

Rincon Valley Fire Protection District

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



DONNA DUNK
Interim Auditor-Controller
Treasurer-Tax Collector

Rincon Valley Fire Protection District

**Annual Report
For the Fiscal Year Ended
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Board of Directors
Rincon Valley Fire Protection District
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Auditor-Controller's Report

We have audited the accompanying basic financial statements of the Rincon Valley 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 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.

In our opinion 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.

Sonoma County Auditor-Controller

November 17, 2011

Management's Discussion and Analysis

As management of the Rincon Valley 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

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,191,626 (net assets). Of this amount, \$1,328,860 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$382,256. This increase is a result of expenses exceeding revenues in the governmental activities.
- As of the close of the current fiscal year, the District's governmental funds reported an ending fund balance of \$3,381,914, a decrease of \$53,761, in comparison with the prior year. Approximately 63.8% of this total amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the year, unassigned fund balance for the general fund was \$2,156,030 or 45.9% of the total general fund expenditures of \$4,692,358.
- The District's total long-term debt decreased by \$19,061 (4.64%) 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

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 \$4,191,626 at the close of the most recent fiscal year.

A large portion of the District's net assets (40.7%) 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
June 30, 2011

Current and other assets	\$	3,549,451
Capital assets		<u>1,705,095</u>
Total assets		<u>5,254,546</u>
Long-term liabilities outstanding		167,537
Other liabilities		<u>895,383</u>
Total liabilities		<u>1,062,920</u>
Net assets:		
Invested in capital assets		1,705,095
Restricted for capital improvements		1,091,408
Restricted for mitigation fund		66,263
Unrestricted		<u>1,328,860</u>
Total net assets	\$	<u><u>4,191,626</u></u>

The balance of unrestricted net assets (\$1,328,860) 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 all categories of net assets. The same held true for the prior fiscal year.

Governmental activities: Governmental activities decreased the District's net assets by \$382,256. This increase is a result of revenues exceeding expenses in the governmental activities.

**Changes in Net Assets
For the Fiscal Year Ended June 30, 2011**

Revenues:	
Program revenues:	
Public safety - fire protection	\$ 65,057
General revenues:	
Property taxes	4,561,205
Investment income and other	<u>11,335</u>
Total revenues	<u>4,637,597</u>
Expenses:	
Public safety - fire protection	<u>5,019,853</u>
	(382,256)
Increase in net assets	<u>4,573,882</u>
Net assets - beginning of the year	<u>4,573,882</u>
Net assets - end of the year	<u>\$ 4,191,626</u>

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 funds reported ending fund balance of \$3,381,914, a decrease of \$53,761 in comparison with the prior year. Approximately 63.8% of the total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved for capital improvements or in a special revenue fund.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,156,030, while the total fund balance was \$3,315,651. 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 45.9% of total general fund expenditures.

General Fund Budgetary Highlights

There were no changes to the original adopted budget.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets, as of June 30, 2011, amounts to \$1,705,095 (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 \$ 77,487

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

- Depreciation of the capital assets (\$123,092)
- Purchase of equipment \$ 39,838
- Purchase in building improvements \$ 6,767

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 \$ 391,601 in compensated absences. During the current fiscal year, the District's total long-term debt decreased by \$19,061.

Economic Factors and Next Year's Budgets and Rates

- Budgeted \$1,700,00 to pay off CalPERS 3% at 55 Safety Plan side fund.
- Projected 3% decrease in property tax revenue.

All of these factors were 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 Rincon Valley Fire Protection District, P.O. Box 530, Windsor, California 95492.

Rincon Valley Fire Protection District
Statement of Net Assets
June 30, 2011

Assets

Cash and investments	\$ 2,363,617
Restricted cash and investments	1,157,671
Flat charges receivable	28,163
Capital assets (net of accumulated depreciation)	
Non-depreciable	74,025
Depreciable, net of depreciation	1,631,070
Total assets	5,254,546

Liabilities

Accounts payable	167,537
Non-current liabilities:	
Net OPEB Obligation	503,782
Compensated absences - Due in more than one year	391,601
Total liabilities	1,062,920

Net Assets

Invested in capital assets, net of related debt	1,705,095
Restricted for capital replacement	1,091,408
Restricted for mitigation fund	66,263
Unrestricted	1,328,860
Total net assets	\$ 4,191,626

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

Rincon Valley Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Program Expenses

Public safety - fire protection	
Salaries and employee benefits	\$ 4,325,982
Services and supplies	570,779
Depreciation	<u>123,092</u>
Total program expenses	<u>5,019,853</u>

