

**RANCHO ADOBE FIRE PROTECTION DISTRICT**

**ANNUAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008**



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

**RANCHO ADOBE FIRE PROTECTION DISTRICT**

**Basic Financial Statements  
For the Fiscal Year Ended  
June 30, 2008**

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



**DONNA M. DUNK**  
ASSISTANT  
AUDITOR-CONTROLLER

**ROBERT BOITANO**  
ASSISTANT  
TREASURER

**PAM JOHNSTON**  
ASSISTANT  
TAX COLLECTOR / AUDITOR

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, 2008, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008, 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.

As described in Note IV.C 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. We also believe that subject to this qualification, the information in the audit report can be relied upon.

The Management's Discussion and Analysis (MD&A) on pages 1 through 6 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.

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*

December 10, 2008

## 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, 2008. 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

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,177,277 (net assets). Of this amount, \$510,479 (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 \$80,424. 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 \$877,923, a decrease of \$498,701, in comparison with the prior year. Approximately 53% of this total amount is available for spending at the government's discretion (unreserved fund balance).
- At the end of the year, unreserved fund balance for the general fund was \$464,879 or 12% of the total general fund expenditures of \$3,814,932.
- The District's total long-term debt decreased by \$44,079 (5%) 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 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 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**

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 \$2,177,277 at the close of the most recent fiscal year.

A large portion of the District's net assets (77%) 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

	2008	2007
Current and other assets	\$ 1,249,595	1,410,381
Capital assets	2,155,671	1,623,716
Total assets	3,405,266	3,034,097
Long-term liabilities outstanding	1,138,013	851,378
Other liabilities outstanding	89,976	36,420
Total liabilities	1,227,989	887,798
Net assets:		
Invested in capital assets, net of related debt	1,666,798	1,316,576
Unrestricted	510,479	829,723
Total net assets	\$ 2,177,277	2,146,299

The balance of unrestricted net assets (\$510,479) 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 \$80,424. This increase is a result of revenues exceeding expenses in the governmental activities.

### Changes in Net Assets

	2008	2007
Revenues:		
Program Revenues:		
Public safety - fire protection	\$ 242,689	146,532
General Revenues:		
Property taxes	3,001,302	2,816,135
Investment income and other	58,004	138,103
Total revenues	3,301,995	3,100,770
Expenses:		
Program Expenses:		
Public safety - fire protection	3,185,620	2,951,266
Total expenses	3,185,620	2,951,266
Other financing sources (uses)		
Loss on sale of capital asset	(35,951)	-
Increase (decrease) in net assets	80,424	149,504
Net assets - beginning of the year, as restated	2,096,853	1,996,795
Net assets - end of the year	\$ 2,177,277	2,146,299

### 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, 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 fund reported ending fund balance of \$877,923, a decrease of \$498,701 in comparison with the prior year. Fifty-three percent of the total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved for equipment, uncertainties and reserved Thorne funds.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$464,879, while the total fund balance was \$877,923. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12% of total general fund expenditures.

### **General Fund Budgetary Highlights**

Material differences between the original budget and the final amended budget can be briefly summarized as follows:

- \$71,500 increase in property taxes due to a greater than anticipated collection of property tax revenue.
- Budgeted miscellaneous revenues increased by \$343,700 due to the addition of the cell towers sale proceeds.
- Capital outlay increased by \$208,991 due to additional equipment purchases.

### **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets, as of June 30, 2008, amounts to \$2,155,671 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and equipment. The total increase in the District's investment in capital assets for the current fiscal year was \$531,954.

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

- Depreciation of the capital assets (\$68,368)
- Restatement of capital assets (\$98,192)
- Retirement of capital assets (\$174,156)
- Purchase of equipment \$583,573
- Purchase in building improvements \$116,382

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 \$807,300 including \$620,000 in a capital lease and \$187,300 in compensated absences. During the current fiscal year, the District's total long-term debt decreased by \$44,079.

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

- Three percent increase in wages.
- Significant decrease in property tax revenue.

All of these factors were considered in preparing the District's budget for the fiscal year ending June 30, 2009.

