

**SANTA CLARA COUNTY
CENTRAL FIRE PROTECTION
DISTRICT**

AUDIT REPORT

YEAR ENDED JUNE 30, 2008



Vargas and Company
certified public accountants

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
June 30, 2008

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Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Santa Clara County Central Fire Protection District
Los Gatos, California


We have audited the accompanying financial statements of the governmental activities, major fund and remaining fund information of the Santa Clara County Central Fire Protection District (the "District"), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and remaining fund information of the Santa Clara County Central Fire Protection District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2008 on our consideration of the Santa Clara County Central Fire Protection District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) and the budgetary comparison schedule, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


Vargas and Company
San Jose, California
July 24, 2008

Management's Discussion and Analysis
(Required Supplementary Information)

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

This section of the Santa Clara County Central Fire Protection District (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2008. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded liabilities at the close of the 2007-2008 fiscal year by \$33,368,706 (*net assets*). Of this amount, \$11,029,962 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, and \$22,338,744 is invested in capital assets, net of related debt.
- The District's total net assets increased by \$5,057,071, mainly due to a 6% increase in property taxes and a 15% increase in charges for services.
- As of June 30, 2008, the District's governmental funds reported combined ending fund balances of \$15,840,517, an increase of \$3,500,205 in comparison with the prior year. All of the combined fund balances is available to meet the District's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$15,840,517 or 24% of total general fund expenditures.
- The District's total long-term debt increased by \$139,979 in comparison with the prior year. The increase is the result of \$409,988 in additional liability being recognized for compensated absences and the retirement of \$270,000 in bonds payable.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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. Required Supplementary Information is included in addition to the basic financial statements.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

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 District 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 or not the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District'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, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the District that are principally supported by property taxes and assessments, and charges for services (*governmental activities*). The only governmental activity of the District is public protection. The District does not have any business-type activities.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are 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. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements—i.e. most of the District's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the District's programs.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

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

The District maintains two governmental funds organized according to their type (general and capital projects). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the remaining governmental fund is in a single presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds are generally used to account for services for which the District charges customers—either outside customers, or internal units or departments of the District. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The District maintains one type of proprietary fund, the health benefit fund which is an internal service fund.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for its health benefit function. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The internal service fund is presented in the proprietary fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds except for agency funds. The District has one fiduciary fund, the workers compensation fund which is a trust fund.

Notes to the Financial Statements

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

Required Supplementary Information

The required supplementary information is presented concerning the District's budgetary comparison schedule. The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the District, assets exceeded liabilities by \$33,368,706 at the close of the current fiscal year.

Net Assets

	<u>Governmental Activities</u>		
	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Assets:			
Current and other assets	\$20,092,162	\$16,118,495	25%
Capital assets, net	<u>25,468,744</u>	<u>23,884,127</u>	7%
Total assets	<u>45,560,906</u>	<u>40,002,622</u>	14%
Liabilities:			
Current and other liabilities	3,779,412	3,418,178	11%
Long-term liabilities	<u>8,412,788</u>	<u>8,272,809</u>	2%
Total liabilities	<u>12,192,200</u>	<u>11,690,987</u>	4%
Net assets:			
Invested in capital assets, net of related debt	22,338,744	20,484,127	9%
Unrestricted net assets	<u>11,029,962</u>	<u>7,827,508</u>	41%
Total net assets	<u>\$33,368,706</u>	<u>\$28,311,635</u>	18%

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

Analysis of Net Assets

The largest portion of the District's net assets, \$22,338,744 (67%), reflects its investment in capital assets (e.g. land, buildings, improvements, vehicles, machinery, equipment, and furnishings). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets, \$11,029,962 (33%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District reported positive balances in both categories of net assets.

Changes in Net Assets

	<u>Governmental Activities</u>		
	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$18,928,364	\$16,397,747	15%
General revenues:			
Property taxes and assessments	48,620,871	46,039,900	6%
Licenses and permits	494,205	556,702	(11%)
Intergovernmental revenues	489,180	549,191	(11%)
Interest and investment income	530,155	402,795	32%
Rental income	55,325	49,378	12%
Miscellaneous	<u>642,189</u>	<u>129,493</u>	396%
Total revenues	<u>50,831,925</u>	<u>64,125,206</u>	9%
Expenses:			
Public protection	64,536,027	61,171,540	6%
Interest on long-term debt	154,879	165,697	(7%)
Loss on disposal of capital assets	<u>12,312</u>	<u>-</u>	na
Total expenses	<u>64,703,218</u>	<u>61,337,237</u>	5%
Change in net assets	5,057,071	2,787,969	81%
Net assets, beginning	<u>28,311,635</u>	<u>25,523,666</u>	
Net assets, ending	<u>\$33,368,706</u>	<u>\$28,311,635</u>	18%

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

Analysis of Changes in Net Assets

Governmental activities increased the District's net assets by \$5,057,071 thereby accounting for 100% of the total increase in net assets of the District. Key elements of this increase are as follows:

- Charges for services increased \$2,530,617 or 15% due to rate increases included in contracts with various Cities for fire services.
- Property taxes increased \$2,580,971 or 6% due to increased property values within the District's boundaries.
- Interest and investment income increased \$127,360 or 32% due to improved cash balances subject to interest earnings.
- Miscellaneous revenues increased \$512,696 or 396% were mainly due to a one time reimbursement of \$425,000 from the City of Morgan Hill for construction expenses at the El Toro Fire Station.
- Public protection expense increased \$3,364,487 or 6% due to negotiated salary increases with the District's represented bargaining unit.

Although expenditures for certain functional categories reflected increases to parallel inflation and growth in the demand for services; overall, expenditures for governmental activities increased due to the growth in personnel costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal 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. Types of governmental funds reported by the District include the General Fund and Capital Project Fund.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

At June 30, 2008, the District's governmental funds reported a combined ending fund balance of \$15,840,517, an increase of \$3,500,205 in comparison with the prior year. All of the combined ending fund balance is classified as unreserved fund balance, which is available to meet the District's current and future needs.

The general fund is the chief operating fund of the District. At June 30, 2008, with the District having closed out the capital project fund, the \$15,840,517 ending fund balance in the governmental funds is attributable to the general fund. 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. The general fund's unreserved and total fund balance represents 24% of general fund expenditures of \$66,310,136.

