

MONTE RIO FIRE PROTECTION DISTRICT

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



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

MONTE RIO FIRE PROTECTION DISTRICT

**Annual Report
For the Fiscal Year Ended
June 30, 2008**

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Board of Directors
Monte Rio Fire Protection District
Monte Rio, CA

Auditor-Controller's Report

We have audited the accompanying basic financial statements of the Monte Rio Fire Protection District (the District), as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements as listed in the table of contents. These 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.B of the Notes to the Basic Financial Statements, the Auditor-Controller is mandated by various statutes within the California Government Code to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair the auditor's independence. However, we believe adequate safeguards and divisions of responsibility exist.

In our opinion, except for the effects, if any, of the impairment to auditor independence, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008, and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

May 19, 2009

Management's Discussion and Analysis

As management of the Monte Rio Fire Protection District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the District's financial statements and the accompanying notes to the basic financial statements.

Financial Highlights

- The assets of the District exceeded their liabilities at the close of the most recent fiscal year by \$950,945 (net assets). Of this amount, \$413,020 (unrestricted net assets) may be used to meet the District's ongoing operations.
- The District's total net assets increased by \$16,324. This increase is the result of revenues exceeding expenses in the governmental activities.
- As of the close of the current fiscal year, the district reported an ending fund balance of \$413,020, an increase of \$14,040, in comparison with the prior year. This amount is available for spending at the District's discretion (unreserved fund balance).
- At the end of the year, unreserved fund balance was \$413,020 or 72% of the total general fund expenditures of \$573,476.
- The District's long-term liabilities increased by \$205,798.

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 financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

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 strike team revenue).

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 in 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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Government-Wide Financial Analysis

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$950,945 at the close of the most recent fiscal year.

A large portion of the District's net assets (56.6%) 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, 2008**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and other assets	\$ 490,206	\$ 431,802	\$ 58,404	13.5%
Capital assets	<u>762,925</u>	<u>554,843</u>	<u>208,082</u>	<u>37.5%</u>
Total assets	<u>1,253,131</u>	<u>986,645</u>	<u>266,486</u>	<u>27.0%</u>
Long-term liabilities outstanding	225,000		225,000	100.0%
Other liabilities	<u>77,186</u>	<u>52,024</u>	<u>25,162</u>	<u>48.4%</u>
Total liabilities	<u>302,186</u>	<u>52,024</u>	<u>250,162</u>	<u>480.9%</u>
Net assets:				
Invested in capital assets, net of related debt	537,925	535,641	2,284	0.4%
Unrestricted	<u>413,020</u>	<u>398,980</u>	<u>14,040</u>	<u>3.5%</u>
Total net assets	<u>\$ 950,945</u>	<u>\$ 934,621</u>	<u>\$ 16,324</u>	<u>1.7%</u>

The balance of unrestricted net assets, \$413,020, 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 \$16,324. This increase is the result of revenues exceeding expenses in the governmental activities.

**Changes in Net Assets
For the Fiscal Year Ended June 30, 2008**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 44,422	\$ 34,542	\$ 9,880	28.6%
Operating Grants and Contributions	26,188		26,188	100.0%
General Revenues:				
Property taxes	258,888	254,612	4,276	1.7%
Investment income and other	3,469	57,916	(54,447)	-94.0%
Total revenues	<u>332,967</u>	<u>347,070</u>	<u>(14,103)</u>	<u>-4.1%</u>
Expenses:				
Program Expenses:				
Public safety - fire protection	316,235	214,882	101,353	47.2%
General Expenses:				
Debt service - interest	408	2,006	(1,598)	-79.7%
Total expenses	<u>316,643</u>	<u>216,888</u>	<u>99,755</u>	<u>46.0%</u>
Change in Net Assets	16,324	130,182	(113,858)	-87.5%
Net assets - beginning of the year	934,621	804,439	130,182	16.2%
Net assets - end of the year	<u>\$ 950,945</u>	<u>\$ 934,621</u>	<u>\$ 16,324</u>	<u>1.7%</u>

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting 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 the 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 \$413,020, an increase of \$14,040 in comparison with the prior year. The total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 72% of total general fund expenditures.

General Fund Budgetary Highlights

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

- \$16,000 increase in services and supplies due to increased maintenance and travel costs.
- \$16,000 decrease in appropriations for contingency to offset the increase to services and supplies.

Capital Asset and Debt Administration

Capital Assets: The District's investment in capital assets, as of June 30, 2008, amounts to \$762,925 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements and equipment. The total increase in the District's investment in capital assets for the current fiscal year was \$208,082.

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

- | | |
|--------------------------------------|-------------|
| • Depreciation of the capital assets | (\$ 44,934) |
| • Purchase of equipment | \$ 254,105 |
| • Improvements to Building | \$ 28,460 |

Additional information on the District's capital assets can be found in note III.B.

Debt administration: At the end of the fiscal year the District had total long-term obligations of \$225,000. During the current fiscal year, the District's long-term debt increased by \$205,798.

Request for Additional Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District, P.O. Box 279, Monte Rio, California 95462.

