

**Forestville Fire Protection District**

**Annual Report  
For The Fiscal Year Ended  
June 30, 2009**



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

**Forestville Fire Protection District**

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For the Fiscal Year Ended  
June 30, 2009**

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

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

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ASSISTANT  
TAX COLLECTOR/AUDITOR

Board of Directors  
Forestville Fire Protection District  
Forestville, CA

**Auditor-Controller's Report**

We have audited the accompanying financial statements of the Forestville Fire Protection District (the District), as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

As described in Note IV.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 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.

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, 2009 and the respective changes in its financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 1 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries 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*

July 1, 2010

## Management's Discussion and Analysis

As management of the Forestville 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, 2009. We encourage readers to consider the information presented here in conjunction with the District's financial statements (pages 7 – 13) and the accompanying notes to the basic financial statements (pages 14 – 26).

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$937,831 (net assets). Of this amount, \$428,144 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of \$496,710, an increase of \$53,958, in comparison with the prior year. Approximately 100% of this total amount is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance was \$496,710 or approximately 35% of the total expenditures.
- The District's total long term liabilities increased by \$97,544 during the current fiscal year.

### Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 7 – 8 of this report.

**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.

The basic governmental fund financial statements can be found on pages 9 – 13 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 14 – 26 of this report.

## 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 \$937,831 at the close of the most recent fiscal year.

A large portion of the District's net assets (55%) is in its investment in capital assets, net of related debt (e.g., land, buildings and improvements, and equipment). The District uses these capital assets to provide fire protection services to citizens; consequently, these assets are not available for future spending.

### Net Assets June 30, 2009

	2009	2008
Current and other assets	\$ 550,007	\$ 499,262
Capital assets	709,344	554,990
Total assets	<u>1,259,351</u>	<u>1,054,252</u>
Long-term liabilities outstanding	242,835	155,720
Other liabilities	78,685	71,470
Total liabilities	<u>321,520</u>	<u>227,190</u>
Net assets:		
Invested in capital assets, net of related debt	509,687	442,506
Unrestricted	428,144	384,556
Total net assets	<u>\$ 937,831</u>	<u>\$ 827,062</u>

The balance of unrestricted net assets (\$428,144) 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 \$82,049. This increase is a result of revenues exceeding expenditures in the governmental activities.

**Changes in Net Assets  
June 30, 2009**

	2009	2008
Revenues:		
Program revenues:		
Public safety - fire protection	\$ 229,459	\$ 99,334
General revenues:		
Property taxes	1,074,171	1,043,544
Rent	16,512	14,794
Investment earnings and other	21,103	45,658
Total revenues	1,341,245	1,203,330
Expenses:		
Public safety - fire protection	1,259,196	1,244,316
Increase in net assets	82,049	(40,986)
Net assets - beginning of the year	827,062	868,048
Prior period adjustment	28,720	
Net assets - end of the year	\$ 937,831	\$ 827,062

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the District's governmental fund reported ending fund balance of \$496,710, an increase of \$53,958 in comparison with the prior year. Approximately 100% of the total amount constitutes unreserved fund balance, which is available for spending at the government's discretion.

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 \$496,710. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 35% of total general fund expenditures.

## **General Fund Budgetary Highlights**

There were not material differences between the original budget and the final amended budget.

## **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets, as of June 30, 2009, amounts to \$709,344 (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 \$161,535.

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

- Depreciation of the capital assets \$55,227

Additional information on the District's capital assets can be found in Note III.B on page 22 of this report.

**Debt Administration.** At the end of the current fiscal year, the District had outstanding long-term liabilities of \$268,224. During the current fiscal year, the District's total long-term liabilities increased by \$97,554.

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

- Due to limited new growth, the district is forced to rely primarily on increased property values and the acquisition of grants to maintain its current level of services.
- The majority of the District's revenue is derived from property taxes.
- The current downturn in property values and foreclosures will likely cause a flattening or possible reduction in the District's property tax revenue for the next few years.
- The District has been successful with grant acquisition in the past and will continue to pursue grants as a means of improving services and enhancing the safety of its personnel.