Revenues for governmental functions totaled \$69,760,289 in fiscal year 2007-2008, which represents an increase of \$ 5,635,083 or 9% from the previous fiscal year. Expenditures for governmental functions, totaling \$66,310,136, increased by \$5,207,063 or 9% from the previous fiscal year. In the fiscal year 2007-2008, revenues for governmental functions exceeded expenditures by \$ 3,450,153.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

<u>Revenues by Source</u>	Revenues Classified by Source					
	Governmental Funds					
	<u>FY 2008</u>		<u>FY 2007</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of</u>	<u>Amount</u>	<u>% of</u>	<u>Amount</u>	<u>% of</u>
		<u>Total</u>		<u>Total</u>	<u>Change</u>	<u>Change</u>
Property taxes and assessments	\$48,620,871	69%	\$46,039,900	72%	\$2,580,971	6%
Licenses and permits	494,205	1%	556,702	1%	(62,497)	(11%)
Intergovernmental revenues	489,180	1%	549,191	1%	(60,011)	(11%)
Use of money and property	585,480	1%	452,173	1%	133,307	29%
Charges for services	18,928,364	27%	16,397,747	26%	2,530,617	15%
Miscellaneous revenues	<u>642,189</u>	<u>1%</u>	<u>129,493</u>	<u>- %</u>	<u>512,696</u>	<u>396%</u>
Total	<u>\$69,760,289</u>	<u>100%</u>	<u>\$64,125,206</u>	<u>100%</u>	<u>\$5,635,083</u>	<u>9%</u>

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

The following provides an explanation of revenues by source that changed significantly over the prior year.

- Property taxes and assessments – Increased due to increases in the assessed value of property located within the District's boundaries.
- Licenses and permits – Decreased due to a drop in plan check fee revenue and is a reflection of declining construction work being done in the County.
- Intergovernmental revenues – Decreased due to due to rate increases included in contracts with various Cities for fire services.
- Use of money and property – Increased due to improved cash balances subject to interest earnings.
- Charges for services – Increased due to due to rate increases included in contracts with various Cities for fire protection services.

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function Governmental Funds						
<u>Expenditures by Function</u>	<u>FY 2008</u>		<u>FY 2007</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Public protection	\$63,090,979	95%	\$59,764,834	98%	\$3,326,145	6%
Capital outlay	2,792,844	4%	911,201	2%	1,881,643	207%
Debt service – principal	260,000	1%	260,000	-	10,000	4%
Debt service – interest	<u>156,313</u>	-	<u>167,038</u>	-	<u>(10,725)</u>	(6%)
Total	<u>\$66,310,136</u>	<u>100%</u>	<u>\$61,103,073</u>	<u>100%</u>	<u>\$5,207,063</u>	9%

The following provides an explanation of expenditures by function that changed significantly over the prior year.

- Public protection – Increased due to negotiated salary increases with the District's represented bargaining unit.
- Capital outlay – Increased due to the El Toro Fire Station remodel project in Morgan Hill.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

The current year change in fund balance is presented below:

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

	<u>Major Fund</u> General Fund	<u>Nonmajor Fund</u> Capital Projects Fund	<u>Total</u>
Revenues	\$69,743,496	\$ 16,793	\$69,760,289
Expenditures	(66,310,136)	-	(66,310,136)
Net other financing sources (uses)	<u>665,052</u>	<u>(615,000)</u>	<u>50,052</u>
Net change in fund balances	4,098,412	(598,207)	3,500,205
Fund balances, beginning	<u>11,742,105</u>	<u>598,207</u>	<u>12,340,312</u>
Fund balances, ending	<u>\$15,840,517</u>	<u>\$ -</u>	<u>\$15,840,517</u>

The fund balance in the District's general fund increased by \$4,098,412 during the fiscal year mainly due to a strong growth in property taxes and improved revenues from city contracts. As noted above, the District's general fund public protection expenditures increased by 6% due to negotiated salary increases with the District's represented bargaining unit. Overall, the general fund's performance resulted in a net increase in fund balance for the fiscal year ended June 30, 2008 of \$4,098,412, an increase of 37% over the prior year's net increase in fund balance of \$2,993,983.

Proprietary Funds

The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

The Health Benefit had unrestricted net assets of \$490,338 at June 30, 2008. The total increase in net assets for the Health Benefit was \$110,794 due to contributions exceeding the expenditures.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

The following table shows actual revenues, expenses and results of operations for the current fiscal year and in comparison to the prior year:

	<u>2008</u>	<u>Health Benefit</u> <u>2007</u>	<u>Increase/</u> <u>(Decrease)</u>
Operating revenues	\$3,681,918	\$3,119,942	18%
Operating expenses	(<u>3,571,124</u>)	(<u>3,272,919</u>)	9%
Change in net assets	\$ <u>110,794</u>	(\$ <u>152,977</u>)	172%

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original and the final budget resulted in a \$1,743,000 increase in the amounts available for appropriations. Those changes can be briefly summarized as follows:

- Use of money and property budget increased by \$310,000 due to higher than anticipated cash balances, which resulted in increased interest income.
- Charges for services budget increased by \$1,390,000 due to the favorable renegotiation of two contracts with local cities for fire protection services and growth in cost of living adjustment formulas in other city contracts.

The difference between the original and the final budget resulted in a \$3,318,066 increase in the total charges for appropriations. Those changes can be briefly summarized as follows:

- Salaries and benefits budget increased by \$652,000 due to higher than anticipated overtime costs necessary to maintain minimum staffing levels.
- Services and supplies budget increased by \$1,600,066 due to an increase in energy and fuel costs, replacement of medical supplies and vehicle maintenance costs.
- City provided services budget increased by \$916,000 due to a higher than anticipated growth in property values in the city-contracted area that resulted in higher pass through payments.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

During the year, actual revenues were more than budgetary estimates by \$958,548. The main components of the positive variance are as follows:

- Charges for services had a positive variance of \$501,364 due to the favorable renegotiation of two contracts with local cities, that were due to expire, for fire protection services.
- Miscellaneous revenues had a positive variance of \$425,189 due to reimbursed construction costs from the City of Morgan Hill related to the El Toro Fire Station remodel project.

