

**Graton Fire Protection District**

**Annual Report  
For The Fiscal Year Ended  
June 30, 2010**



**RODNEY A. DOLE**  
SONOMA COUNTY  
AUDITOR-CONTROLLER  
TREASURER-TAX COLLECTOR

**Graton Fire Protection District**

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For the Fiscal Year Ended  
June 30, 2010**

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**RODNEY A. DOLE**  
AUDITOR-CONTROLLER  
TREASURER-TAX COLLECTOR

**Auditor-Controller**  
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**County of Sonoma**

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ASSISTANT  
TAX COLLECTOR/AUDITOR

Board of Directors  
Graton Fire Protection District  
Graton, CA

**Auditor-Controller's Report**

We have audited the accompanying basic financial statements of the Graton Fire Protection District (the District), as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IV.D of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Sonoma County Auditor-Controller*

Sonoma County Auditor-Controller

December 9, 2010

## Management's Discussion and Analysis

As management of the Graton Fire Protection District (the District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements and the accompanying notes to the basic financial statements.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,537,310 (net assets). Of this amount, \$1,498,041 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$285,845. This increase is a result of revenues exceeding expenses in the governmental activities.
- As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of \$1,508,041 an increase of \$177,573 in comparison with the prior year. This increase is a result of revenues exceeding expenditures in the governmental fund. The entire fund balance is available for spending at the government's discretion (unreserved fund balance).
- At the end of the year, unreserved fund balance was \$1,508,041 or 301% of the total general fund expenditures of \$501,600.
- The Districts' capital assets increased by \$59,645 during the current fiscal year.
- The District's long-term debt decreased by \$47,544 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected intergovernmental revenue and long-term leases).

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's funds are governmental funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District uses governmental funds to account for its activities, which include fire protection services in the district boundaries. The district adopts an annual appropriated budget for its funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Government-wide Financial Analysis**

The District applied Governmental Accounting Standards Board (GASB) Statement No. 34 in this report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,537,310 at the close of the most recent fiscal year.

\$2,039,269 of the District's net assets (58%) reflects its investment in capital assets (e.g., land, buildings and improvements, and equipment), net of related debt. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

### Net Assets

	2010	2009	Increase/ (decrease)
Current and other assets	\$ 1,560,191	\$ 1,370,529	\$ 189,662
Capital assets, net of accumulated depreciation	2,039,269	1,979,624	59,645
Total assets	3,599,460	3,350,153	249,307
Current liabilities	62,150	98,688	(36,538)
Total liabilities	62,150	98,688	(36,538)
Net assets:			
Invested in capital assets, net of related debt	2,039,269	1,932,080	107,189
Unrestricted	1,498,041	1,319,385	178,656
Total net assets	\$ 3,537,310	\$ 3,251,465	\$ 285,845

The balance of unrestricted net assets \$1,498,041 may be used to meet the District's ongoing obligations to citizens and vendors.

At the end of the current fiscal year, the District is able to report positive balances in both categories of net assets. The same held true for the prior fiscal year.

**Governmental activities.** Governmental activities increased the District's net assets by \$285,845. This increase is a result of revenues exceeding expenses in the governmental activities.

### Changes in Net Assets

	2010	2009	Increase/ (decrease)
Revenues:			
Program Revenues:			
Charges for services	\$ 5,316	\$ 46,777	\$ (41,461)
Operating grants and contributions	89,497	98,142	(8,645)
General Revenues:			
Property taxes	563,607	554,738	8,869
Investment income and other	20,753	32,828	(12,075)
Total revenues	679,173	732,485	(53,312)
Expenses:			
Program Expenses:			
Public safety - fire protection	393,328	388,209	5,119
Total expenses	393,328	388,209	5,119
Change in net assets	285,845	344,276	(58,431)
Net assets - beginning of year	3,251,465	2,907,189	344,276
Net assets - end of the year	\$ 3,537,310	\$ 3,251,465	\$ 285,845

### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported ending fund balances of \$1,508,041, an increase of \$177,573 in comparison with the prior year. This increase is primarily a result of an increase in property tax revenues and incurring lower than expected expenditures for capital outlay and service and supplies. The entire fund balance amount constitutes unreserved fund balance, which is available for spending at the government's discretion.

