

**Rancho Adobe Fire Protection District**

**Annual Report  
For the Fiscal Year Ended  
June 30, 2011**



**DONNA DUNK**  
SONOMA COUNTY  
AUDITOR-CONTROLLER  
TREASURER-TAX COLLECTOR

**Rancho Adobe Fire Protection District  
Basic Financial Statements  
For the Fiscal Year Ended  
June 30, 2011**

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**JONATHAN KADLEC**  
ASSISTANT  
TREASURER

Board of Directors  
Rancho Adobe Fire Protection District  
Rancho Adobe, CA

**Auditor-Controller's Report**

We have audited the accompanying financial statements of the Rancho Adobe Fire Protection District (the District), as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These basic 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 required by various statutes within the California Government Code, County Auditor-Controller's 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. The staff in charge of performing audits within the Auditor-Controller Department has no other responsibility for the accounts and records being audited. This would therefore enable the reader of this report to rely on the information contained herein.

Management has not adopted a methodology for determining and disclosing the costs related to other post-employment benefits. Accounting principles generally accepted in the United States of America require disclosure of the value of non-pension post-employment benefits. The amount by which this departure would affect the financial statements is not reasonably determinable.

In our opinion, except for the effects, if any, of the departure described in the preceding paragraph, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011, 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) on pages 1 through 5 is not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Sonoma County Auditor-Controller*

November 30, 2011

## Management's Discussion and Analysis

As management of the Rancho Adobe 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, 2011. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the financial statements.

### Financial Highlights

1. The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,660,924 (net assets). Of this amount, \$1,150,083 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
2. The District's total net assets decreased by \$310,511. This decrease is a result of fire prevention expenses exceeding the District's program and general revenues.
3. As of the close of the current fiscal year, the District's general fund reported an ending fund balance of \$1,225,027 a decrease of \$(284,130), in comparison with the prior year. Approximately 61% of this total amount is available for spending at the government's discretion (unassigned fund balance).
4. At the end of the year, unassigned fund balance for the general fund was \$749,993 or 23% of the total general fund expenditure of \$3,201,826.
5. The District's total long-term debt decreased by \$201,717 or 30% during the current fiscal year due primarily to payments on long term debt and reduction in compensated absences.

### 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 taxes and earned but unused vacation leave).

**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 uses and reports one fund. 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 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**

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 \$2,660,924 at the close of the most recent fiscal year.

A large portion of the District's net assets, 57%, reflects its investment in capital assets (e.g., land, buildings and improvements and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

### Net Assets

	<u>2011</u>
Current and other assets	\$ 1,514,400
Capital assets	<u>1,926,392</u>
Total assets	<u>3,440,792</u>
Long-term liabilities outstanding	761,764
Other liabilities outstanding	<u>18,104</u>
Total liabilities	<u>779,868</u>
Net assets:	
Invested in capital assets, net of related debt	1,510,841
Unrestricted, as restated	<u>1,150,083</u>
Total net assets	\$ <u><u>2,660,924</u></u>

The balance of unrestricted net assets \$ 1,150,083 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 decreased the District's net assets by \$310,511. This decrease is a result of fire suppression expenses in excess of program general revenues.

### Change in Net Assets

	2011
Revenues:	
Program Revenues:	
Public safety - fire protection	\$ 89,339
General Revenues:	
Property taxes	2,797,088
Investment income and other	27,017
Total revenues	2,913,444
Expenses:	
Program Expenses:	
Public safety - fire protection	3,222,248
Total expenses	3,222,248
Other financing sources (uses)	
Gain (Loss) on sale of capital asset	(1,707)
Increase (decrease) in net assets	(310,511)
Net assets - beginning of the year, as restated	2,971,435
Net assets - end of the year	\$ 2,660,924

### 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 fund 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The District uses and reports one fund, the general fund.

The general fund is the chief operating fund of the District. As of the end of the current fiscal year, the District's general fund reported ending fund balance of \$1,225,027, a decrease of \$(284,130) in comparison with the prior year. \$749,993 of the total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is assigned for equipment and uncertainties.

As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23% of total general fund expenditures.