The above factors were considered in preparing the District's budget for the fiscal year ending June 30, 2010.

### **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 Forestville Fire Protection District, P.O. Box 427, Forestville, CA 95436.

**Forestville Fire Protection District**  
**Statement of Net Assets**  
**June 30, 2009**

<b>Assets</b>	
Cash and investments	\$ 540,217
Flat charges receivable	9,790
Capital assets (net of accumulated depreciation)	
Non-depreciable	6,000
Depreciable, net	<u>703,344</u>
Total assets	<u>1,259,351</u>
 <b>Liabilities</b>	
Capital lease payable - due within one year	25,388
Accounts payable	53,297
Non-current liabilities:	
Compensated absences	68,567
Capital lease payable - due in more than one year	<u>174,269</u>
Total liabilities	<u>321,521</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	509,687
Unrestricted	<u>428,144</u>
Total net assets	<u>\$ 937,831</u>

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

**Forestville Fire Protection District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2009**

**Program Expenses**

Public safety - fire protection	
Salaries and employee benefits	\$ 980,177
Services and supplies	212,886
Interest on long-term debt	4,987
Loss on sale of capital asset	5,919
Depreciation	<u>55,227</u>
Total program expenses	<u>1,259,196</u>

**Program Revenues**

Charges for services	
Intergovernmental revenue	180,793
Operating grants and contributions	<u>48,666</u>
Total program revenues	<u>229,459</u>
Net program revenues (expenses)	<u>(1,029,737)</u>

**General Revenues**

Property taxes	1,074,171
Investment earnings	10,131
Rent	16,512
Miscellaneous	<u>10,972</u>
Total general revenues	<u>1,111,786</u>

Change in net assets	<u>82,049</u>
Net assets, beginning of year	827,062
Prior period adjustment	<u>28,720</u>
Net assets, end of year	<u>\$ 937,831</u>

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

**Forestville Fire Protection District  
Balance Sheet  
Governmental Fund  
June 30, 2009**

**Assets**

Cash and investments	\$ 531,221
Cash with fiscal agent	8,996
Flat charges receivable	<u>9,790</u>
Total assets	<u>\$ 550,007</u>

**Liabilities and Fund Balance**

Liabilities:

Accounts payable	\$ <u>53,297</u>
Total liabilities	53,297

Fund balance:

Unreserved	<u>496,710</u>
Total liabilities and fund balance	<u>\$ 550,007</u>

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

**Forestville Fire Protection District**  
**Reconciliation of the Governmental Fund Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2009**

Fund balances - total government funds	\$ 496,710
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.	709,344
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Compensated absences	(68,567)
Capital lease	<u>(199,656)</u>
Net assets of governmental activities	<u><u>\$ 937,831</u></u>

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

**Forestville Fire Protection District  
Statement of Revenues, Expenditures and  
Changes in Fund Balance  
Governmental Fund  
For the Fiscal Year Ended June 30, 2009**

**Revenues**

Property taxes	\$ 1,074,171
Investment earnings	10,131
Rent	16,512
Intergovernmental revenue	229,459
Miscellaneous	10,972
	1,341,245
Total revenues	1,341,245

**Expenditures**

Current:	
Salaries and employee benefits	969,806
Services and supplies	212,886
Debt services:	
Principal	30,275
Interest	4,987
Capital outlay	186,780
	1,404,734
Total expenditures	1,404,734

**Other financing sources**

Capital lease proceeds	117,447
Total other financing sources	117,447

Net change in fund balance	53,958
Fund balance, beginning of year	442,752
	496,710
Fund balance, end of year	\$ 496,710

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

**Forestville Fire Protection District**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance of Governmental Fund to the**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2009**

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

Net change in fund balance - governmental funds	\$	53,958
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.		
Current year depreciation		(55,227)
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.		
		(10,371)
Net effect of transactions involving the purchase of capital assets		
		63,414
Repayment of notes principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal		<u>30,275</u>
Change in net assets of governmental activities	\$	<u><u>82,049</u></u>