## **General Fund Budgetary Highlights**

There were no differences between the original budget and the final budget.

## **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets, as of June 30, 2010, amounts to \$2,039,269 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and equipment. The District's investment in capital assets increased by a total of \$59,645 for the current fiscal.

Major capital asset events during the current fiscal year included the following:

- Design, planning and permits for the new fire station \$97,914
- Depreciation of the capital assets \$38,269.

Additional information on the District's capital assets can be found in Note III.B of this report.

**Debt Administration.** At the end of the current fiscal year, the District had total long-term obligations outstanding of \$10,000. During the current fiscal year, the District's total debt decreased by \$47,544. Additional information on the District's debt can be found in Notes III.C, III. D and III.E of this report.

## **Economic Factors and Next Year's Budgets and Rates**

- The District broke ground on a new fire station in Fall 2010 with completion expected by Spring 2011.
- The District received approval of its USDA loan pre-application and anticipates approval of its full application during the next fiscal year.
- Operational funds that are not spent this year will be moved to a separate account with the County that is dedicated to building the new fire station.
- The clean-up of the former gas station site has been completed and will hopefully close during FY10-11.
- Revenue and expenses will remain stable during FY10-11.
- Vehicle maintenance costs will increase as the fleet continues to age; the District may consider replacing a wildland engine during the next fiscal year.

## **Subsequent Events**

At the July 13th, 2010 Graton Fire Protection Board Meeting, the Board of Directors awarded the new fire station construction project totaling \$3,520,000, to the lowest, responsive bidder. On August 30, 2010, construction on the new station began. On December 1, 2010 the District entered into a lease/leaseback agreement and issued Series 2010 Certificates of Participation with a principal amount of \$3,500,000, which is to be paid back with semiannual interest and principal payments over 30 years at an interest rate of 3.75%. The purpose of the lease/leaseback agreement issuance of the certificates of participation is to finance the construction of the new fire station.

During the current fiscal year, unreserved fund balance in the general fund increased to \$1,508,041. The District did not appropriate any of this amount for spending in the 2010-2011 fiscal year budget.

## **Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District, P.O. Box A, Graton, California 95444.

**Graton Fire Protection District**  
**Statement of Net Assets**  
**June 30, 2010**

<b>Assets</b>	
Cash and investments	\$ 1,430,767
Due from other governments	127,864
Capital assets	
Land	1,367,295
Construction in progress	282,283
Building and improvements (net of accumulated depreciation)	1,058
Equipment (net of accumulated depreciation)	<u>388,633</u>
Total assets	<u>3,597,900</u>
 <b>Liabilities</b>	
Accounts payable	52,150
Pollution remediation - Due within one year	<u>10,000</u>
Total liabilities	<u>62,150</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	2,039,269
Unrestricted	<u>1,498,041</u>
Total net assets	<u><u>\$ 3,537,310</u></u>

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

**Graton Fire Protection District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

**Program Expenses**

Public safety - fire prevention	
Salaries and employee benefits	\$ 78,516
Services and supplies	275,985
Debt service - interest	558
Depreciation	<u>38,269</u>
Total program expenses	<u>393,328</u>

**Program Revenues**

Charges for services	5,316
Operating grants and contributions	<u>89,497</u>
Total program revenues	<u>94,813</u>
Net program revenues (expenses)	<u>(298,515)</u>

**General Revenues**

Property taxes	563,607
Investment earnings	11,387
Miscellaneous	<u>9,366</u>
Total general revenues	<u>584,360</u>

Change in net assets	<u>285,845</u>
Net assets, beginning of year	<u>3,251,465</u>
Net assets, end of year	<u><u>\$ 3,537,310</u></u>

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

**Graton Fire Protection District  
Balance Sheet  
Governmental Fund  
June 30, 2010**

**Assets**

Cash and investments	\$ 1,430,767
Due from other governments	<u>127,864</u>
Total assets	<u><u>\$ 1,558,631</u></u>