Actual expenditures were less than budgetary estimates by \$1,795,125 (excluding reserves). The main component of this positive variance is from salaries and benefits of \$985,958 due to lower employee related insurance costs and capital outlay of \$741,056 due to a delay in the purchase of replacement breathing apparatus equipment.

Overall, the net effect of over-realization of revenues and under-utilization of expenditures versus budgeted amounts resulted in a favorable variance of \$2,753,673 (excluding reserves).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$25,468,744 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery, equipment, and furnishings. The total increase in the District's investment in capital assets for the current period was 7%.

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

- Purchase of several vehicles.
- Purchase of computers and related equipment.
- Sale or disposal of various vehicles and equipment.

For government-wide financial statement presentation, all depreciable capital assets except infrastructure using the modified approach were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

	<u>Governmental</u> <u>Activities</u>		<u>Increase/</u> <u>(Decrease)</u>
	<u>2008</u>	<u>2007</u>	<u>% of</u> <u>Change</u>
Land	\$ 4,065,549	\$ 4,065,549	-%
Buildings	16,048,584	15,401,867	4%
Vehicles, machinery, equipment, and furnishings	<u>19,153,715</u>	<u>17,546,349</u>	9%
Total cost	39,267,848	37,013,765	6%
Less: accumulated depreciation	<u>(13,799,104)</u>	<u>(13,129,638)</u>	5%
Capital assets, net	<u>\$25,468,744</u>	<u>\$23,884,127</u>	7%

Long-term debt

At June 30, 2008, the District had total long-term debt outstanding of \$8,412,788 as compared to \$8,272,809 in the prior year. This amount was comprised of \$3,130,000 of bonds payable (lease revenue bonds) and \$5,282,788 of compensated absences. During the year, payment of debt principal amounted to \$270,000. Additions to long-term compensated absences amounted to \$409,979.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The District anticipates a status quo in the economic environment. However, the District continues to rely on secured property taxes, especially the residential real estate market to sustain solid growth.
- The District's jurisdictional increase in secured property taxes is expected to be close to 7.0%.

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

During the current fiscal year, the unreserved fund balance in the general fund increased to almost \$14,700,000. The District has appropriated the full amount for spending in the 2009 fiscal year budget.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

REQUESTS 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 Santa Clara County Central Fire Protection District, 14700 Winchester Boulevard, Los Gatos, California, 95032.

**Basic Financial Statements –
Government-wide Financial Statements**

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and investments	
Unrestricted	\$ 16,987,175
Restricted with fiscal agents	193,703
Accounts receivable	128,471
Interest receivable	168,310
Due from other governmental agencies	2,614,503
Capital assets, net	<u>25,468,744</u>
Total Assets	<u>\$ 45,560,906</u>
Liabilities	
Accounts payable	\$ 798,004
Accrued salaries and benefits	2,961,253
Other accrued liabilities	20,155
Compensated absences	5,282,788
Bonds payable, due within one year	280,000
Bonds payable, due beyond one year	<u>2,850,000</u>
Total Liabilities	<u>12,192,200</u>
Net Assets	
Invested in capital assets, net of related debt	22,338,744
Unrestricted	<u>11,029,962</u>
Total Net Assets	<u>33,368,706</u>
Total Liabilities and Net Assets	<u>\$ 45,560,906</u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Activities
Year Ended June 30, 2008

	Expenses	Program Revenues Charges for Services	Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
Functions/Programs			
Governmental Activities			
Public protection	\$ 64,536,027	\$ 18,928,364	\$ (45,607,663)
Interest on long-term debt	154,879	-	(154,879)
Loss on disposal of capital assets	12,312	-	(12,312)
Total Governmental Activities	\$ 64,703,218	\$ 18,928,364	(45,774,854)
 General Revenues			
Property taxes and assessments			48,620,871
Licenses and permits			494,205
Intergovernmental revenues			489,180
Interest and investment income			530,155
Rental income			55,325
Miscellaneous			642,189
Total General Revenues			50,831,925
 Change in Net Assets			 5,057,071
Net Assets, Beginning			28,311,635
Net Assets, Ending			\$ 33,368,706

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

**Basic Financial Statements –
Fund Financial Statements**

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Balance Sheet - Governmental Funds
June 30, 2008

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Assets			
Cash and investments			
Unrestricted	\$ 16,987,175	\$ -	\$ 16,987,175
Accounts receivable	128,471	-	128,471
Interest receivable	168,310	-	168,310
Due from other governmental agencies	<u>2,614,503</u>	<u>-</u>	<u>2,614,503</u>
Total Assets	<u>\$ 19,898,459</u>	<u>\$ -</u>	<u>\$ 19,898,459</u>
Liabilities			
Accounts payable	\$ 798,004	\$ -	\$ 798,004
Accrued salaries and benefits	2,913,014	-	2,913,014
Other accrued liabilities	2,050	-	2,050
Insurance claims payable	<u>344,874</u>	<u>-</u>	<u>344,874</u>
Total Liabilities	<u>4,057,942</u>	<u>-</u>	<u>4,057,942</u>
Fund Balances			
Unreserved, reported in			
General fund			
Designated for future expenditures	1,163,287		1,163,287
Undesignated	<u>14,677,230</u>	<u>-</u>	<u>14,677,230</u>
Total Fund Balances	<u>15,840,517</u>	<u>-</u>	<u>15,840,517</u>
Total Liabilities and Fund Balances	<u>\$ 19,898,459</u>	<u>\$ -</u>	<u>\$ 19,898,459</u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Assets - Governmental Activities
June 30, 2008

