$5,000,000 per occurrence) for general/management claims. The District pays annual premiums for this insurance coverage. There were no significant reductions in insurance coverage as compared to the prior year. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

The District's dental insurance program is self-funded and is administered by a third party administrator. At September 30, 2013, the District's dental plan had liabilities equal to the amounts reflected as reserved and unasserted claims. These amounts were calculated by the third-party self-insurance program's underwriters and actuaries, based on industry standards. These liabilities are subject to adjustments in future years, which would be recorded as claim expenses when they are estimated. However, the amounts are insignificant to the financial statements as a whole and do not exceed more than the average monthly dental claims, and therefore are not reported.

NOTE L FUTURE FIRE IMPACT FEES

In 2002 the District pledged future fire impact fee revenues to secure two bank loans. The loan proceeds were used for financing the construction of fire department facilities and related equipment that was necessary due to population growth in the District.

Impact fee revenue has not been sufficient to pay the District's debt since FY 2008. As such, the District's general ad valorem dollars have been paying the debt service on the loans. It is permissible to pay the debt service with the general ad valorem dollars, but the District is not permitted to secure the long term debt with the ad valorem dollars. Ad valorem revenue is intended for the operation of the District and the impact fee revenue is intended to finance costs associated with growth, such as additional stations and additional equipment. The District has received Lee County's consent to devise a plan and policy to support the reimbursement of its general ad valorem dollars with future impact fees as they become available.

ESTERO FIRE RESCUE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

NOTE L FUTURE FIRE IMPACT FEES (CONTINUED)

The following is a summary of the use and repayment of ad valorem dollars paying the debt service that is secured with impact fees:

Financial Statement Fiscal Year	Principal retirement-unrestricted	Interest/fiscal charges-unrestricted	Impact Fee Reimbursement*	Accumulated Outstanding Balance
2013	\$ 463,644	\$ 118,062	\$ -	\$ 4,776,944
2012	\$ 749,645	\$ 190,890	\$ -	\$ 4,195,238
2011	\$ 918,212	\$ 225,945	\$ -	\$ 3,254,703
2010	\$ 892,102	\$ 257,451	\$ -	\$ 2,110,546
2009	\$ 721,967	\$ 239,026	\$ -	\$ 960,993

*In the year of reimbursement, impact fee revenue will be reported as "Unrestricted", and the cash will be moved into the District's operating account.

NOTE M DEFERRED OUTFLOWS

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows, and Net Position* in the current year. Accordingly, in the government-wide financial statements, the "Statement of Net Assets" title was changed to "Statement of Net Position." The statement provides a new net position format to report all assets, deferred outflow of resources, liabilities, deferred inflows of resources, and net position. Deferred Outflows of Resources are now reported in a separate section following assets and, if applicable, Deferred Inflows of Resources would be reported in a separate section following liabilities. Deferred outflows and deferred inflows may be aggregated by type for financial reporting purposes. The District has two derivative instruments reported in the aggregate. Summary information can be found in Note A and specific information is in Note F.

**REQUIRED
SUPPLEMENTARY INFORMATION**

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FUNDING PROGRESS
FIREFIGHTERS' RETIREMENT PLAN
September 30, 2013**

Firefighters' Retirement Plan - Plan 1						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
10/1/2013 *	\$13,182,471	\$13,702,130	\$ 519,659	96.2%	\$ 4,234,095	12.3%
10/1/2012 *	\$ 8,155,956	\$10,591,334	\$ 2,435,378	77.0%	\$ 4,070,894	59.8%
10/1/2011 *	\$ 6,873,907	\$ 9,049,483	\$ 2,175,576	76.0%	\$ 4,086,455	53.2%

* Actuarial accrued liability is calculated using the entry age normal cost method for this purpose.

**ESTERO FIRE RESCUE DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST EMPLOYMENT BENEFITS
 September 30, 2013**

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
10/01/12	\$ -	\$ 701,000	\$ 701,000	0.0%	\$ 5,051,000	13.9%
08/01/10	\$ -	\$ 770,000	\$ 770,000	0.0%	\$ 5,019,000	15.3%

**ADDITIONAL REPORTS OF
INDEPENDENT AUDITOR**



**INDEPENDENT AUDITORS' 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 Commissioners
Estero Fire Rescue District
Estero, Florida

We have audited the financial statements of the governmental activities, the major fund, and the remaining fund information of Estero Fire Rescue District (the "District"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 20, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of Fiduciary Fund as described in our report on the District's financial statements. The financial statements of the Fiduciary Fund were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Fiduciary Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the schedule of findings and recommendations as item 2013-001 to be a material weakness.