Program Revenues

Charges for services	
Intergovernmental revenue	36,408
Mitigation fees	15,521
Licenses and permits	1,500
Gain on sale of capital assests	1,500
Other charges for services	<u>10,128</u>
Total charges for services	<u>65,057</u>
Net program revenues (expenses)	<u>(4,954,796)</u>

General revenues

Property taxes	4,561,205
Investment earnings	<u>11,335</u>
Total general revenues	<u>4,572,540</u>

Change in net assets	(382,256)
Net assets, beginning of year	<u>4,573,882</u>
Net assets, end of year	<u><u>\$ 4,191,626</u></u>

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

**Rincon Valley Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2011**

	General	Special Revenue	Total Governmental Funds
Assets			
Cash and investments	\$ 2,363,617	\$ 66,263	\$ 2,429,880
Restricted cash and investments	1,091,408		1,091,408
Flat charges receivable	28,163		28,163
Total assets	\$ 3,483,188	\$ 66,263	\$ 3,549,451
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 167,537	\$	\$ 167,537
Fund balances:			
Restricted for capital improvements	1,091,408		1,091,408
Assigned for mitigation		66,263	66,263
Assigned for unemployment insurance	68,213		68,213
Unassigned	2,156,030		2,156,030
Total fund balances	3,315,651	66,263	3,381,914
Total liabilities and fund balances	\$ 3,483,188	\$ 66,263	\$ 3,549,451

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

Rincon Valley Fire Protection District
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2011

Fund balances - total government funds	\$ 3,381,914
Amount reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,705,095
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Net OPEB Obligation	(503,782)
Compensated absences	<u>(391,601)</u>
Net assets of governmental activities	<u>\$ 4,191,626</u>

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

**Rincon Valley Fire Protection District
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 4,561,205	\$	\$ 4,561,205
Mitigation fees		15,521	15,521
Licenses and permits	1,500		1,500
Investment income	11,114	221	11,335
Intergovernmental revenue	36,408		36,408
Charges for services	9,616		9,616
Miscellaneous	512		512
	<u>4,620,355</u>	<u>15,742</u>	<u>4,636,097</u>
Expenditures			
Current:			
Salaries and employee benefits	4,074,974		4,074,974
Services and supplies	570,779		570,779
Capital outlay	46,605		46,605
	<u>4,692,358</u>	<u>0</u>	<u>4,692,358</u>
Excess (deficiency) of revenues over (under) expenditures	(72,003)	15,742	(56,261)
Other financing sources (uses)			
Sale of capital asset			
Total other financing sources (uses)	2,500		2,500
Net change in fund balances	(69,503)	15,742	(53,761)
Fund balance, beginning of year	<u>3,385,154</u>	<u>50,521</u>	<u>3,435,675</u>
Fund balance, end of year	<u>\$ 3,315,651</u>	<u>\$ 66,263</u>	<u>\$ 3,381,914</u>

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

**Rincon Valley Fire Protection District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Fiscal Year Ended June 30, 2011**

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

Net change in fund balance - governmental funds	\$	(53,761)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditure for capital assets		46,605
Current year depreciation		(123,092)
Gain on sale of capital asset		(1,000)

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.

(251,008)

Change in net assets of governmental activities	\$	<u><u>(382,256)</u></u>
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The notes to the basic financial statements are an integral part of this statement.

Rincon Valley Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budgets and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

Revenues	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Property taxes	\$ 4,360,000	\$ 4,360,000	\$ 4,561,205	\$ 201,205
Licenses and permits			1,500	1,500
Investment income	11,200	11,200	11,114	(86)
Intergovernmental revenue	50,000	50,000	36,408	(13,592)
Charges for services			9,616	9,616
Miscellaneous			512	512
Total revenues	<u>4,421,200</u>	<u>4,421,200</u>	<u>4,620,355</u>	<u>199,155</u>
Expenditures				
Current:				
Salaries and employee benefits	4,250,780	4,250,780	4,074,974	175,806
Services and supplies	652,000	652,000	570,779	81,221
Capital outlay	<u>1,550,170</u>	<u>1,550,170</u>	<u>46,605</u>	<u>1,503,565</u>
Total expenditures	<u>6,452,950</u>	<u>6,452,950</u>	<u>4,692,358</u>	<u>1,760,592</u>
Excess (deficiency) of revenues over (under) expenditures	(2,031,750)	(2,031,750)	(72,003)	1,959,747
Other financing sources (uses)				
Sale of capital asset				
Total other financing sources (uses)			2,500	2,500
Net change in fund balance	(2,031,750)	(2,031,750)	(69,503)	1,962,247
Fund balance, beginning of year	<u>3,385,154</u>	<u>3,385,154</u>	<u>3,385,154</u>	<u>0</u>
Fund balance, end of year	<u>\$ 1,353,404</u>	<u>\$ 1,353,404</u>	<u>\$ 3,315,651</u>	<u>\$ 1,962,247</u>