Fund Balances - Total Governmental Funds		\$ 15,840,517
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		25,468,744
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.</p>		490,338
<p>Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds.</p>		(18,105)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
<p style="padding-left: 20px;">Compensated absences</p>	\$ 5,282,788	
<p style="padding-left: 20px;">Bonds (COP) payable</p>	<u>3,130,000</u>	<u>(8,412,788)</u>
Net Assets of Governmental Activities		\$ <u>33,368,706</u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Revenues			
Property taxes and assessments	\$ 48,620,871	\$ -	\$ 48,620,871
Licenses and permits	494,205	-	494,205
Intergovernmental revenues	489,180	-	489,180
Use of money and property	568,687	16,793	585,480
Charges for services	18,928,364	-	18,928,364
Miscellaneous revenues	<u>642,189</u>	<u>-</u>	<u>642,189</u>
Total Revenues	<u>69,743,496</u>	<u>16,793</u>	<u>69,760,289</u>
Expenditures			
Public protection			
Salaries and benefits	50,340,229	-	50,340,229
Services and supplies	5,905,377	-	5,905,377
City provided services	6,702,445	-	6,702,445
Other charges	142,928	-	142,928
Capital outlay	2,792,844	-	2,792,844
Debt service - principal	270,000	-	270,000
Debt service - interest	<u>156,313</u>	<u>-</u>	<u>156,313</u>
Total Expenditures	<u>66,310,136</u>	<u>-</u>	<u>66,310,136</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,433,360</u>	<u>16,793</u>	<u>3,450,153</u>
Other Financing Sources (Uses)			
Transfer in	615,000	-	615,000
Transfer out	-	(615,000)	(615,000)
Proceeds from sales of capital assets	<u>50,052</u>	<u>-</u>	<u>50,052</u>
Net Other Financing Sources (Uses)	<u>665,052</u>	<u>(615,000)</u>	<u>50,052</u>
Net Change in Fund Balances	4,098,412	(598,207)	3,500,205
Fund Balance, Beginning	<u>11,742,105</u>	<u>598,207</u>	<u>12,340,312</u>
Fund Balance, Ending	<u>\$ 15,840,517</u>	<u>\$ -</u>	<u>\$ 15,840,517</u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-wide Statement of Activities
Governmental Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds **\$ 3,500,205**

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

Governmental funds report capital outlay 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. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 2,792,844	
Less: current year depreciation	<u>(1,145,863)</u>	1,646,981

In the statement of activities, only the loss on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase the financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold, net of related accumulated depreciation.

(62,364)

Repayments of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

Principal repayments		
Bonds (COP) payable		270,000

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expenses) of certain activities of the internal service funds is reported with governmental activities.

110,794

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	1,434	
Change in compensated absences	<u>(409,979)</u>	<u>(408,545)</u>

Change in Net Assets of Governmental Activities **\$ 5,057,071**

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Fund Net Assets - Proprietary Fund - Internal Service
June 30, 2008

	<u>Governmental</u> <u>Activities</u> Health Benefit
Assets	
Cash and investments	
Restricted with fiscal agents	\$ 193,703
Accounts receivable	<u>296,635</u>
Total Assets	<u>\$ 490,338</u>
Liabilities	
Accounts payable	\$ <u>-</u>
Total Liabilities	<u>-</u>
Net Assets	
Unrestricted	<u>490,338</u>
Total Net Assets	<u>490,338</u>
Total Liabilities and Net Assets	<u>\$ 490,338</u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets -
Proprietary Fund - Internal Service
Year Ended June 30, 2008

	Governmental Activities
	Health Benefit
Operating Revenues	
Health contribution	\$ <u>3,681,918</u>
Total Operating Revenues	<u>3,681,918</u>
Operating Expenses	
Claims expenses	<u>3,571,124</u>
Total Operating Expenses	<u>3,571,124</u>
Change in Net Assets	110,794
Net Assets, Beginning	<u>379,544</u>
Net Assets, Ending	\$ <u><u>490,338</u></u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Cash Flows - Proprietary Fund - Internal Service
Year Ended June 30, 2008

	<u>Governmental Activities</u> <u>Health Benefit</u>
Cash Flows from Operating Activities	
Cash receipts from interfund services provided - contributions to the plan	\$ 3,658,026
Cash payment for interfund services used - paid claims	<u>(3,571,124)</u>
Net cash provided by operating activities	<u>86,902</u>
Net Increase in Cash and Investments	86,902
Cash and Investments, Beginning	
Restricted with fiscal agents	<u>106,801</u>
Cash and Investments, Ending	
Restricted with fiscal agents	<u><u>\$ 193,703</u></u>
Reconciliation of change in net assets to net cash provided (used) by operating activities	
Change in Net Assets	\$ 110,794
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities	
Decrease (increase) in assets	
Accounts receivable	<u>(23,892)</u>
Net cash provided by operating activities	<u><u>\$ 86,902</u></u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Fiduciary Net Assets - Fiduciary Fund
June 30, 2008

	<u>Workers Compensation</u>
Assets	
Cash and investments	
Unrestricted	\$ 8,952,987
Interest receivable	<u>63,374</u>
Total Assets	<u>9,016,361</u>
Liabilities	
Insurance claims payable	<u>6,311,503</u>
Total Liabilities	<u>6,311,503</u>
Net Assets	
Net assets held in trust for workers' compensation	<u><u>\$ 2,704,858</u></u>

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund
Year Ended June 30, 2008

	<u>Workers Compensation</u>
Additions	
Plan contributions	\$ 2,786,143
Interest and investment income	<u>349,245</u>
Total Additions	<u>3,135,388</u>
Deductions	
Estimated claims	777,302
Claim payments	664,284
Administrative expenses	<u>441,859</u>
Total Deductions	<u>1,883,445</u>
Change in Net Assets	1,251,943
Net Assets, Beginning	<u>1,452,915</u>
Net Assets, Ending	<u><u>\$ 2,704,858</u></u>

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

Basic Financial Statements –
Notes to the Basic Financial Statements

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 1. REPORTING ENTITY

Formation Date and Administrative Office

The Santa Clara County Central Fire Protection District (the "District") was formed in January 1947 under the California Health and Safety Code. The District's administrative office is located at:

14700 Winchester Boulevard
Los Gatos, California 95032
Phone (408) 378-4010
Fax (408) 378-4079

History and Formation

The Central Fire Protection District is a full service fire department which has evolved through fire district consolidations. In 1947, two agencies, the Cottage Grove Fire District and the Oakmead Farms Fire District were consolidated and were joined with other agencies of unincorporated areas that had no fire protection to become the Central Fire Protection District in Santa Clara County.