**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**  
**June 30, 2008**

<b>Assets</b>	
Cash and investments	\$ 1,235,165
Flat charges receivable	14,430
Capital assets:	
Non-depreciable	74,634
Depreciable, net	<u>2,081,037</u>
Total assets	<u>3,405,266</u>
 <b>Liabilities</b>	
Accounts payable	40,959
Accrued interest payable	49,017
Capital lease - due within one year	24,568
Non-current liabilities:	
Due in more than one year	782,732
Deferred revenue	<u>330,713</u>
Total liabilities	<u>1,227,989</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	1,666,798
Unrestricted	<u>510,479</u>
Total net assets	<u><u>\$ 2,177,277</u></u>

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

**Rancho Adobe Fire Protection District**  
**Statement of Activities**  
**June 30, 2008**

**Program Expenses**

Public safety - fire prevention	
Salaries and employee benefits	\$ 2,513,142
Services and supplies	555,093
Depreciation	68,368
Interest on long-term debt	49,017
	<hr/>
Total program expenses	3,185,620
	<hr/>

**Program Revenues**

Charges for services	
Intergovernmental	207,561
Other charges for services	35,128
	<hr/>
Total program revenues	242,689
	<hr/>
Net program revenues (expenses)	(2,942,931)
	<hr/>

**General Revenues**

Property taxes	3,001,302
Investment earnings	54,297
Grants and donations	100
Miscellaneous revenue	3,607
	<hr/>
Total general revenues	3,059,306
	<hr/>

**Other financing sources (uses)**

Loss on sale of capital asset	(35,951)
	<hr/>

Change in net assets	80,424
Net assets - beginning of year, as restated	2,096,853
	<hr/>
Net assets - end of year	\$ 2,177,277
	<hr/> <hr/>

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

**Rancho Adobe Fire Protection District  
Balance Sheet  
Governmental Fund  
June 30, 2008**

**Assets**

Cash and investments	\$	1,232,506
Cash with fiscal agent		2,659
Flat charges receivable		14,430
		1,249,595
Total assets	\$	1,249,595

**Liabilities and Fund Balance**

Liabilities:

Accounts payable	\$	40,959
Deferred revenue		330,713
		371,672
Total liabilities		371,672

Fund balance:

Reserved for equipment		146,360
Reserved Thorne funds		9,184
Reserved for uncertainties		257,500
Unreserved		464,879
		877,923
Total fund balance		877,923

Total liabilities and fund balance	\$	1,249,595
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**Reconciliation of Balance Sheet to Statement of Net Assets**

Fund balances - total governmental funds	\$	877,923
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		2,155,671
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Compensated absences		(187,300)
Notes payable		(620,000)
Accrued interest payable		(49,017)
		(856,317)
Net assets of governmental activities (page 7)	\$	2,177,277

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  
Governmental Fund  
June 30, 2008**

**Revenues**

Property taxes	\$ 3,001,302
Investment earnings	54,297
Intergovernmental revenue	207,561
Charges for services	35,128
Grants and donations	100
Miscellaneous	<u>3,607</u>
Total revenues	<u>3,301,995</u>

**Expenditures**

Current:	
Salaries and employee benefits	2,485,830
Services and supplies	555,093
Capital outlay	699,955
Debt Service:	
Principal	71,391
Interest	<u>2,663</u>
Total expenditures	<u>3,814,932</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(512,937)</u>

**Other financing sources**

Sale of capital assets	<u>14,236</u>
Total other financing sources	<u>14,236</u>

Net change in fund balances	(498,701)
Fund balance - beginning of year	<u>1,376,624</u>
Fund balance - end of year	<u>\$ 877,923</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 Governmental Fund  
to the Statement of Activities  
June 30, 2008**

**Amounts reported for governmental activities in the  
statement of activities (page 8) are different because:**

Net change in fund balances - total governmental funds (page 10)	\$	(498,701)
<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		699,955
Disposal of capital assets		(50,187)
Current year depreciation		(68,368)
<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		71,391
<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>		
		(27,312)
<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		(46,354)
		(46,354)
Change in net assets of governmental activities (page 8)	\$	80,424