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. We consider the deficiency described in the schedule of findings and recommendations as item 2013-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Estero Fire Rescue District's financial statements are free from 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This instance is described in the schedule of findings and recommendations as item 2013-003.

Estero Fire Rescue District's Response to Findings

Estero Fire Rescue District's responses to the findings identified in our audit are described in the accompanying management's responses. Estero Fire Rescue District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Fort Myers, Florida
May 20, 2014

MANAGEMENT LETTER

Board of Commissioners and Management
Estero Fire Rescue
Estero, Florida

We have audited the financial statements of the Estero Fire Rescue District (the "District") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated May 20, 2014.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated May 20, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the state of Florida. This letter includes the following information, which is not included in the aforementioned auditors' report:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings and recommendations made in the preceding annual financial report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did have such findings, which are listed in the schedule of findings and recommendations as 2013-004 through 2013-009.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, fraud, illegal acts, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Board of Commissioners and Management
Estero Fire Rescue District

- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The District discloses this information in the notes to the financial statements.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, applicable management, and the Board of Commissioners of the Estero Fire Rescue District, and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Fort Myers, Florida
May 20, 2014

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
September 30, 2013**

2013-001 Disbursement Support and Policies

Condition:

During our audit, we tested credit card disbursements and noted the following matters:

- In reviewing support for credit card purchases, we noted two credit card transactions that lacked adequate supporting documentation. Support for one transaction for a hotel charge could not be found. Support for another transaction only included the related purchase order but no credit card receipt or other supporting documentation.
- The District does not have a spending policy specifically relating to the use of credit cards. In addition, credit card spending practices are currently in violation with the District's standard purchasing policies, as purchase orders or pre-approvals are not being obtained and documented for goods and services purchased with credit cards.
- Policies currently do not specify individual transaction limits or prevent an employee from obligating the District for an amount above a specified threshold.
- There is no secondary approval of credit card charges required to ascertain the charge is supported by appropriate documentation. In addition, the documentation for some charges did not provide sufficient evidence to support the business purpose of the charge.
- Policies requiring quotes were not followed for certain credit card purchases, so the District may not know if they are receiving the best value for goods or services acquired.

Criteria

Establishing proper purchasing and spending policies, and reviewing to ensure they are being followed, provides greater assurance that the District's resources are being properly used and that proper segregation of duties exist.

Cause

Spending policies and processes for credit card purchases and bid quotes had never been specifically addressed in prior years. As spending through credit cards has increased, the need for enhanced policies and procedures should be addressed.

Effect

The conditions and policies in place expose the District to increased risks that inappropriate or errant disbursements could be processed and paid.

Recommendation

We recommend the District review and modify its policies for disbursements to ensure adequate support is obtained, reviewed and approved for all transactions before payment is made. Specifically, we recommend the following:

- Proper support for all purchases and disbursements should be obtained before they are approved and processed for payment.

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
September 30, 2013**

- The District should amend their current policy or establish a separate spending policy relating to the use of credit cards. The policy should address:
 - The requirements to obtain purchase orders or pre-approvals
 - Individual transaction limits
 - What supporting documentation is required including the business purpose if not readily apparent
 - Who are the authorized approvers
- Review and approval of all credit card charges should be obtained and documented. This should be performed by a knowledgeable individual and should ensure that supporting documentation evidences the proper business purpose of each charge.
- District purchasing policy, including the requirement for quotes, should be followed for all credit card purchases.

2013-002 Review of Journal Entries

Condition

During our audit, we noted journal entries are prepared and recorded by the Finance Director, who is also responsible for preparing the financial information for governance to review. The Finance Director is the only one who reviews entries in the system and runs system reports to detect if all entries posted are appropriate and approved.

Criteria

An independent review of journal entries provides appropriate segregation of duties.

Cause of Condition

Due to limited accounting personnel, independent reviews of all journal entries made can be difficult to attain.

Effect

Without independent approvals for all journal entries, an entry could be made that is incorrect, unsupported or fraudulent, and it may go undetected.

Recommendation

We recommend the District enhance its procedures around financial reviews to ensure timely, independent reviews are performed. The Chief or a Board member should review a detailed monthly report that lists all monthly general ledger postings and review supporting documentation where deemed necessary. This review should be performed monthly and documented.