Governing Board

The County Board of Supervisors is the governing body of the District. Management of the District's affairs is delegated to the board of directors. The District Board of Directors were comprised of the County Board of Supervisors at June 30, 2008:

Donald Gage, Chairperson
Blanca Alvarado
Peter McHugh
Ken Yeager
Liz Kniss

Administrative Officers

The chief administrative officers of the District at June 30, 2008, were:

Kenneth L. Waldvogel, Fire Chief
Fred Schulenburg, Director of Business Services

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 1. REPORTING ENTITY - Continued

Present Operations

The District serves the areas of Santa Clara County not protected by other fire departments, districts, or the State Division of Forestry. The District exists to protect the lives, property, and environment within the communities served from fires, disasters, and emergency incidents through education, prevention, and emergency response. Funding is provided primarily through property taxes and contracts for fire protection services.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the District the option of electing to apply FASB pronouncements issued after November 30, 1989. This option does not apply for the District since it has no enterprise funds. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

A. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal service fund activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

Fund financial statements of the District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column in the proprietary fund financial statements.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Governmental Funds

The District reports one major governmental fund:

- The *General Fund* is the primary operating fund of the District and is always classified as a major fund. It is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not accounted for through other funds. For the District, the General Fund's primary activity is public protection.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The District reports the following nonmajor governmental fund:

- *Capital Project* is used to account for financial resources restricted for the acquisition or construction of specific capital projects or items.

Proprietary Fund

The District reports one proprietary fund:

- *Internal Service* accounts for the financing goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The District has one Internal Service Fund, the Health Benefit Fund, which accounts for the finance activities of the District's self funded health insurance program for its employees, retirees and eligible dependents.

Fiduciary Fund (Not included in the government-wide statements)

The District reports one fiduciary fund:

- *Workers Compensation* is used to account for assets held by the District to meet present and future workers' compensation claims liabilities.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund balance is used as the measure of available spendable financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), as well as expenditures related to compensated absences which are reported when due.

C. Budgets and Budgetary Accounting

The District, as per California Health and Safety Code Section 13895, adopts final annual operating budgets before October 1. From the effective date of the budget, which is adopted by the Board of Directors after public hearings, the proposed expenditures become appropriations. The Fire Chief generally may transfer appropriations among programs. Unencumbered and unexpended appropriations lapse at fiscal year-end. During the year, supplemental appropriations were approved by the Board of Directors.

The District also adopts budgets annually for Capital Project Funds. Such budgets are based on a project time frame, rather than a fiscal year, and unused appropriations are reapportioned from year to year until project completion.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgeted revenues and expenditures in the financial statements represent the original budget modified by authorized adjustments during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year that were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. Expenditures may not legally exceed budgeted appropriations at the expenditure object level.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General Fund and Capital Projects Fund. Encumbrances outstanding at year-end are reported as reservation of fund balance since they do not constitute expenditures or liabilities.

D. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the internal service fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Capital Assets

In the government-wide financial statements, capital assets (fixed assets) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation expense is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful lives, by type of asset, are as follows:

Buildings	50 years
Vehicles, machinery, equipment, and furnishings	5 to 20 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Upon sale of capital assets, the proceeds from sale of capital assets is included in the results of operations as other financing sources.

F. Long-term Debt

All long-term debt to be paid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of compensated absences and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

G. Compensated Absences

The District's employees earn vacation which may either be taken or accumulated, up to certain amounts, until paid upon retirement or termination. There is no accrual limit on sick leave; however, there are various restrictions and limitations on the sick leave pay-off upon termination depending on the employee group and retirement factors. For all funds, this liability reflects amounts attributable to employee service already rendered, cumulative, probable for payment and reasonably estimated.

The District accrues accumulated unpaid compensated absences when earned (or estimated to be earned) by the employee. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources as accrued salaries and benefits.

H. Equity Classifications

In the government-wide and proprietary fund financial statements, equity is classified as net assets and divided into three components:

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets 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.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *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. There were no restricted net assets as of June 30, 2008.
- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

In the governmental fund financial statements, equity is classified as fund balance. Reservations and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reservations and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions. There were no fund balance reservations as of June 30, 2008.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Fund balance designations as of June 30, 2008 were for future expenditures.

I. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3. PROPERTY TAX

The reported lien date is January 1 for secured and unsecured property taxes.

In accordance with Government Code Section 29100, on or before September 1, the Board of Supervisors shall adopt the rates of taxes on the secured roll. The Tax Collector then completes the tax bill processing by the end of September. The Revenue and Taxation Code specifies that the Tax Collector shall issue secured tax bills by November 1.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 3. PROPERTY TAX - Continued

The due dates and delinquency dates for secured taxes are as follows:

Due date for the first installment is Nov. 1, delinquent after Dec. 10.

Due date for the second installment is Feb. 1, delinquent after April 10.

On July 19, 1993, the County Board of Supervisors, adopted the Alternative Method of Tax Apportionment "Teeter Plan". Under this plan the District receives annually the full amount of its share of property taxes on the secured rolls. In return, the County receives all future delinquent tax payments otherwise due to the District.

NOTE 4. CASH AND INVESTMENTS

The cash balance of the District's General Fund, Capital Project, and the Workers Compensation Trust Fund are pooled and invested by the County's Treasurer in the pooled cash investment program ("Pool") for the purpose of increasing earnings through investment activities. The County's pooled deposits and investments are regulated by California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee and the Board. At fiscal year end, the County provides the participants' the pooled investments' fair value, based on quoted market prices. The County allocates interest to the District based on the District's average daily cash balance relative to the entire Pool. The value of the participants' pool shares that may be withdrawn is determined on an amortized basis, which is different than the fair value of the participants' positions in the pool. In addition, the County's investment pool is not rated by any of the credit rating agencies. Additional information regarding the County's investment policy and cash and investments, including interest rate risk, credit risk, custodial credit risk categories, and maturities of the different categories of investments, can be found in the County's notes to the basic financial statements.

The cash balances for the Health Benefit Fund were held in a bank account by health plan's third party administrator, Coastal Healthcare Administrators, in Salinas, California. The account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 4. CASH AND INVESTMENTS – Continued

Cash and investments at June 30, 2008 consists of the following:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and investments with the County Treasury common pool:		
General Fund - District Maintenance	\$16,985,375	\$ 17,033,236
Fiduciary - Worker's Compensation	8,952,987	8,978,215
Proprietary - Health Benefit (restricted)	193,703	193,703
Petty cash	<u>1,800</u>	<u>1,800</u>
Total cash and investments	<u>\$26,133,865</u>	<u>\$26,206,954</u>

Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investment and for External Investment Pools" establishes accounting and financial reporting standards for all investments held by governmental external investment pools. The statement requires governmental entities to report investments at fair value.