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 - Governmental Fund**  
**For the Fiscal Year Ended**  
**June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 2,996,331	\$ 3,067,831	\$ 3,001,302	\$ (66,529)
Investment earnings	42,000	50,000	54,297	4,297
Intergovernmental revenue	95,000	84,000	207,561	123,561
Charges for services	30,100	25,100	35,128	10,028
Grants and donations	0	0	100	100
Miscellaneous	4,500	348,200	3,607	(344,593)
	<u>3,167,931</u>	<u>3,575,131</u>	<u>3,301,995</u>	<u>(273,136)</u>
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	2,474,200	2,510,400	2,485,830	24,570
Services and supplies	533,541	536,541	555,093	(18,552)
Capital outlay	86,136	295,127	699,955	(404,828)
Other charges	0	0	0	0
Debt Service:				
Principal	71,371	71,371	71,391	(20)
Interest	2,683	2,683	2,663	20
	<u>3,167,931</u>	<u>3,416,122</u>	<u>3,814,932</u>	<u>(398,810)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>0</u>	<u>159,009</u>	<u>(512,937)</u>	<u>(671,946)</u>
<b>Other financing sources</b>				
Sale of capital assets			14,236	14,236
Capital lease proceeds			0	0
Total other financing sources	<u>0</u>	<u>0</u>	<u>14,236</u>	<u>14,236</u>
Net change in fund balances	0	159,009	(498,701)	(657,710)
Fund balance - beginning of year	<u>1,376,624</u>	<u>1,376,624</u>	<u>1,376,624</u>	<u>0</u>
Fund balance - end of year	<u>\$ 1,376,624</u>	<u>\$ 1,535,633</u>	<u>\$ 877,923</u>	<u>\$ (657,710)</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, 2008**

**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

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

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.

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

**1. Cash and Investments**

The District adopted 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, 2008; 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

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

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.

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:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	5 – 30

**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 is accrued when incurred in the

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

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 (net of related debt), restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of capital leases.
- 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.

**6. 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 use for a specific purpose.

**7. Pension Disclosures**

On July 1, 2007, the District adopted the provisions of GASB Statement No.50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with the requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The changes related to this statement are disclosed in Note IV. B.

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**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. The District's budgetary information was amended during the year by resolution of the Board of Directors.

**III. DETAILED NOTES**

**A. Cash and Investments**

Cash and investment in County Treasury	\$ 1,232,006
Cash with Wells Fargo Bank	2,659
Petty cash	500
	<u>1,235,165</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**  
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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, 2008, approximately 62 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 4 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

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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).

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 2008 Sonoma County CAFR.

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
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**B. Capital assets**

Capital asset activity for the year ended June 30, 2008 was as follows:  
Restatements are due to changes in capitalization threshold.

	<u>Beginning</u> <u>Balance</u>	<u>Restatement</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Capital assets, not being depreciated:					
Land	\$ 74,634	\$ _____	_____	\$ _____	\$ 74,634
Total capital assets not being depreciated	<u>74,634</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>74,634</u>
Capital assets, being depreciated:					
Buildings and improvements	390,916	(1,282)	116,382		506,016
Equipment	<u>2,059,902</u>	<u>(96,910)</u>	<u>583,573</u>	<u>(174,156)</u>	<u>2,372,409</u>
Total capital assets being depreciated	<u>2,450,818</u>	<u>(98,192)</u>	<u>699,955</u>	<u>(174,156)</u>	<u>2,878,425</u>
Less accumulated depreciation for:					
Buildings and improvements	(238,810)	1,282	(8,299)		(245,827)
Equipment	<u>(662,925)</u>	<u>47,464</u>	<u>(60,069)</u>	<u>123,969</u>	<u>(551,561)</u>
Total accumulated depreciation	<u>(901,735)</u>	<u>48,746</u>	<u>(68,368)</u>	<u>123,969</u>	<u>(797,388)</u>
Total capital assets being depreciated, net	<u>1,549,083</u>	<u>(49,446)</u>	<u>631,587</u>	<u>(50,187)</u>	<u>2,081,037</u>
Capital assets, net	<u>\$ 1,623,717</u>	<u>\$ (49,446)</u>	<u>631,587</u>	<u>\$ (50,187)</u>	<u>\$ 2,155,671</u>

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

Governmental activities:

Public safety - fire protection	\$	<u>68,368</u>
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**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**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.