## **General Fund Budgetary Highlights**

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

## **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets, as of June 30, 2011, amounts to \$1,926,392 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$77,090, and is explained by the following events:

- Depreciation of the capital assets      \$104,000
- Purchase of equipment                      \$32,869
- Retirement of capital assets                \$ (5,959)

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 \$472,391 including \$415,551 in a capital lease and \$56,840 in compensated absences. During the current fiscal year, the District's total long-term debt decreased by \$201,717.

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

- Continued decrease in property tax revenue.

This factor was considered in preparing the District's budget for the fiscal year ending June 30, 2012.

## **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 1029, Penngrove, CA 94951-1029.

**Rancho Adobe Fire Protection District**  
**Statement of Net Assets**  
**For the Year Ended**  
**June 30, 2011**

**Assets**

Cash and investments	\$	1,494,557
Accounts receivable		1,418
Flat charges receivable		18,425
Capital assets:		
Non-depreciable		74,634
Depreciable, net		<u>1,851,758</u>
Total assets		<u>3,440,792</u>

**Liabilities**

Accrued interest payable		18,104
Capital lease - due within one year		56,396
Non-current liabilities:		
Capital lease - Due in more than one year		359,155
Compensated absences		56,840
Deferred revenue		<u>289,373</u>
Total liabilities		<u>779,868</u>

**Net Assets**

Invested in capital assets, net of related debt		1,510,841
Unrestricted		<u>1,150,083</u>
Total net assets	\$	<u>2,660,924</u>

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

**Rancho Adobe Fire Protection District**  
**Statement of Activities**  
**For the Year Ended**  
**June 30, 2011**

**Program Expenses**

Public safety - fire prevention	
Salaries and employee benefits	\$ 2,525,497
Services and supplies	553,389
Depreciation	104,000
Interest on long-term debt	18,104
Bad debt	21,258
	<hr/>
Total program expenses	3,222,248

**Program Revenues**

Charges for services	
Intergovernmental	23,082
Other charges for services	66,257
	<hr/>
Total program revenues	89,339
	<hr/>
Net program revenues (expenses)	(3,132,909)

**General Revenues**

Property taxes	2,797,088
Investment earnings	7,490
Grants and donations	7,010
Miscellaneous revenue	12,517
	<hr/>
Total general revenues	2,824,105

**Other financing sources (uses)**

Loss on sale of capital asset	(1,707)
	<hr/>
Change in net assets	(310,511)
Net assets - beginning of year	2,817,978
Prior period adjustment	153,457
	<hr/>
Net assets - beginning of year, as restated	2,971,435
	<hr/>
Net assets - end of year	\$ 2,660,924

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

**Rancho Adobe Fire Protection District  
Balance Sheet  
General Fund  
June 30, 2011**

**Assets**

Cash and investments	\$	1,482,254
Cash with fiscal agent		12,303
Accounts receivable		1,418
Flat charges receivable		<u>18,425</u>
Total assets	\$	<u><u>1,514,400</u></u>

**Liabilities and Fund Balance**

Liabilities:

Deferred revenue	\$	<u>289,373</u>
Total liabilities		<u>289,373</u>

**Fund balance:**

Committed		56,840
Assigned		418,194
Unassigned		<u>749,993</u>
Total fund balance		<u>1,225,027</u>
Total liabilities and fund balance	\$	<u><u>1,514,400</u></u>

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

Fund balances - total governmental funds	\$	1,225,027
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		1,926,392
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Compensated absences		(56,840)
Notes payable		(415,551)
Accrued interest payable		<u>(18,104)</u>
Net assets of governmental activities	\$	<u><u>2,660,924</u></u>

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

**Rancho Adobe Fire Protection District  
Statement of Revenues, Expenditures and  
Changes in Fund Balance  
General Fund  
For the Year Ended  
June 30, 2011**

**Revenues**

Property taxes	\$ 2,797,088
Investment earnings	7,490
Intergovernmental revenue	23,082
Charges for services	66,257
Grants and donations	7,010
Miscellaneous	<u>12,517</u>
Total revenues	<u>2,913,444</u>