MONTE RIO FIRE PROTECTION DISTRICT
Statement of Net Assets
June 30, 2008

Assets	
Cash and investments	\$ 476,866
Due from other governments	13,340
Capital assets (net of accumulated depreciation)	
Land	41,480
Building and improvements	214,184
Equipment	507,261
	<hr/>
Total assets	1,253,131
	<hr/>
Liabilities	
Accounts payable	77,186
Capital leases payable - Due within one year	41,635
Non-current liabilities:	
Capital leases payable - Due in more than one year	183,365
	<hr/>
Total liabilities	302,186
	<hr/>
Net Assets	
Invested in capital assets, net of related debt	537,925
Unrestricted	413,020
	<hr/>
Total net assets	\$ 950,945
	<hr/> <hr/>

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

MONTE RIO FIRE PROTECTION DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Program Expenses

Public safety - fire prevention	
Salaries and employee benefits	\$ 60,179
Services and supplies	211,122
Depreciation	44,934
Debt service - interest	408
Total program expenses	316,643

Program Revenues

Charges for services	
Intergovernmental revenue	44,422
Operating Grants and Contributions	
Homeland Security grant revenue	26,188
Total program revenues	70,610
Net program revenues (expenses)	(246,033)

General Revenues

Property taxes	258,888
Investment earnings	18,015
Miscellaneous	5,013
Loss on sale of capital asset	(19,559)
Total general revenues	262,357
Change in net assets	16,324
Net assets, beginning of year	934,621
Net assets, end of year	\$ 950,945

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

MONTE RIO FIRE PROTECTION DISTRICT
Balance Sheet
Governmental Fund
June 30, 2008

Assets

Cash and investments	\$	476,866
Due from other governments		13,340
Total assets	\$	490,206

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$	77,186
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Fund balance:

Unreserved:		413,020
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Total liabilities and fund balance	\$	490,206
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Reconciliation of Balance Sheet to Statement of Net Assets

Fund balance - total government funds	\$	413,020
Amount reported for governmental activities in the statement of net assets is different because:		
Capital assets (net of accumulated depreciation and long term debt) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		537,925
Net assets of governmental activities	\$	950,945

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

MONTE RIO FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Fund
For the Fiscal Year Ended June 30, 2008

Revenues

Property taxes	\$ 258,888
Investment earnings	18,015
Intergovernmental revenue	44,422
Grant revenue	26,188
Miscellaneous	5,013
	352,526
Total revenues	352,526

Expenditures

Current:	
Salaries and employee benefits	60,179
Services and supplies	211,122
Debt service	
Principal	19,202
Interest	408
Capital outlay	282,565
	573,476
Total expenditures	573,476

Excess (deficiency) of revenues over (under) expenditures	(220,950)
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Other financing sources (uses)

Sale of capital asset	9,990
Capital lease	225,000
	234,990
Total Other financing sources (uses)	234,990

Net change in fund balance	14,040
Fund balance, beginning of year	398,980
	413,020
Fund balance, end of year	\$ 413,020

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

MONTE RIO FIRE PROTECTION DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of the Governmental Fund to the
Statement of Activities
For the Fiscal Year Ended June 30, 2008

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

Net change in fund balance - total governmental fund	\$	14,040
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Current year depreciation		(44,934)
<p>The net effect of various miscellaneous transactions involving capital leases payable (i.e. principal payment, accrued interest) is to decrease net assets.</p>		
		(205,798)
<p>The net effect of various transactions involving the purchase and sale of capital assets is to increase net assets</p>		
		<u>253,016</u>
Change in net assets of governmental activities	\$	<u><u>16,324</u></u>

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

MONTE RIO FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budgets and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

Revenues	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Property taxes	\$ 244,500	\$ 244,500	\$ 258,888	\$ 14,388
Investment earnings	5,700	5,700	18,015	12,315
Intergovernmental revenue	3,200	3,200	44,422	41,222
Grant revenue			26,188	26,188
Miscellaneous			5,013	5,013
Total revenues	253,400	253,400	352,526	99,126
Expenditures				
Current:				
Salaries and employee benefits	76,500	76,500	60,179	16,321
Services and supplies	344,000	360,000	211,122	148,878
Debt service:				
Principal			19,202	(19,202)
Interest			408	(408)
Capital outlay	60,000	60,000	282,565	(222,565)
Appropriations for contingency	72,075	56,075		56,075
Total expenditures	552,575	552,575	573,476	(20,901)
Excess (deficiency) of revenues over (under) expenditures	(299,175)	(299,175)	(220,950)	78,225
Other financing sources (uses)				
Sale of capital asset			9,990	9,990
Capital lease			225,000	225,000
Total Other finan. sources (uses)	0	0	234,990	234,990
Net change in fund balance	(299,175)	(299,175)	14,040	313,215
Fund balance, beginning of year	398,980	398,980	398,980	0
Fund balance, end of year	\$ <u>99,805</u>	\$ <u>99,805</u>	\$ <u>413,020</u>	\$ <u>313,215</u>

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

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Monte Rio Fire Protection District (the District) was formed under Health and Safety Code Section 14271 and serves taxpayers and residents in a specific unincorporated area of the County of Sonoma, the boundaries of which are set by resolution of the Board of Supervisors. The District's governmental powers are exercised through a Board of Directors.