Type of Indebtedness (Purpose)	Maturity	Interest Rate	Annual Principal Installments	Original Issue Amount	Outstanding as of June 30, 2008
Multiple Pieces of Fire Equipment	8/1/2017	4.49%	74,500.44	620,000	620,000

The future minimum payments on this lease are as follows:

Year ending June 30	Principal	Interest	Total
2009	97,881	54,467	152,348
2010	52,621	21,879	74,500
2011	53,947	20,553	74,500
2012	56,396	18,104	74,500
2013	58,957	15,544	74,501
Thereafter	300,198	35,054	335,252
<b>Total</b>	<b>\$ 620,000</b>	<b>\$ 165,601</b>	<b>\$ 785,601</b>

**D. Long Term Debt**

Changes in Long Term Debt

Long term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Compensated absences	\$ 159,988	\$ 27,312	\$	\$ 187,300	\$
Capital lease	691,391		(71,391)	620,000	24,568
<b>Total long-term liabilities</b>	<b>\$ 851,379</b>	<b>\$ 27,312</b>	<b>\$ (71,391)</b>	<b>\$ 807,300</b>	<b>\$ 24,568</b>

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**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.

**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.

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

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 0.00% for non-safety employees, 14.566% 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, 2008, 2007 and 2006 were \$313,553, \$285,533, and \$754,623, respectively.

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>
Safety Plan:	June 30, 2006	\$ 754,623	100%	\$ -
	June 30, 2007	\$ 285,533	100%	\$ -
	June 30, 2008	\$ 313,553	100%	\$ -

Funded Status and Funding Progress of the Plan

As of June 30, 2007, based on CalPERS most recent actuarial report, the Safety Plan is 87.3% funded. The actuarial accrued liability for benefits was \$462,354,459, and the actuarial value of the asset was \$403,484,775, resulting in an unfunded liability of \$58,869,684. The covered payroll (annual payroll of active safety employees covered by the plan) was \$72,308,836, and the ratio of the unfunded liability to the covered payroll was 81.4%.

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

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.

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:

Valuation date	June 30, 2008	June 30, 2007	June 30, 2006
Actuarial cost method	Entry age normal cost	Entry age normal cost	Entry age normal cost
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	Closed; 23 years as of the valuation date	Closed; 23 years as of the valuation date	Closed; 23 years as of the valuation date
Asset valuation method	15 year smoothed market	15 year smoothed market	15 year smoothed market
Investment rate of return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected salary increases	3.25% to 10.75% depending	3.25% to 10.75%	3.25% to 10.75%
Inflation	3.00%	3.00%	3.00%
Payroll growth	3.25%	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

**C. 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 auditor's opinion contained in this report.

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**D. Prior Period Adjustment**

The restatement is due to a change in the capitalization threshold from \$1,000 to \$5,000.

Net Assets, fiscal year June 30, 2007, as previously reported	\$2,146,299
Adjustment	<u>49,446</u>
Net Assets, at June 30, 2007, restated	<u>\$ 2,096,853</u>

**E. GASB 48 disclosure**

The District sold a 25 year interest in the communications facility leases for \$344,492.66. 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	192,375

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, 2008, \$13,780 were amortized as other charges.

**RANCHO ADOBE FIRE PROTECTION DISTRICT**  
**Required Supplementary Information**  
**June 30, 2008**

**Employees' Retirement Benefits**  
**Schedules of Funding Progress**  
(dollar amounts in thousands)

**Safety Plan:**

<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, 2005	\$ 742,247,338	\$ 646,358,708	\$ 95,888,630	87.1%	\$115,062,820	83.3%
June 30, 2006	\$ 534,135,011	\$ 460,948,462	\$ 73,186,549	86.3%	\$ 84,179,637	86.9%
June 30, 2007	\$ 462,354,459	\$ 403,484,775	\$ 58,869,684	87.3%	\$ 72,308,836	81.4%

**RANCHO ADOBE FIRE PROTECTION DISTRICT  
Roster of Board Members**

As of June 30, 2008, the District Board consisted of the following members:

<u>Directors</u>	<u>Office</u>	<u>Term Expires</u>
Harold Griffith .....	Chair .....	December, 2008
Edward Gee .....	Vice Chair .....	December, 2010
Brian Proteau .....		December, 2008
Robert W. Rippin .....		December, 2010
Robert Dunne .....		December, 2008
Michael Caruana .....		December, 2010
Mark Hemmendinger .....		December, 2008

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.