**Expenditures**

Salaries and employee benefits	2,519,810
Services and supplies	553,389
Bad debt	21,258
Capital outlay	32,869
Debt Service:	
Principal	53,947
Interest	<u>20,553</u>
Total expenditures	<u>3,201,826</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(288,382)</u>

**Other financing sources**

Sale of capital assets	<u>4,252</u>
Net change in fund balances	(284,130)
Fund balance - beginning of year	<u>1,509,157</u>
Fund balance - end of year	<u>\$ 1,225,027</u>

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

**Rancho Adobe Fire Protection District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of General Fund  
to the Statement of Activities  
June 30, 2011**

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

Net change in fund balances - total governmental funds	\$	(284,130)
<p>Governmental funds report capital outlays as expenditures. 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		32,869
Disposal of capital assets		(5,959)
Current year depreciation		(104,000)
<p>Repayment of note's principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal		53,947
<p>Change in compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore is not reported as expenditures in governmental funds.</p>		
		(5,687)
<p>Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds:</p>		
Change in accrued interest		2,449
Change in net assets of governmental activities	\$	(310,511)

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

**Rancho Adobe Fire Protection District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended**  
**June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 2,829,304	\$ 2,829,304	\$ 2,797,088	\$ (32,216)
Investment earnings	7,000	7,000	7,490	490
Intergovernmental revenue	220,000	220,000	23,082	(196,918)
Charges for services	49,750	49,750	66,257	16,507
Grants and donations	-	-	7,010	7,010
Miscellaneous	-	-	12,517	12,517
Total revenues	<u>3,106,054</u>	<u>3,106,054</u>	<u>2,913,444</u>	<u>(192,610)</u>
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	2,700,800	2,700,800	2,519,810	180,990
Services and supplies	357,508	357,508	553,389	(195,881)
Capital outlay	50,000	50,000	32,869	17,131
Bad debt	-	-	21,258	(21,258)
Other charges	215,505	215,505	-	215,505
Debt Service:				
Principal	53,948	53,948	53,947	1
Interest	20,553	20,553	20,553	-
Total expenditures	<u>3,398,314</u>	<u>3,398,314</u>	<u>3,201,826</u>	<u>196,488</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(292,260)</u>	<u>(292,260)</u>	<u>(288,382)</u>	<u>3,878</u>
<b>Other financing sources</b>				
Sale of capital assets	<u>5,000</u>	<u>5,000</u>	<u>4,252</u>	<u>9,252</u>
Total other financing sources	<u>5,000</u>	<u>5,000</u>	<u>4,252</u>	<u>9,252</u>
Net change in fund balances	(287,260)	(287,260)	(284,130)	13,130
Fund balance - beginning of year	<u>1,509,157</u>	<u>1,509,157</u>	<u>1,509,157</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,221,897</u>	<u>\$ 1,221,897</u>	<u>\$ 1,225,027</u>	<u>\$ 13,130</u>

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

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

In December of 1993, Rancho Adobe Fire Protection District (the District), was formed when Penngrove Fire Protection District and Cotati Fire Protection District dissolved as individual districts to combine into Rancho Adobe Fire Protection District. The District was formed under Health and Safety Code Sections 13816 through 13822.

**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 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 and judgments are recorded only when payment is due.

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

Amounts recorded as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) capital grants and contributions. 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 follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has stated certain investments at fair value.

The District maintains a federally insured account with Wells Fargo Bank for the purpose of payroll disbursements.

**2. Receivables and Payables**

**a. Flat Charges Receivable**

Flat charges collected are apportioned to the District to supplement property taxes collected for operating costs. Not all of the assessments are collected as of June 30, 2010; therefore, the remainder of the uncollected assessments is considered flat charges receivable.

**b. 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 1% rate applied to the 1975/1976 full value, or on 1% 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 2% per year.

Included within the property tax revenue is \$306,652 in Benefit Assessments collected. Benefit Assessments are a type of flat charge applied to each parcel of property within the District, exclusive of the property value.

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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.

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 – 30
Equipment	5 – 25

**4. Compensated Absences**

It is the District’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay, administrative leave and 25% of sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**5. Net Assets**

Net assets are classified into three components – invested in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This category represents net assets of the entity, not restricted for any project or other purpose.