On March 27, 1999, Jenner Fire Department was annexed to the Monte Rio Fire Protection District per Resolution No. 2321 of Local Agency Formation Commission (LAFCO) and Resolution No. 98-99-02 of the Monte Rio Fire Protection District.

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 are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

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 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 on 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. 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 the 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

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year.

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

b. Due from other governments

The District is reimbursed by the State of California Department of Forestry and Fire Protection for eligible costs related to mutual aid responses to State emergencies like wildland and structure fires, floods, earthquakes, hazardous material spills, and medical aids. Not all of the reimbursements were collected as of June 30, 2008; therefore, the remainder of uncollected reimbursements is considered due from other governments.

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 \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Equipment	10-20

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

4. Net Assets

Net assets are classified into three components – 1) invested in capital assets, net of related debt, 2) restricted, and 3) 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 of 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.

5. Fund Equity

In the fund financial statements unreserved fund balance represents the portion of fund balance which the District has not reserved for a specific purpose.

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. The District does not make use of encumbrance accounting when developing the budget. Therefore, budgetary amounts for the District are adopted on a 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.

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

Investment in the Sonoma County Treasurer's Investment Pool

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

Investment Guidelines

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2008, approximately 63 percent of the securities in the Treasury Pool had maturities of one year or less. Of the remainder, only 4 percent had a maturity of more than five years.

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

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 2008 Sonoma County CAFR.

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 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	\$ 41,480	\$	\$	\$	\$ 41,480
Capital assets, being depreciated:					
Buildings and improvements	431,441	28,460			459,901
Equipment	661,363	254,105	(76,254)		839,214
Total capital assets, being depreciated	<u>1,092,804</u>	<u>282,565</u>	<u>(76,254)</u>	<u>0</u>	<u>1,299,115</u>
Less accumulated depreciation for:					
Buildings and improvements	(233,110)	(12,607)			(245,717)
Equipment	(346,331)	(32,327)	46,705		(331,953)
Total accumulated depreciation	<u>(579,441)</u>	<u>(44,934)</u>	<u>46,705</u>	<u>0</u>	<u>(577,670)</u>
Total capital assets, being depreciated, net	<u>513,363</u>	<u>237,631</u>	<u>(29,549)</u>	<u>0</u>	<u>721,445</u>
Capital assets, net	<u>\$ 554,843</u>	<u>\$ 237,631</u>	<u>\$ (29,549)</u>	<u>\$ 0</u>	<u>\$ 762,925</u>

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

Governmental activities:

 Public safety - fire protection \$ 44,934

C. Long-term Debt

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2008, 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:					
Capital lease	\$ 19,202	\$ 225,000	\$ (19,202)	\$ 225,000	\$ 41,635

MONTE RIO FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
June 30, 2008

D. Capital Leases Payable

In February 2008 the District signed a lease-purchase agreement with Municipal Finance Corporation for \$225,000 with an interest rate of 3.85% in order to finance the acquisition of a 2008 Ford F550 Rescue Truck and a 2008 Peterbilt Water Tanker. This loan is to be repaid in ten semi-annual payments of \$24,950.

Type of Indebtedness (Purpose)	Maturity	Interest Rate	Annual Principal Installments	Original Issue Amount	Outstanding as of June 30, 2008
Engines #5432 and #5490	3/24/2012	3.85%	\$20,619-\$24,479	\$ 225,000	\$ 225,000

The annual debt service requirements on the outstanding loan is as follows:

Year Ending June 30	Principal	Interest
2009	\$ 41,635	\$ 8,266
2010	43,253	6,647
2011	44,935	4,966
2012	46,681	3,219
2013	48,496	1,405
Total	\$ 225,000	\$ 24,503

IV. OTHER INFORMATION

A. Risk Management

The District is covered for general business, liability, automobile, and errors and omissions through the North West Insurance Agency. The District is also a member of the Fire District Association of California-Fire Agency Self-Insurance System (FDAC-FASIS) through which it receives Worker's Compensation coverage.

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

MONTE RIO FIRE PROTECTION DISTRICT
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B. Auditor Independence

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

C. Related Party Transaction

The District pays a vehicle allowance fee to the Fire Chief for the use of his personal truck. The payment under this agreement is \$900 per month.

**MONTE RIO FIRE PROTECTION DISTRICT
Roster of Board Members**

As of May 19, 2009, the District Board consisted of the following members:

<u>Directors:</u>	<u>Office</u>	<u>Term Expires</u>
William M. Atkinson	President	December, 2010
John A. Mino	Vice President	December, 2010
Paul A. Casini		December, 2012
Emil R. Alberigi		December, 2012
James J. Kokalis		December, 2010

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 Monte Rio Fire Station, located at 20385 Highway 116, Monte Rio, California.
(707) 865-2067