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

**Forestville Fire Protection District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 1,071,000	\$ 1,071,000	\$ 1,074,171	\$ 3,171
Investment earnings	7,500	7,500	10,131	2,631
Rent			16,512	16,512
Intergovernmental revenue	182,066	182,066	229,459	47,393
Miscellaneous	30,625	30,625	10,972	(19,653)
Total revenues	1,291,191	1,291,191	1,341,245	50,054
<b>Expenditures</b>				
Current:				
Salaries and employee benefits	976,493	976,493	969,806	6,687
Services and supplies	260,647	260,647	212,886	47,761
Long term debt principal			30,275	(30,275)
Long term debt interest			4,987	(4,987)
Capital outlay	46,000	71,000	186,780	(115,780)
Appropriations for contingency	85,547	60,547	0	60,547
Total expenditures	1,368,687	1,368,687	1,404,734	(36,047)
<b>Other financing sources</b>				
Capital lease proceeds			117,447	(117,447)
Total other financing sources			117,447	(117,447)
Net change in fund balance	(77,496)	(77,496)	53,958	(31,346)
Fund balance, beginning of year	442,752	442,752	442,752	
Fund balance, end of year	\$ 365,256	\$ 365,256	\$ 496,710	\$ (31,346)

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

**Forestville Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

On February 28, 1958, the Forestville Fire Protection District (the District) was formed under Health and Safety Code Sections 14001 to 14806. The purpose of the District is preventing fires and protecting life and property within the District's boundaries. The District is a political subdivision of the State of California, governed by a local board made up of five members.

**B. Government-wide 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 for 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.

**Forestville Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Taxes, interest, and charges for services are accrued when receipt occurs within 365 days of the end of the accounting period so as to be both measurable and available. Licenses, permits, fines, forfeitures, and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Property taxes are accrued when their receipt occurs within sixty days of the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims judgments are recorded only when payment is due.

Amounts recorded as program revenues include charges to customers or applicants for goods, services, or privileges provided. 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 market value on the balance sheet and recognizes the corresponding change in the fair market 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, 2009; therefore, the remainder of the uncollected assessments are considered flat charges receivable.

**b. Property Taxes**

**Forestville Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

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 or increases related to sales and construction) can rise at a maximum of 2% per year

Included within the property tax revenue is \$137,056 in Special Taxes collected. Special Taxes are a type of direct charge applied to each parcel of property within the District for a specific dollar amount and for a specific purpose.

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 five 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.

**Forestville Fire Protection District  
Notes to the Basic Financial Statements  
June 30, 2009**

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

Years	Assets
Buildings and improvements	10 – 50 years
Equipment	5 – 20 years

**4. Compensated Absences**

Employees are entitled to accrue sick leave up to a maximum of nineteen hundred and twenty hours; however, only 25% of accrued sick leave may be paid at the time of departure from the District. All vacation pay and 25% of sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**5. Net Assets**

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

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt related to financing the acquisition of capital assets.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definitions of “restricted for debt service” or invested in capital assets, net of related debt”.

**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. Designations of fund balance represent tentative management plans that are subject to change.

**Forestville Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**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**

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 and Bank of the West for the purpose of petty cash and payroll tax distribution. Deposits with Exchange Bank and Bank of the West are FDIC insured up to \$250,000 per account.

The amount of cash at June 30 is as follows:

Cash in County Treasury	\$	531,221
Cash with Exchange Bank		8,746
Cash with Bank of the West		250
Total	\$	<u>540,217</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

**Forestville Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

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

**Forestville Fire Protection District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

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

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funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2009 Sonoma County CAFR.



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**C. Long-Term Debt**

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2009, 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	\$ 58,196	\$ 10,371	\$	\$ 68,567	\$ 0
Capital lease	112,484	117,447	(30,274)	199,657	25,388
Total long-term liabilities	<u>\$ 170,680</u>	<u>\$ 127,818</u>	<u>\$ (30,274)</u>	<u>\$ 268,224</u>	<u>\$ 25,388</u>

**D. Capital Leases payable**

On January 16, 2002, the District entered into a lease-purchase agreement with Information Leasing Corporation (ILC) for the purchase of a new Pierce Saber fire engine. The manufacturer is Pierce Manufacturing, Inc. Payment for the truck began in July 2002 and will be paid semi-annually for a period of 10 years at an annual percentage rate of 4.749%.