Based on the County's calculations, the application of GASB, Statement No. 31, would increase the District's cash balance and interest and investment income (use of money and property, in the fund financials) by \$47,861 for the General Fund-District Maintenance, and \$25,228 for Fiduciary-Worker's Compensation. However, since the effect of the application of GASB 31, in this instance, is not material, the District's cash and investments account is stated at cost.

NOTE 5. OPERATING TRANSFER

The District periodically transfers cash between district funds to provide the resources necessary to meet their objectives. In the current fiscal year, the District closed out the capital project fund into the General Fund. Interfund transfers for the year ended June 30, 2008 are as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Capital Project - Construction '98	<u>\$615,000</u>

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 6. CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2008 is as follows:

	<u>Balance</u> <u>6/30/07</u>	<u>Additions</u>	<u>Disposals/</u> <u>Adjustment</u>	<u>Balance</u> <u>6/30/08</u>
Land	\$ 4,065,549	\$ -	\$ -	\$ 4,065,549
Buildings	15,401,867	646,717	-	16,048,584
Vehicles, machinery, equipment, and furnishings	<u>17,546,349</u>	<u>2,146,127</u>	<u>538,761</u>	<u>19,153,715</u>
Totals at historical cost	<u>37,013,765</u>	<u>2,792,844</u>	<u>538,761</u>	<u>39,267,848</u>
Less accumulated depreciation				
Buildings	3,700,863	308,037	-	4,008,900
Vehicles, machinery, equipment, and furnishings	<u>9,428,775</u>	<u>837,826</u>	<u>476,397</u>	<u>9,790,204</u>
Total accumulated depreciation	<u>13,129,638</u>	<u>1,145,863</u>	<u>476,397</u>	<u>13,799,104</u>
Capital assets, net	<u>\$23,884,127</u>	<u>\$1,646,981</u>	<u>\$ 62,364</u>	<u>\$25,468,744</u>

For the year ended June 30, 2008, depreciation expense charged to public protection under governmental activities was \$1,145,863.

NOTE 7. WORKERS COMPENSATION

As of July 1, 1979, the District began self-insuring workers compensation claims. The District Workers Compensation Program is administered by the County of Santa Clara. The County's policy is to accrue a liability for anticipated losses as claims are received based upon the probability of payout against each claim.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 8. LONG-TERM DEBT

A. Bonds Payable

The Santa Clara County Financing Authority's 1998 Lease Revenue Bonds Series A, issued for \$77,695,000 on September 1, 1998, advance refunded and defeased all outstanding 1992 Certificates of Participation (COPs). The issuance also prepaid a capital lease obligation and financed additional facilities for the Santa Clara County Central Fire Protection District. The net proceeds from the issuance of the 1998 Lease Revenue Bonds Series A, after deducting \$1,705,000 in discounts, underwriting fees, insurance, and reserve requirements, amounted to \$75,990,000. The 1998 Lease Revenue Bonds Series A bear interest at rate ranging from 3.375% to 4.75%, and mature serially through May 15, 2012, followed by a term bond maturing May 15, 2017 for \$1,935,000. The County's annual base rental payments ranging from \$442,000 to \$7,395,000 through May 15, 2017, secure the debt. Debt payments from May 15, 2002, and beyond are insured by a municipal bond insurance policy issued by Ambac Assurance Corporation. The portion of these bonds that applies to the Central Fire Protection District is \$5,020,000.

As of June 30, 2008, the outstanding principal balance amounted to \$3,130,000. The annual requirements to amortize debt outstanding are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 280,000	\$144,837	\$ 424,837
2010	290,000	132,797	422,797
2011	305,000	120,037	425,037
2012	320,000	106,313	426,313
2013	350,000	91,913	441,913
2014-2017	<u>1,585,000</u>	<u>192,613</u>	<u>1,777,613</u>
Total	<u>\$3,130,000</u>	<u>\$788,510</u>	<u>\$3,918,510</u>

B. Compensated Absences

As of June 30, 2008, the District's long-term compensated absences amounted to \$5,282,788 as reported in the government wide statements. The current portion of \$1,371,545 is included in the accrued salaries and benefits account.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 8. LONG-TERM DEBT - Continued

C. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

	<u>Compensated Absences</u>	<u>Bonds Payable</u>	<u>Total</u>
Balance, June 30, 2007	\$4,872,809	\$3,400,000	\$8,272,809
Increases (Decreases)	<u>409,979</u>	(<u>270,000</u>)	<u>139,979</u>
Balance, June 30, 2008	<u>\$5,282,788</u>	<u>\$3,130,000</u>	<u>\$8,412,788</u>
Amount due within one year		<u>\$280,000</u>	

NOTE 9. PENSION PLAN

A. Plan Description

The Santa Clara County Central Fire Protection District contributes to the California Public Employees Retirement System (the "CalPERS"), an agent multiple-employer public employee defined benefit pension plan, which acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS offers a menu of benefit provisions and other requirements that are established by State statutes within the Public Employee Retirement law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from its Executive Office – 400 P Street, Sacramento CA 95814.

The District's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All permanent employees (full-time and part-time) are required to participate in CalPERS.

B. Pension Plan Benefits

Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five year of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2.7% at 55 for miscellaneous plan members and 3% at 50 for safety plan members.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 9. PENSION PLAN – Continued

- **Miscellaneous Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2.7% at 55), years of service, and final compensation (monthly average of the members highest 12 consecutive months' full-time equivalent monthly pay). The services retirement for this group is not capped.

- **Safety Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (3% at 50), years of service, and final compensation (monthly average of the members highest 12 consecutive months' full-time equivalent monthly pay). The service retirement benefit for the Safety Plan is capped at 90% of final compensation.

C. Funding Policy

Permanent employees are required to make contributions to their account. The member employees' contribution rates are set by State statute and only change with significant contract amendments. Due to a contract amendment in fiscal year 2007-08, the Miscellaneous Plan Members rate, as a percentage of wages, increased from 7% to 8% effective November 19, 2007. The Safety Plan Members rate, as a percentage of wages, was 9% during fiscal year 2007-08.