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
September 30, 2013**

2013-003 Budget

Criteria

Florida Statutes 189.418(3) – The governing body of each special district shall adopt a budget by resolution each fiscal year. The total amount available from taxation and other sources, including balances brought forward from prior fiscal years, must equal the total of appropriations for expenditures and reserves. At a minimum, the adopted budget must show for each fund, as required by law and sound financial practices, budgeted revenues and expenditures by organizational unit which are at least at the level of detail required for the annual financial report under section 218.32(1). The adopted budget must regulate expenditures of the special district, and an officer of a special district may not expend or contract for expenditures in any fiscal year except pursuant to the adopted budget.

Condition

The general fund expenditures exceeded final budgeted appropriations by \$96,320.

Cause

The District's pension contributions were more than anticipated due to the purchase of credited years of service for three chief officers that weren't previously in the District's 175 pension plan.

Effect

The District is in violation of Florida Statute 189.418(3).

Recommendation

We recommend that District management adhere to the aforementioned budget statute and approve final budget amendments within 60 days of the fiscal year-end.

2013-004 Business Purpose Documentation

Condition

The District incurs various costs for food and other types of costs that appear non-essential or non-program related. We understand that some of these costs are part of the approved costs for training or other events, but they also lend themselves to abuse and need to have proper documentation of the business purpose of the expense.

Criteria

Expenditure should only be incurred for those meeting the public purpose of the District. Appropriate documentation is necessary to support each expenditure and to demonstrate it is a necessary expense for the public purpose of the District.

Cause

A detailed explanation is not required for expenditures where it is not readily apparent as to the public purpose of such expenditure.

Effect

Inappropriate expenditures could occur.

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
September 30, 2013**

Recommendation

We recommend that the District review its disbursement policies and amend as necessary to require appropriate documentation for all expenditures to include an explanation of the public purpose where not readily apparent.

2013-005 Overtime Policy

Condition

Overtime hours worked by District employees are being approved on the completed timesheets, as opposed to utilizing Overtime Request Forms for pre-approval, as policy requires.

Criteria

Current personnel policy requires that pre-approval be obtained from a supervisor on the Overtime Request Form.

Cause

Policy has not been enforced.

Effect

Unnecessary overtime hours may be incurred.

Recommendation

We recommend that the approved policies in place be followed for pre-approving overtime.

2013-006 Safe Security

Condition

The District has a safe to secure files and resources. Access to the safe should be limited to a few District employees.

Criteria

Access to the safe should be limited to only those employees who require regular access as part of their approved job function and to help ensure segregation of duties.

Cause

A formal policy has not been developed.

Effect

A misappropriation of assets or unauthorized access to files could occur.

Recommendation

We recommend that access to the safe be limited to only those employees who need regular access as part of their approved job function.

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
September 30, 2013**

2013-007 Expense Report Approval

Condition

The Fire Chief's Travel Expense Reimbursement report is not being reviewed and approved by a superior. The Fire Chief does not obtain pre-approval for travel and training.

Criteria

The District's policy states "All travel related costs must be preapproved on a Request for Travel/Training Form. All reimbursement expenses paid out by the District should be reviewed and approved by a superior of the person requesting the funds in order to determine if costs are appropriate and properly supported.

Cause

A member of the Board of Commissioners has not been pre-approving or reviewing the Fire Chief's travel and training expenses.

Effect

Expenses not meeting District policy could be incurred.

Recommendation

We recommend that a designated Board member pre-approve the Fire Chief's travel and training and review the Fire Chief's expense reports along with the supporting documentation and document their approval.

2013-008 System Password Resets

Condition

System user passwords are not required to be reset. User passwords could remain the same for years and lend themselves to detection and misuse.

Criteria

Best practices over information technology (IT) controls include system requirements for users to periodically change their passwords and that passwords not be reused. Additionally, individual passwords should not be shared with others.

Cause

The system requirements have not been modified to require routine user password changes.

Effect

Required password changes are a means to help prevent unauthorized user access.

Recommendation

We recommend that system controls be updated to require user password changes every 90 days and password requirements meet the "Best Practices" for number and types of characters to be used. Also, system users should be instructed not to share their password with others.

**ESTERO FIRE RESCUE DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
September 30, 2013**

2013-009 Conflict of Interest Statements

Condition

Conflict of Interest statements are not required from all employees.

Criteria

Conflict of Interest statements should be obtained from employees to document and determine if there are any potential conflicts with vendors.

Cause

The District has not adopted such a policy.

Effect

Employees could have a related interest in vendors that may compromise their independence and objectively to act in the best interests of the District.

Recommendation

We recommend that annual Conflict of Interest statements be completed by all employees who are authorized to approve purchases of goods and services.