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

Rincon Valley Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budgets and Actual
Special Revenue Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Mitigations fees	\$	\$	\$ 15,521	\$ 15,521
Investment income	400	400	221	(179)
Total revenues	400	400	15,742	15,342
 Expenditures				
Capital outlay	50,820	50,820	0	50,820
Net change in fund balance	(50,420)	(50,420)	15,742	66,162
Fund balance, beginning of year	50,521	50,521	50,521	0
Fund balance, end of year	\$ 101	\$ 101	\$ 66,263	\$ 66,162

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

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Rincon Valley Fire Protection District (the District) was formed on January 15, 1948 by resolution of the Board of Supervisors of the County of Sonoma as a fire protection district under and pursuant to provisions of the Health and Safety Code of the State of California. The District serves taxpayers and residents in a specific unincorporated area of the County of Sonoma and a portion of the Town of Windsor, the boundaries of which are set by resolution of the Board of Supervisors. The District's governmental powers are exercised through a Board of Directors.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 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.

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

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 they are both measurable and available. Taxes, interest, and charges for services are considered to be available when receipt is expected to occur 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 judgments are recorded only when payment is due.

Amounts recorded as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided 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 reports certain investments at fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred.

2. Receivables and Payables

a. 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, 2011; therefore, the remainder of the uncollected assessments are considered flat charges receivable.

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

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 \$788,383 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. Mitigation Fees

A mitigation fee is a fee implemented by the District on new development to help offset fire protection service costs associated with the development.

4. 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

**Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011**

initial, individual cost of more than \$2,500 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	10 – 30
Equipment	5 – 20

5. Compensated Absences

It is the District’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 25% of sick 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.

6. 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.

When both restricted and unrestricted net assets are available, restricted resources are

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

used only after the unrestricted resources are depleted.

7. 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.

8. 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.

**Rincon Valley 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 in County Treasury	\$ 3,519,309
Cash with Exchange Bank	1,729
Cash on Hand	<u>250</u>
Total	<u>\$ 3,521,288</u>

* Cash in County Treasury includes \$66,263 in funds restricted for mitigation and \$1,091,408 restricted for capital replacement.

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.

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Investment Guidelines

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

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County 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.

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

Disclosures Relating to Credit Risk

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

Custodial Credit Risk

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

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

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

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 2010 Sonoma County CAFR.

Rincon Valley 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>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 74,025	\$	\$	\$	\$ 74,025
Capital assets, being depreciated:					
Buildings and improvements	644,378	6,767			651,145
Equipment	<u>2,526,292</u>	<u>39,838</u>	<u>(1,000)</u>		<u>2,565,130</u>
Total capital assets, being depreciated	<u>3,170,670</u>	<u>46,605</u>	<u>(1,000)</u>	<u>0</u>	<u>3,216,275</u>
Less accumulated depreciation for:					
Buildings and improvements	(391,580)	(17,156)			(408,736)
Equipment	<u>(1,070,533)</u>	<u>(105,936)</u>			<u>(1,176,469)</u>
Total accumulated depreciation	<u>(1,462,113)</u>	<u>(123,092)</u>	<u>0</u>	<u>0</u>	<u>(1,585,205)</u>
Total capital assets, being depreciated, net	<u>1,708,557</u>	<u>(76,487)</u>	<u>(1,000)</u>	<u>0</u>	<u>1,631,070</u>
Capital assets, net	<u>\$ 1,782,582</u>	<u>\$ (76,487)</u>	<u>\$ (1,000)</u>	<u>\$ 0</u>	<u>\$ 1,705,095</u>

Depreciation expense was charged to functions/programs of the Rincon Valley Fire Protection District government as follows:

Governmental activities:

Public safety - fire protection \$ 123,092

**Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011**

C. Long-Term Obligations

Changes in long-term obligations

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Long-term liabilities:					
Compensated absences	\$ 410,662	\$	\$ (19,061)	\$ 391,601	\$ 0
OPEB Obligation	233,713	546,988	(276,919)	503,782	0
Total long-term liabilities	<u>\$ 644,375</u>	<u>\$ 546,988</u>	<u>\$ (295,980)</u>	<u>\$ 895,383</u>	<u>\$ 0</u>

D. Net Other Post Employment Benefit (OPEB) Obligation

The cumulative sum of differences between the District's annual OPEB cost and the amount actually contributed to the plan makes up a liability (or asset) called the Net OPEB Obligation.