The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the Board of Administration (the employer rate). As part of the District's collective bargaining process Miscellaneous Plan members agreed to contribute the first 2.8% of the employer rate. The District's Payroll for employees covered by CalPERS for fiscal year ended June 30, 2008 was \$30,373,705 (consisting of \$4,391,480 for Miscellaneous Plan employees and \$25,982,225 for Public Safety Plan employees), out of the total payroll for the District of \$36,645,997. The CalPERS employer rate and annual costs are described below.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 9. PENSION PLAN – Continued

D. Annual Pension Cost

The required contribution for the year ended June 30, 2008 was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the District's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize the any unfunded liabilities (or excess assets) on a closed basis over the remaining amortization period. The remaining amortization period as of June 30, 2005 was 17 years for the Miscellaneous Plan and 32 years for the Safety Plan.

The significant assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2008 included the following:

- A rate of return on the investment of present and future assets of 7.75% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for Miscellaneous Plan members, and 3.25% to 13.15% for Safety Plan members.
- Overall payroll growth of 3.25% compounded annually.
- Inflation factor of 3.00% compounded annually.

In addition to the required contribution calculated in the actuarial valuation, a mid-year contract amendment for the Miscellaneous Plan brought about an increase in the employer contribution rates effective November 19, 2007.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 9. PENSION PLAN – Continued

The District's actuarial required contribution rates and incurred costs paid to CalPERS for the last three fiscal years are as follows:

Fiscal Year Ending	Required Contribution Rates for Safety	Required Contribution Rates for Miscellaneous	Annual Pension Cost (APC) for Safety and Miscellaneous Employees	Percentage of APC Contributed	Net Pension Obligation
6/30/06	34.806%	13.648%	\$8,810,184	100%	\$ -
6/30/07	26.532%	13.934%	\$7,460,221	100%	-
6/30/08:					
Jul – Nov	26.584%	13.680%	\$2,957,772	100%	-
Nov – Jun	26.584%	19.500%	\$4,414,006	100%	-

Required Supplementary Information

Valuation Date	(a) Accrued Liability	(b) Actuarial Value of Assets (AVA)	(a)-(b) Unfunded Liability (UL)	<u>Funded Ratios</u> (b) / (a) Market (AVA) Value		(c) Annual Covered Payroll	[(a)-(b)]/(c) UL as a % of Payroll
<u>MISCELLANEOUS PLAN (2% at 55 Risk Pool):</u>							
<i>Retirement Plan</i>							
6/30/04	\$ 681,517,006	\$ 580,960,981	\$100,556,115	85.2%	84.1%	\$160,107,449	62.8%
6/30/05	872,346,612	729,556,809	142,789,803	83.6%	86.2%	203,995,039	70.0%
6/30/06	1,280,157,040	1,069,546,975	210,610,066	83.6%	88.5%	304,898,179	69.1%
<u>SAFETY PLAN:</u>							
<i>Retirement Plan</i>							
6/30/04	253,052,679	205,844,237	47,208,442	81.3%	80.3%	22,755,453	207.5%
6/30/05	269,664,805	222,790,713	46,874,092	82.6%	85.2%	23,471,632	199.7%
6/30/06	284,246,202	240,522,183	43,724,019	84.6%	90.1%	24,203,937	180.6%

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 10 **HEALTH BENEFIT**

The District provides lifetime medical coverage to retirees who meet certain eligibility requirements. Currently, employees who retire directly from the District, have accrued seven years of service and were hired between January 1, 1995 and December 31, 2006, inclusive, or retire directly from the District, have accrued 10 years of service and were hired after December 31, 2006 are eligible. The District provides lifetime medical insurance to a retiree and his/her spouse if the retiree retired on or before January 1, 1978. The District will pay for the spouse's coverage so long as the retiree maintains eligibility. An employee who retires after January 1, 1978 may include his/her dependent on the plan at the retiree's cost.

Presently the District offers two health plans: Kaiser Permanente (HMO) and a self-funded indemnity-type plan that has a preferred provider discount feature. Each plan offers a prescription drug benefit.

Below is the summary of the actuarial valuation report as of June 30, 2008 by Rael & Letson:

	<u>Safety</u>	<u>Miscellaneous</u>	<u>All</u>
A. Participant Count as of January 1, 2008 ¹			
Current retirees	152	14	166
Other participants fully eligible for benefits	56	16	72
Other participants not yet fully eligible for benefits	<u>154</u>	<u>27</u>	<u>181</u>
Total Count	<u>362</u>	<u>57</u>	<u>425</u>
B. Actuarial Present Value of Benefits (APVB) at June 30, 2008			
Current retirees	\$ 53,182,600	\$ 4,827,500	\$ 58,010,100
Other participants fully eligible for benefits	30,794,800	7,900,000	38,694,800
Other participants not yet fully eligible for benefits	<u>108,174,500</u>	<u>11,314,200</u>	<u>119,488,700</u>
Total APVB	<u>\$192,151,900</u>	<u>\$24,041,700</u>	<u>\$216,193,600</u>
C. Actuarial Accrued Liability (AAL) at June 30, 2008			
Current retirees	\$ 53,182,600	\$ 4,827,500	\$ 58,010,100
Other participants fully eligible for benefits	30,794,800	7,900,000	38,694,800
Other participants not yet fully eligible for benefits	<u>62,436,500</u>	<u>6,256,600</u>	<u>68,693,100</u>
Total AAL ²	<u>\$146,413,900</u>	<u>\$18,984,100</u>	<u>\$165,398,000</u>

¹Results for this June 30, 2008 valuation were projected from a census captured as of January 1, 2008.