**Liabilities and Fund Balance**

Liabilities:	
Accounts payable	\$ 52,150
Fund balance:	
Unreserved, undesignated	<u>1,508,041</u>
Total fund balance	<u><u>1,508,041</u></u>
Total liabilities and fund balance	<u><u>\$ 1,560,191</u></u>

**Reconciliation of Balance Sheet to Statement of Net Assets**

Fund balance - total government funds	\$ 1,508,041
Amount reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,039,269
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Pollution remediation	<u>(10,000)</u>
Net assets of governmental activities	<u><u>\$ 3,537,310</u></u>

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

**Graton Fire Protection District  
Statement of Revenues, Expenditures and  
Changes in Fund Balance  
Governmental Fund  
For the Fiscal Year Ended June 30, 2010**

**Revenues**

Property taxes	\$ 563,607
Intergovernmental revenue	94,813
Investment earnings	11,387
Miscellaneous	9,366
Total revenues	679,173

**Expenditures**

Current:	
Salaries and employee benefits	78,516
Services and supplies	275,985
Debt service	
Principal	47,544
Interest	1,641
Capital outlay	97,914
Total expenditures	501,600

Net change in fund balance	177,573
Fund balance, beginning of year	1,330,468
Fund balance, end of year	\$ 1,508,041

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

**Graton Fire Protection District**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance of the Governmental Fund to the**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2010**

**Amounts reported for governmental activities in the statement of activities are different because:**

Net change in fund balance - total governmental fund	\$ 177,573
<p>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.</p>	
Expenditure for capital assets	97,914
Current year depreciation	(38,269)
<p>The net effect of various miscellaneous transactions involving capital leases payable is to increase net assets.</p>	
Principal payment	47,544
Change in net assets of governmental activities	\$ 285,845

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

**Graton Fire Protection District**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance -Budget and Actual**  
**For the Fiscal Year Ended June 30, 2010**

<b>Revenues</b>	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Property taxes	\$ 524,250	\$ 524,250	\$ 563,607	\$ 39,357
Intergovernmental revenue	160,000	160,000	94,813	(65,187)
Investment earnings	21,100	21,100	11,387	(9,713)
Miscellaneous	16,200	16,200	9,366	(6,834)
Total revenues	721,550	721,550	679,173	(42,377)
 <b>Expenditures</b>				
Current:				
Salaries and employee benefits	76,500	76,500	78,516	(2,016)
Services and supplies	345,750	345,750	275,985	69,765
Debt service:				
Principal	48,000	48,000	47,544	456
Interest	3,000	3,000	1,641	1,359
Capital outlay	221,000	221,000	97,914	123,086
Total expenditures	694,250	694,250	501,600	192,650
Net change in fund balance, budgetary and GAAP basis	\$ 27,300	\$ 27,300	\$ 177,573	\$ (150,273)

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

**Graton Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Graton Fire Protection District (the District) serves taxpayers and residents in a specific unincorporated area of the County of Sonoma, the boundaries of which are set by resolution of the Board of Supervisors. The District's governmental powers are exercised through a Board of Directors.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 from goods, services, or privileges provided by a given function or section and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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 the 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 imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Taxes, interest, and charges for services are accrued when receipt occurs within 365 days of the end of the accounting period so as to be both measurable and available. Licenses, permits, fines, forfeitures, and other revenues are recorded as revenues when received

**Graton Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

in cash because they are generally not measurable until actually received. Property taxes are accrued when their receipt occurs within sixty days of the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims judgments are recorded only when payment is due.

Amounts recorded as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) capital grants and contributions restricted to acquire or construct capital assets and 3) operating grants and contributions. Reimbursements are reported in the same functional category as the expense being reimbursed. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Cash and Investments**

The District reports cash and investments at fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred.

**2. Receivables and Payables**

**a. Due from other governments**

The District is reimbursed by the State of California Regional Water Quality Control Board (RWQCB) for eligible costs related to the cleanup and monitoring of contaminated soil on property owned by the District. Not all of the reimbursable costs are collected as of June 30, 2010, the District estimates that 90% of amounts submitted to the State for reimbursement will be collected within one year and considers this amount due from other governments.