The District's Net OPEB Obligation as of June 30, 2011 is as follows:

Annual required contribution (ARC)	\$ 546,988
Contributions made	<u>(276,919)</u>
Increase in net OPEB obligation	270,069
Net OPEB obligation, beginning of year	<u>233,713</u>
Net OPEB obligation, end of year	<u>\$ 503,782</u>

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

**Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011**

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 (CalPERS) 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 are eligible to participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CalPERS") under the Miscellaneous Plan and the Safety Plan of the Rincon Valley Fire Protection District. The Fund is a cost-sharing multiple-employer Defined Benefit Pension Plan (DBPP) administered by CalPERS. The Fund 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 CalPERS' annual financial report may be obtained from their Executive Office by writing or calling the Plan: California PERS, P.O. Box 942709, Sacramento, CA 94229-2709, (916) 326-3420. A separate report for the District's plan is not available.

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 percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

Miscellaneous Plan and Safety Plan members are required to contribute 7.00% and 9.00%, respectively, of their annual covered salary. During fiscal year 2010/2011 the

**Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011**

District contributed all of the members contribution. The District is required to contribute at an actuarially determined rate. The contribution rate for the fiscal year ending June 30, 2011 is 0% for miscellaneous employees, and 35.219% for safety employees of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

The three year trend information for the Fund of the actuarially required employer contribution is as follows:

**Schedule of Employer Contributions
Safety Plan**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/09	649,147	100%	0
06/30/10	652,283	100%	0
06/30/11	655,142	100%	0

Funded Status and Funding Progress of the Plan

Miscellaneous Plan

As of June 30, 2010, based on CalPERS most recent actuarial report the Miscellaneous Plan is 79.0% funded. The actuarial accrued liability for benefits was \$2,297,871,345, and the actuarial value of the asset was \$1,815,671,616, resulting in an unfunded liability of \$482,199,729. The covered payroll (annual payroll of active miscellaneous employees covered by the plan) was \$434,023,381, and the ratio of the unfunded liability to the covered payroll was 111.1%.

Safety Plan

As of June 30, 2010, based on CalPERS most recent actuarial report the Safety Plan is 85.1% funded. The actuarial accrued liability for benefits was \$1,915,095,826, and the actuarial value of the asset was \$1,628,915,283, resulting in an unfunded liability of \$286,180,543. The covered payroll (annual payroll of active safety employees covered by the plan) was \$224,562,008, and the ratio of the unfunded liability to the covered payroll was 127.4%.

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

**Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011**

plan assets of both the Miscellaneous Plan and the Safety Plan are 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 Miscellaneous Plan and the Safety Plan is shown below:

Valuation date	June 30, 2010	June 30, 2009	June 30, 2008
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	19 years as of the valuation date for the Miscellaneous Plan; and 17 years as of the valuation date for the Safety Plan.	19 years as of the valuation date for the Miscellaneous Plan; and 17 years as of the valuation date for the Safety Plan.	Closed; 16 years as of the valuation date for the Miscellaneous Plan; and 16 years as of the valuation date for the Safety Plan.
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	3.55% to 14.45% depending on age, service and type of	3.55% to 14.45% depending on age, service and type of	3.25% to 14.45% depending on age, service and type of
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. Other Postemployment Health Benefits (OPEB)

Plan Description

The Rincon Valley Fire Protection District defined benefit Postemployment Healthcare Plan (RVFPDPHP) provides medical benefits to eligible retired district employees and their beneficiaries. The authority to amend this plan rests with the District's Board of Directors. The RVFPDPHP is affiliated with the California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer postemployment benefit trust administered by CalPERS for the purpose of prefunding postemployment benefits. CalPERS issues a publically available financial report that includes financial statements and required

Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011

supplemental information for CERBT. Copies of CERBT's annual financial report may be obtained by writing the plan: California PERS, CERBT (OPEB), P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Policy

The District contributes up to a maximum of \$1,261.15 per month towards retiree and spouse premiums of a District sponsored health plan. The District is required to recognize the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost

For the fiscal year ending June 30, 2011 the District's annual OPEB cost (expense) of \$276,918 was equal to 50.6% of the ARC.