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**6. Fund Balance**

In the fund financial statements, governmental funds report fund balance using the classifications listed in *GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions*. Initial distinction is made in reporting fund balance information identifying amounts that are considered nonspendable, such as fund balance associated with inventories. Spendable fund balance for the governmental fund consists of the following classifications:

- a. *Restricted Fund Balance* – the portion of fund balance that can only be spent for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- b. *Committed Fund Balance* – the portion of fund balance whose use is subject to formal action of the government’s highest level decision making authority. These commitments remain binding unless changed or removed by formal action of the Board as the formal authority that imposed the constraint. The underlying action that imposed, modified, or removed the limitation would need to occur no later than the close of the reporting period.
- c. *Assigned* – the portion of fund balance that is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- d. *Unassigned* – the residual amount of all general fund spendable resources not contained in the other classifications.

**7. Use of Estimates**

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

**Rancho Adobe Fire Protection District  
Notes to the Basic Financial Statements  
June 30, 2011**

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

**A. Budgetary Information**

Budgetary revenue estimates represent original estimates modified for any authorized 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**

**A. Cash and Investments**

The District follows the County's practice of pooling cash and investments of all funds with the County Treasurer, except for funds held by Exchange Bank (for the purpose of payroll distribution), and cash on hand used as a petty cash fund. Deposits with Exchange Bank are FDIC insured up to \$250,000.

The amount of cash at June 30 is as follows:

Cash and investment in County Treasury	\$ 1,481,754
Cash with Wells Fargo Bank	12,303
Petty cash	500
	<u>\$ 1,494,557</u>

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 Treasurer, 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

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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 Treasurer 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 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, 2010, approximately 65 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 6 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.

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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).

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 2011 Sonoma County CAFR.

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**B. Capital assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Restatement</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 74,634	\$ -	-	\$ -	\$ 74,634
Total capital assets not being depreciated	<u>74,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,634</u>
Capital assets, being depreciated:					
Buildings and improvements	535,757				535,757
Equipment	<u>2,321,938</u>	<u>-</u>	<u>32,869</u>	<u>(29,795)</u>	<u>2,325,012</u>
Total capital assets being depreciated	<u>2,857,695</u>	<u>-</u>	<u>32,869</u>	<u>(29,795)</u>	<u>2,860,769</u>
Less accumulated depreciation for:					
Buildings and improvements	(280,433)		(17,799)		(298,232)
Equipment	<u>(648,414)</u>	<u>-</u>	<u>(86,201)</u>	<u>23,836</u>	<u>(710,779)</u>
Total accumulated depreciation	<u>(928,847)</u>	<u>-</u>	<u>(104,000)</u>	<u>23,836</u>	<u>(1,009,011)</u>
Total capital assets being depreciated, net	<u>1,928,848</u>	<u>-</u>	<u>(71,131)</u>	<u>(5,959)</u>	<u>1,851,758</u>
Capital assets, net	<u>\$ 2,003,482</u>	<u>\$ -</u>	<u>(71,131)</u>	<u>\$ (5,959)</u>	<u>\$ 1,926,392</u>

Depreciation expense was charged to functions/programs of Rancho Adobe Fire Protection District as follows:

Governmental activities:

Public safety - fire protection	\$	<u>104,000</u>
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**Rancho Adobe Fire Protection District  
Notes to the Basic Financial Statements  
June 30, 2011**

**C. Capital Lease**

The District signed a promissory note on February 6, 2007, in the amount of \$620,000. The funds were placed in an escrow account, and were utilized for the purchase of equipment.