**b. Accounts payable**

Accounts payable include transactions in which the District has received goods and or services during the current year, but has not paid for them as of June 30<sup>th</sup>.

**Graton Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**c. Property Taxes**

The County of Sonoma is responsible for assessing, collecting and distributing property taxes in accordance with state law. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County of Sonoma. Secured property taxes are due in two installments, on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978/1979, general property taxes are based either on a flat one percent rate applied to the 1975/1976 full value, or on one percent of the sales price of the property on sales transactions and construction after the 1975/1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at a maximum of two percent per year.

On June 30, 1993, the Board of Supervisors adopted the "Teeter" Method of property tax allocation. This method allocates property taxes based on the total property tax billed. At year-end the County advances cash to each taxing jurisdiction equal to its current year delinquent property taxes. In exchange, the County receives the penalties and interest on delinquent taxes when collected. The penalties and interest are used to pay the interest cost of borrowing the cash used for the advances.

**3. Capital Assets**

Capital assets, which include land, buildings and improvements, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**Graton Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

Buildings and improvements and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	5 – 50 years
Equipment	5 – 20 years

**4. Net Assets**

Net assets are classified into three components – invested in capital assets (net of related debt), restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt (if any) – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Restricted net assets (if any) - This component of net assets consists of net assets with limits on their use that are imposed by outside parties.
- Unrestricted net assets – This component of net assets consists of net assets that are not restricted for any project or other purpose.

**5. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**6. Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. Stewardship, Compliance, And Accountability**

**A. Budgetary Information**

Budgetary revenue estimates represent original estimates modified for any authorized

**Graton Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis.

**III. Detailed Notes On All Funds**

**A. Cash and Investments**

Investment in the Sonoma County Treasurer's Investment Pool

As authorized by Health and Safety Code 13854 (a) the District's cash is pooled with the Sonoma County Auditor-Controller-Treasurer-Tax-Collector, who acts as a disbursing agent for the District. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Auditor-Controller-Treasurer-Tax-Collector at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a

**Graton Fire Protection District**  
**Notes to the Basic Financial Statements**  
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means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2009, approximately 74 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 3 percent had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

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Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2009 Sonoma County CAFR.

**B. Capital assets**

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

	Beginning Balance	Additions	Retirements	Transfers & Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 1,367,295	\$	\$	\$	\$ 1,367,295
Construction in progress	184,369	97,914			282,283
Total capital assets, not being depreciated	<u>1,551,664</u>	<u>97,914</u>	<u>0</u>	<u>0</u>	<u>1,649,578</u>
Capital assets, being depreciated:					
Buildings and improvements	58,672				58,672
Equipment	554,619	0			554,619
Equipment under capital lease	313,015	0			313,015
Total capital assets, being depreciated	<u>926,306</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>926,306</u>
Less accumulated depreciation for:					
Buildings and improvements	(56,557)	(1,057)			(57,614)
Equipment	(384,186)	(22,811)			(406,997)
Equipment under capital lease	(57,603)	(14,401)			(72,004)
Total accumulated depreciation	<u>(498,346)</u>	<u>(38,269)</u>	<u>0</u>	<u>0</u>	<u>(536,615)</u>
Total capital assets, being depreciated, net	<u>427,960</u>	<u>(38,269)</u>	<u>0</u>	<u>0</u>	<u>389,691</u>
Capital assets, net	<u>\$ 1,979,624</u>	<u>\$ 59,645</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,039,269</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities:

    Public safety - fire protection \$ 38,269

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**C. Long-Term Liabilities**

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning			Ending	Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Long-term liabilities:					
Capital lease	\$ 47,544	\$ 0	\$ (47,544)	\$ 0	\$ 0
Pollution remediation	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>
Total long-term liabilities	<u>\$ 57,544</u>	<u>\$ 0</u>	<u>\$ (47,544)</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>

**D. Capital Leases Payable**

On March 3, 2003, the District signed a lease-purchase agreement in the amount of \$304,924 at 3.45% interest with Municipal Services Group, Inc. in order to finance the purchase of a 2003 Pearce Saber Pumper. The loan is to be repaid in nine annual installments of \$49,185 each.