On September 30, 2008, the District entered into a lease-purchase agreement with Bank of America National Association for the purchase of a 2008 Fire Rescue, Ford F-550. Payment for the truck begins 9/30/2009 and will be paid annually for a period of 10 years at an annual percentage rate of 4.160%.

<u>Type of Indebtedness (Purpose)</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding as of June 30, 2009</u>
2002 Pierce Saber fire engine	1/1/2012	4.749%	\$ 23,396 - 34,044	\$ 279,210	\$ 82,210
F550 Light Rescue Truck	9/30/2018	4.16%	\$ 9,710 - 14,013	\$ 117,447	\$ 117,447

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As of June 30, 2009, annual debt service requirements for the above leases is as follows:

Year Ending June 30	Principal	Interest
2010	\$ 40,703	\$ 9,154
2011	42,597	7,261
2012	29,268	5,278
2013	10,973	3,623
2014	11,429	3,166
Thereafter	64,687	8,293
Total	<u>\$ 199,657</u>	<u>\$ 36,775</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 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.

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Plan Description

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

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

Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. Plan members are required to contribute 9.00% of their annual covered salary. The District is required to contribute at an actuarially determined rate. The 2009 rate is 10.45% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS. Employer contributions to the DBPP for the fiscal years ended June 30, 2009, 2008 and 2007 were \$65,541, \$42,487, and \$36,547 respectively.

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

**Forestville Fire Protection District**  
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<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 36,547	100%	-
June 30, 2008	\$ 42,487	100%	-
June 30, 2009	\$ 65,541	100%	-

Funded Status and Funding Progress of the Plan

As of June 30, 2008, 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%.

The Schedule of Funding Progress, presented as RSI, following the Notes to the 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 actuarial cost method	Entry age actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average remaining period	Closed; 13 years as of the valuation date	Closed; 13 years as of the valuation date	Closed; 13 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 14.45% depending on age, service and type of employment	3.25% to 14.45% depending on age, service and type of employment	3.25% to 14.45% depending on age, service and type of employment
Inflation	3.00%	3.00%	3.00%

**Forestville Fire Protection District  
Notes to the Basic Financial Statements  
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Payroll growth Individual Salary Growth	3.25% 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%	3.25% 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%	3.25% 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%
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**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 nonaudit services in situations where the amounts or services involved are significant or material to the subject matter of the audit.” Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, districts or funds that are contained within the County Treasury, we believe that adequate safeguards and divisions of responsibility exist. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the information contained in this report.

**D. Prior Period Adjustment**

The District posted a prior period adjustment of \$28,720 to record the effects of a capital asset addition which should have been recorded in the prior fiscal year.

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Required Supplementary Information  
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**Employees' Retirement Benefits  
Schedule of Funding Progress**

**Safety Plan 2 % at 50:**

<b>Actuarial 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>
06/30/06	\$ 534,135,011	\$ 460,948,462	\$ (73,186,549)	86.3%	\$ 84,179,637	-86.941%
06/30/07	462,354,453	403,484,775	(58,869,678)	87.3%	72,308,836	-81.414%
06/30/08	504,295,839	438,674,996	(65,620,843)	87.0%	77,903,428	-84.234%

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

As of May 25, 2010, the District Board consisted of the following members:

<u>Directors</u>	<u>Office</u>	<u>Term Expires</u>
Daniel Low .....	Chairman .....	November, 2012
Erne Ballinger .....		November, 2012
Greg Kotta .....		November, 2010
George Roberts .....		November, 2010
Denise Wood .....		November, 2012

Regular Meetings:

The regular meeting of the Board of Directors is held at 7:00 P.M. on the second Tuesday of each month at the Forestville Fire Station located at 6554 Mirabel Road, Forestville, California. (707) 887-2212.