Estero Fire Rescue
21500 Three Oaks Parkway
Estero, Florida 33928
(239) 390.8000
(239) 390.8020 (Fax)
www.esterofire.org

RESPONSE TO MANAGEMENT LETTER

May 20, 2014

CliftonLarsonAllen LLP
6810 International Center Blvd.
Fort Myers, FL 33912

We have received the Auditor's Management Letter for the year ended September 30, 2013, as required by Auditor General Rule 10.554(1)(h).

We agree with the findings and recommendations made by the Auditor to improve financial management. The following responses are as they specifically relate to each finding. In response thereto:

CURRENT YEAR COMMENTS:

1. 2013-001 Disbursement Support and Policies
Many of our policies are over 10 years old and have not been reviewed or updated. Over the past few years we have increased the use of credit cards in our purchasing. The District will enforce its current purchasing policies along with reviewing any policies that need to be updated.
 - Update purchasing policy directly relating to credit card purchases by September 30, 2014.
 - Make sure that proper documentation is attached to the purchases, effective immediately.
 - Review and set spending limits when updating credit card policy.
 - Assure that all purchases have prior approval, effective immediately.
 - The Fire Chief is now reviewing the credit card statements each month to assure appropriate documentation and supported purpose.

2. 2013-002 Review of Journal Entries
The District agrees that a review of journal entries independent of Finance does not exist. A monthly report of all journal entries will be provided to the Fire Chief or his designee for review.

Currently the Finance Director is the individual that records and reviews the journal entries for Estero Fire Rescue. In the future the Fire Chief will review the journal entries on a monthly basis and document that the entries were reviewed.

3. 2013-003 Budget
The District agrees it exceeded its adopted budget. This was the result of a one-time correction to the Firefighters' Pension Plan. The correction involved the purchase of multiple years of credited service for three firefighters. The transaction and related budget amendment was appropriately approved by the Board on December 10th, 2013. Due to the multiple year nature of the

correction, the Auditor proposed the District accrue the transaction to our 2013 audited financial statements. The District agreed to the accrual, but unfortunately the budget amendment had been adopted approximately 70 days subsequent to year-end, and the statute prevents budget adjustments beyond 60 days subsequent to year-end. The District's Board Meetings are held monthly, and due to the complexity of the transaction, we were unable to have the transaction approved more timely so to comply with the 60 day rule for budget adjustments.

At the recommendation of the Auditor, management will evaluate transactions that may be susceptible to accrual so they may receive Board approval more timely to adhere to statutory compliance. Management believes that no additional action is necessary as it relates to the corrective action for this specific issue.

4. 2013-004 Business Purpose Documentation

From time to time the District purchases food and items for meeting and open houses that may appear non-essential or non-program related. The District will make sure that these types of purchases have proper approval and proper documentation for the intended purpose.

The District will review the current policy and make any necessary changes so that we are documenting the purchase.

5. 2013-005 Overtime Policy

The District has a policy that requires pre-approval for overtime requests. On a few occasions these forms were not used for the pre-approval of overtime. There are some situations that require us to contact employees for emergency overtime and cannot always have the form pre-approved.

The District will make sure that we review the current policy and make any updates to the policy that may be required. Until the policy is reviewed and updated we will make sure that overtime approval sheets are completed.

6. 2013-006 Safe Security

The District should and does limit the amount of personnel that have access to the safe. Currently we only allow three individuals access to the safe. Currently we do not have a policy indicating the use and limit to the safe.

The District will develop a policy for the use of the safe and who has access to the safe.

7. 2013-007 Expense Report Approval

Currently the Fire Chief's training and travel is not approved by the Board.

The Fire Chief will get pre-approval for all training and travel. The appropriate documentation will be completed for any training and travel.

8. 2013-008 System Password Resets

The District has an established policy for computer passwords. This policy mandates the changing of network level passwords annually and user level passwords are recommended to be changed every six months. This policy also states that employees will not share passwords. The District has not actively enforced portions of this policy.

At the recommendation of the Auditor, the District will review the policy and update it accordingly.

9. 2013-009 Conflict of Interest Statements

The District agrees that it currently does not have a policy or program that addresses any employee's possible conflicts of interest.

At the recommendation of the Auditor, the District will adopt a conflict of interest policy. The purpose of the policy and procedure is to prevent personal interest of staff members, Board members, and volunteers from interfering with the performance of their duties to Estero Fire Rescue, or result in personal/professional financial or political gain on the part of such persons at the expense of Estero Fire Rescue or its members, supporters, and stakeholders.

Due to limited resources and time constraints, the time frame for policy review and update will be during fiscal year 2015, unless stated otherwise.

Sincerely,



Scott A. Vanderbrook
Fire Chief