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding as of June 30, 2011</u>
Multiple Pieces of Fire Equipment	8/1/2017	4.49%	56,396	620,000	415,551

The future minimum payments on this lease are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	56,396	18,104	74,500
2013	58,957	15,544	74,501
2014	61,633	12,867	74,500
Thereafter	238,565	22,187	260,752
Total	\$ <u>415,551</u>	\$ <u>68,702</u>	\$ <u>484,253</u>

**D. Long Term Debt**

Changes in Long Term Debt

Long term liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 204,610	\$ 5,687	\$ (153,457)	\$ 56,840	\$
Capital lease	469,498		(53,947)	415,551	56,396
Total long-term liabilities	\$ <u>674,108</u>	\$ <u>5,687</u>	\$ <u>(207,404)</u>	\$ <u>472,391</u>	\$ <u>56,396</u>

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**E. Deferred Revenue**

Deferred revenue is comprised of the following:

1. Funds related to implementation of GASB 48

The District sold a 25 year interest in the communications facility leases for \$344,493. The District's annual expected revenue from the leases was \$34,366. The sale is for the time period of July 1st, 2007 through June 30th, 2033. Based on a 4% rate of return the comparison between sales proceeds and net present value of future revenues sold are as follows:

Net Present Value of all future cash flows	\$ 536,868
Actual Cash Received by District	<u>(344,493)</u>
Difference	<u><u>\$ 192,375</u></u>

The sales proceeds of \$344,493, are recognized as deferred revenue, and amortized over the life of the agreement. For the fiscal year ending June 30, 2011, \$13,780 was amortized as other charges. At year end, \$289,373 was deferred.

**F. Accounts receivable**

The District has a policy of charging non-residents, who received fire protection and inspection services. The amount of \$1,418 in accounts receivables reflects fire protection and inspection services.

**G. Prior Period Adjustment**

The District adjusted the compensated absences liability in the amount of \$153,457 to accurately reflect MOU, which pays out 25% of compensated absences upon retirement.

**IV. Other Information**

**A. Risk Management**

The District receives automobile and general liability coverage as a member of the Fire Agencies Insurance Risk Authority (FAIRA). The District is also a member of the Fire Districts Association of California-Fire Association Self Insurance System (FDAC-FASIS) through which it receives workers' 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.

**Rancho Adobe Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**B. Employee Retirement Plan**

Beginning on July 1, 2004 California Public Employees' Retirement System (PERS) required all participants with fewer than 100 employees to convert from an agent multiple-employer Defined Benefit Pension Plan to a cost-sharing multiple-employer Defined Benefit Pension Plan. In cost-sharing multiple-employer plans the benefit obligations are pooled. A single actuarial valuation is performed covering all participants, all employers contribute at the same rate, and all plan assets are available to pay plan benefits pertaining to the employees and retirees of any employer.

Plan Description

All full-time employees participate in a cost-sharing multiple-employer Defined Benefit Pension Plan (DBPP) administered by the California Public Employees' Retirement System (PERS). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and Resolution of the Board. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

DBPP members include all permanent full employees of a participating employer who have been appointed to a permanent position of at least half time. The plan provides benefits as defined by the law upon retirement, death, or disability of members.

Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age.

Plan members are required to contribute 0.00% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The current rate is 10.171% for non-safety employees, 21.387% for safety employees of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS. Contributions to the DBPP for the fiscal years ended June 30, 2011, 2010 and 2009 were \$371,410 \$329,508, and \$345,710 respectively.

**Rancho Adobe Fire Protection District  
Required Supplementary Information  
June 30, 2011**

The three-year trend information for the Fund of the actuarially required employer contribution is as follows (dollar amounts in thousands):

	<b>Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed (%)</b>	<b>Net Pension Obligation</b>
Miscellaneous and Safety Plans:				
	June 29, 2009	\$ 345,710	100%	\$ -
	June 29, 2010	\$ 329,508	100%	\$ -
	June 30, 2011	\$ 371,410	100%	\$ -

**Funded Status and Funding Progress of the Plan**

As of June 30, 2009, based on CalPERS most recent actuarial report, the Safety Plan is 61.3% funded. The actuarial accrued liability for benefits was \$440,333,381, and the actuarial value of the asset was \$270,100,582, resulting in an unfunded liability of \$71,687,708. The covered payroll (annual payroll of active safety employees covered by the plan) was \$60,158,108 and the ratio of the unfunded liability to the covered payroll was 84.2%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

**Rancho Adobe Fire Protection District  
Required Supplementary Information  
June 30, 2011**

Actuarial Assumptions and Methods

CalPERS uses the rate stabilization methodologies in its actuarial valuations which have been shown to be very effective in mitigating rate volatility. A summary of principal assumptions and methods used by CalPERS to determine the District's annual required contributions to the Plan is shown below:

Safety Plan 2% at 50:

	June 30, 2009	June 30, 2008	June 30, 2007
Valuation date	Entry age normal	Entry age normal	Entry age normal
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent of	Level percent of	Level percent of
Average remaining period	16 years as of valuation date	14 years as of valuation Date	14 Years as of valuation date
Asset valuation method	16 year smoothed	15 year smoothed	15 year smoothed
Inverstment rate of return	7.75% (net of	7.75% (net of	7.75% (net of
Projected salary increases	3.55% to 14.45%	3.25% to 14.45%	3.25% to 14.45%
Inflation	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%
Individual Salary Growth	A merit scale	A merit scale	A merit scale

Miscellaneous Plan 2.5% at 55:

	June 30, 2009	June 30, 2008
Valuation date	Entry age normal	Entry age normal
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of	Level percent of
Average remaining period	18 years as of	16 years as of
Asset valuation method	15 year smoothed	15 year smoothed
Inverstment rate of return	7.75% (net of	7.75% (net of
Projected salary increases	3.55% to 14.45%	3.25% to 14.45%
Inflation	3.00%	3.00%
Payroll growth	3.25%	3.25%
Individual Salary Growth	A merit scale	A merit scale

**Rancho Adobe Fire Protection District  
Required Supplementary Information  
June 30, 2011**

**C. Other Post Employment Benefits**

All PERS-eligible employees who retire from the District after twenty years of service are eligible for reimbursement of premiums for medical coverage, for the employee only, at a rate not to exceed \$300 per month. This benefit continues until the retiree reaches the age of 65.

At fiscal year end, there was one retiree receiving this benefit.

At June 30, 2011, the District had not adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). This statement established standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local employers.

**Employees' Retirement Benefits  
Schedules of Funding Progress**

**Safety Plan 2% at 50:**

<b>Valuation Date</b>	<b>Accrued Liabilities (AL)</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Unfunded Liability (UL)</b>	<b>Funded Ratio (AVA/AL)</b>	<b>Annual Covered Payroll</b>	<b>UL as a % of Payroll</b>
June 29, 2007	\$ 462,354,459	\$ 403,484,775	\$ 58,869,684	87.3%	\$ 72,308,835	81.4%
June 30, 2008	\$ 504,295,839	\$ 438,674,996	\$ 65,620,843	87.0%	\$ 77,903,428	84.2%
June 30, 2009	\$ 504,295,839	\$ 438,674,996	\$ 65,620,843	87.0%	\$ 77,903,428	84.2%

**Miscellaneous Plan 2.5% at 55:**

<b>Valuation Date</b>	<b>Accrued Liabilities (AL)</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Unfunded Liability (UL)</b>	<b>Funded Ratio (AVA/AL)</b>	<b>Annual Covered Payroll</b>	<b>UL as a % of Payroll</b>
June 30, 2007	\$ 2,611,746,790	\$ 2,391,434,447	\$ 220,312,343	91.6%	\$ 665,522,859	33.1%
June 30, 2008	\$ 2,780,280,768	\$ 2,547,323,278	\$ 232,957,490	91.6%	\$ 688,606,681	33.8%
June 30, 2009	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.8%	\$ 742,981,488	46.6%

**Rancho Adobe Fire Protection District  
Roster Of Board Members**

As of November 30, 2011, the District Board consisted of the following members:

<u>Directors</u>	<u>Office</u>	<u>Term Expires</u>
Harold Griffith - Chair .....		December, 2012
Brian Proteau - Vice Chair .....		December, 2012
Mark Hemmendinger .....		December, 2012
Carla Grube .....		December, 2014
Brian Proteau .....		December, 2012
Robert W. Rippin .....		December, 2014
Robert Dunne .....		December, 2012
Wulff Reinhold .....		December, 2014

Regular Meetings:

The regular meeting of the Board of Directors is held at 7:00 P.M. on the third Wednesday of each month at the Cotati Fire Station, 1 Cotati Ave., Cotati, CA. (707) 795-6011.