Funded Status and Funding Progress of the OPEB Plan

As of June 30, 2011, based on the District's most recent actuarial report from Bickmore Risk Services and Consulting (BRS), the Postemployment Healthcare Plan was 4.1% funded. The actuarial accrued liability for benefits was \$6,798,264, and the actuarial value of the asset was \$275,335, resulting in an unfunded liability of \$6,522,929. The covered payroll (annual payroll of active employees covered by the plan) was \$2,040,761, and the ratio of the unfunded liability of covered payroll was 319.6%.

Actuarial Assumptions and Methods

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-

**Rincon Valley Fire Protection District
Notes to the Basic Financial Statements
June 30, 2011**

term perspective of the calculations.

A summary of principal assumptions and methods used by BRS to determine the District's annual required contributions to the Postemployment Healthcare Plan is as follows:

Valuation date	June 30, 2011	January 1, 2009
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percent of payroll	Level percent of payroll
Asset valuation method	Market value of assets	Market value of assets (\$0, plan not yet funded as of January 1, 2009)
Expected Long Term Return on Assets	7.61%	
Discount rate	5.87%	4.5% if unfunded; 7.75% if funded
Projected salary increases	3.25% per year	3.25% per year
Assumed increase for amortization payments	3.25% per year where determined on a percent of pay basis	3.25% per year where determined on a percent of pay basis

D. Subsequent Events

On August 9, 2011 the District Board approved Resolution 801-11 authorizing the establishment of a Joint Powers Agreement (JPA) with the Windsor Fire Protection District for management services. Upon adoption by the Windsor Fire Protection District Board of Directors this JPA went into effect on September 1, 2011.

In October 2011 the District paid \$1,696,281 to California Public Employees' Retirement System (CalPERS) to extinguish retirement debt associated with the Districts Employer Side Fund. The Employer Side Fund was established in 2004 when CalPERS converted the District from an agent multiple-employer Defined Benefit Pension Plan to a cost-sharing multiple-employer Defined Benefit Pension Plan. The balance of the side fund represented the difference between the District's funded status and the funded status of the pool.

**Rincon Valley Fire Protection District
Required Supplementary Information**

**Schedule of Funding Progress-
CalPERS Miscellaneous 2.7% at 55 Risk Pool**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL As a Percentage of Covered Payroll ((B-A)/C)
06/30/08	\$ 1,529,548,799	\$ 1,823,366,479	\$ 293,817,680	83.9%	\$ 414,589,514	70.870%
06/30/09	\$ 1,674,260,302	\$ 2,140,438,884	\$ 466,178,582	78.2%	\$ 440,071,499	105.932%
06/30/10	\$ 1,815,671,616	\$ 2,297,871,345	\$ 482,199,729	79.0%	\$ 434,023,381	111.100%

* Note: On March 8, 2010 the District approved a change from the CalPERS Miscellaneous 2% at 55 Risk Pool Plan to the CalPERS Miscellaneous 2.7% at 55 Risk Pool Plan. This increased benefit became effective on July 1, 2010.

**Schedule of Funding Progress-
CalPERS Safety 3% at 55 Risk Pool**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL As a Percentage of Covered Payroll ((B-A)/C)
06/30/08	\$ 1,517,609,609	\$ 1,755,559,311	\$ 237,949,702	86.5%	\$ 210,590,567	113.002%
06/30/09	\$ 1,520,081,328	\$ 1,802,882,330	\$ 282,801,002	84.3%	\$ 221,600,192	127.628%
06/30/10	\$ 1,628,915,283	\$ 1,915,095,826	\$ 286,180,543	85.1%	\$ 224,562,008	127.449%

**Schedule of Funding Progress-
Rincon Valley Fire Protection District Postemployment Healthcare Plan**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL As a Percentage of Covered Payroll ((B-A)/C)
01/01/09	\$ 0	\$ 5,232,011	\$ 5,232,011	0.0%	\$ 1,976,524	264.708%
06/30/11	\$ 275,335	\$ 6,798,264	\$ 6,522,929	4.1%	\$ 2,040,761	319.642%

**Rincon Valley Fire Protection District
Roster of Board Members**

As of November 17, 2011, the District Board consisted of the following members:

<u>Directors:</u>	<u>Office</u>	<u>Term Expires</u>
Dan O'Donnell.....	Chair.....	November, 2014
John Hamann.....	Vice Chair	November, 2012
Darrel Mead		November, 2012
Michael Prickett.....		November, 2012
Don Wilson		November, 2014

Secretary:

Douglas Williams

Regular Meetings:

The regular meeting of the Board of Directors is held at 5:30 P.M. on the second Monday of each month at the Larkfield Station, located at 45 Lark Center Drive, Santa Rosa, California.
(707) 539-1801.