The final installment related to the above capital lease was made during Fiscal Year 2009-2010.

**E. Pollution Remediation**

As of June 30, 2010, the District has an estimated liability of \$10,000. This amount consists of the estimated current costs to complete pollution remediation activities \$100,000, less amounts expected to be reimbursed from the RWQCB \$90,000. State and Federal laws require the District to perform certain cleanup, monitoring and testing of sites contaminated by underground fuel tanks. The estimated costs of pollution remediation activities are subject to changes such as the effects of inflation, costs of materials, revisions of Federal and State laws, changes in technology and other variables.

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

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

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California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Graton Fire Protection District was \$44,882.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The Graton Fire Protection District participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

**IV. Other Information**

**A. Risk Management**

Graton Fire Protection District purchases general, public officials' errors and omissions and professional automobile coverage as a member of Volunteer Fireman's Insurance Services, Inc. The District is also a member of Fire Districts Association of California - Fire Association Self Insurance System (FDAC-FASIS) through which it receives worker's compensation coverage.

As a member of a public entity risk pool, the District is responsible for appointing an employee as a liaison between the District and the system, implementing all policies of the system, promptly paying all contributions, and cooperating with the system and any insurer of the system. The system is responsible for providing insurance coverage as agreed upon, assisting the District with implementation, providing claims adjusting and defense of any civil action brought against an officer of the system.

**B. Christmas Tree Farm**

Land owned by the District has an existing Christmas tree farm. During the Fiscal

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Year 2008-2009, the District entered into a written agreement with the Graton Fire Fighters Association. Under the agreement which expired January 1, 2010, the Association operated the Christmas tree farm, in exchange all proceeds from Christmas tree sales were deposited in the Association's bank account and will be used towards the new fire station. In April 2010 the District entered into a written agreement with an independent contractor to manage and operate the Christmas tree farm. Under the new agreement which expires January 15, 2011, the District will pay the expenses and the proceeds from the Christmas tree sales will be deposited in the District's account. The contractor receives an hourly rate of \$20 per hour, reimbursement of hired staff expenses not to exceed \$15 per hour and 10% of net earnings from Christmas tree sales.

**C. Subsequent Events**

At the July 13th, 2010 Graton Fire Protection Board Meeting, the Board of Directors awarded the new fire station construction project totaling \$3,520,000, to the lowest, responsive bidder. On August 30, 2010, construction on the new station began. On December 1, 2010 the District entered into a lease/leaseback agreement and issued Series 2010 Certificates of Participation with a principal amount of \$3,500,000, which is to be paid back with semiannual interest and principal payments over 30 years at an interest rate of 3.75%. The purpose of the lease/leaseback agreement issuance of the certificates of participation is to finance the construction of the new fire station.

**D. Auditor Independence**

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. Specifically, "Auditors should not audit their own work or provide non audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the information contained in this report.

**E. New Accounting Pronouncements**

Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, issued in February 2009. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined

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classifications and clarifies definitions for governmental fund types. GASB Statement No. 54 is effective for financial statements for fiscal years beginning after June 15, 2010.

The impact on the basic financial statements of the County of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

**Graton Fire Protection District  
Roster of Board Members**

As of December 9, 2010 the District Board consisted of the following members:

<u>Directors:</u>	<u>Office</u>	<u>Term Expires</u>
Bob Maddocks .....	President .....	November, 2014
Erik Podchernikoff .....	Vice President .....	November, 2014
Carol Giovannini .....	Treasurer .....	November, 2012
Jim Garman .....	Secretary .....	November, 2012
Mary Jane Pedersen .....		November, 2014

Regular Meetings:

The regular meeting of the Board of Directors is held at 7:30 P.M. on the second Tuesday of each month at the Graton Fire Station, located at the corner of Graton and Ross Road, Graton, California. (707) 823-5515.