²AAL is the portion of APVB that is attributed to actives' service to date by the chosen actuarial cost method. GASB 43/45 allows for seven cost methods, including Projected Unit Credit (as required for corporate and multiemployer retiree welfare calculations) and Entry Age (as commonly used for governmental pension calculations). For this valuation we have used the Projected Unit Credit method, which spreads costs from hire to the projected date of full eligibility for plan benefits. Note that the APVB and AAL shown above have been offset by projected retiree contributions. The gross AAL before such offset is \$178,555,200, of which 93% is due to Plan payments and 7% is due to retiree contributions. Also note that had we increased our assumed health care trend rates by one percent, the total AAL would have increased from \$165,398,000 to \$188,249,000.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2008

NOTE 10 HEALTH BENEFIT – Continued

	<u>Safety</u>	<u>Miscellaneous</u>	<u>All</u>
D. Funded Status at June 30, 2008			
Actuarial Value of Assets	\$ -	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$146,413,900	\$18,984,100	\$165,398,000
Funded Ratio	0%	0%	0%
Covered Payroll ¹	\$28,108,000	\$5,161,000	\$33,269,000
UAAL as a Percentage of Covered Payroll	521%	368%	497%
E. Annual Required Contrib (ARC) and Annual OPEB Cost (AOC) for 2008/2009²			
Normal Cost for 2008/2009	\$ 5,312,600	\$ 965,800	\$ 6,278,400
Amortization of UAAL as of June 30, 2008 ³	<u>7,360,300</u>	<u>954,300</u>	<u>8,314,600</u>
Total ARC for 2008/2009	\$12,672,900	\$1,920,100	\$14,593,000
Interest on June 30, 2008 Net OPEB Obligation (Amortization of June 30, 2008 NOO) ³	-	-	-
Total APVB	<u>\$12,672,900</u>	<u>\$1,920,100</u>	<u>\$14,593,000</u>
F. Net OPEB Obligation (NOO) Actual Reconciliation over 2007/2008⁴ and Estimated Reconciliation over 2008/2009			
NOO at June 30, 2007	n/a	n/a	n/a
(Benefit Payments paid outside of a trust in 2007/2008)	n/a	n/a	n/a
(Contributions to a trust in 2007/2008)	n/a	n/a	n/a
Annual OPEB Cost (AOC) for 2007/2008	n/a	n/a	n/a
NOO at June 30, 2008	\$ -	\$ -	\$ -
(Estimated Benefit Payments paid outside of a trust in 2008/2009)	(2,262,500)	(183,300)	(2,445,800)
(Estimated Contributions to a trust in 2008/2009)	-	-	-
Annual OPEB Cost (AOC) for 2008/2009	<u>12,672,900</u>	<u>1,920,100</u>	<u>14,593,000</u>
Estimated NOO at June 30, 2009	<u>\$10,410,400</u>	<u>\$1,736,800</u>	<u>\$12,147,200</u>

The District administers the health benefit plan as an internal service fund. The actuarial valuation of the postretirement welfare benefits is available directly from the District.

¹Covered payroll was projected from December 31, 2007 to June 30, 2008 at the assumed compensation increase rate.

²Despite the name, there is no requirement to actually contribute the ARC or any other amount. Future plan financial statement notes must simply show a "Schedule of Employer Contributions" with the ARC and the percentage of it that was actually contributed (if any). The ARC calculated above is noted as being applicable to the year following the current valuation date, but if a new valuation is not performed next year then this same ARC may be considered applicable to each of the next two years. In this manner, the Schedule of Employer Contributions can show a continuous annual history of ARC and actual contribution amounts.

³GASB 43/45 allows for an amortization method of either level dollar (as for a mortgage) or level percent of pay, period of up to 30 years (but no less than 10 years if the AAL decreases due to a new cost or asset value method), and basis of either rolling (no annual reduction in period) or static. The amortization used here is level dollar over a static 30 years.

⁴NOO is generally the cumulative excess of prior ARC over benefit payments (if unfunded) or trust contributions (if funded). In practice, before the ARC is added to the NOO each year it is adjusted to become the Annual OPEB Cost (AOC) by adding NOO interest and subtracting an NOO amortization. For this exhibit we have assumed that GASB 43/45 will be adopted for 2008/2009, so that NOO on June 30, 2008 is zero.

Required Supplementary Information
(Other than MD&A)

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, Beginning	\$ 11,742,105	\$ 11,742,105	\$ 11,742,105	\$ -
Resources (Inflows)				
Property taxes and assessments	49,207,000	48,782,000	48,620,871	(161,129)
Licenses and permits	368,000	463,000	494,205	31,205
Intergovernmental revenues	350,000	486,000	489,180	3,180
Use of money and property	100,000	410,000	568,687	158,687
Charges for services	17,037,000	18,427,000	18,928,364	501,364
Miscellaneous revenues	60,000	217,000	642,189	425,189
Transfer in	580,000	615,000	615,000	-
Proceeds from sales of capital assets	5,000	50,000	50,052	52
Amounts Available for Appropriation	<u>67,707,000</u>	<u>69,450,000</u>	<u>70,408,548</u>	<u>958,548</u>
Charges to Appropriations (Outflows)				
Public protection				
Salaries and benefits	50,674,187	51,326,187	50,340,229	985,958
Services and supplies	4,357,108	5,957,174	5,905,377	51,797
City provided services	5,800,000	6,716,000	6,702,445	13,555
Other charges	29,000	144,000	142,928	1,072
Capital outlay	3,498,900	3,533,900	2,792,844	741,056
Debt service - principal	270,000	270,000	270,000	-
Debt service - interest	158,000	158,000	156,313	1,687
Reserves	7,814,444	7,814,444	-	7,814,444
Total Charges to Appropriations	<u>72,601,639</u>	<u>75,919,705</u>	<u>66,310,136</u>	<u>9,609,569</u>
Budgetary Fund Balance, Ending	<u>\$ 6,847,466</u>	<u>\$ 5,272,400</u>	<u>\$ 15,840,517</u>	<u>\$ 10,568,117</u>

Continued

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

**Explanation of Differences between Budgetary Inflows and Outflows
and GAAP Revenues and Expenditures**

Sources/Inflows of Resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 70,408,548
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Differences - budget to GAAP:

Proceeds from sales of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(50,052)
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Transfers from other funds are inflows of budgetary resources but are not not revenues for financial reporting purposes	<u>(615,000)</u>
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Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 69,743,496</u>
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Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	\$ 66,310,136
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Differences - budget to GAAP:	<u>-</u>
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Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 66,310,136</u>
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Concluded

**Report on Internal Control Over Financial
Reporting and on Compliance and Other
Matters Based on an Audit of Basic Financial
Statements Performed in Accordance
With *Government Auditing Standards***



Vargas and Company

certified public accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Santa Clara County Central Fire Protection District
Los Gatos, California

We have audited the accompanying financial statements of the governmental activities, major fund and remaining fund information of the Santa Clara County Central Fire Protection District (the "District"), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the County of Santa Clara, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Vargas and Company
San Jose, California
July 24, 2008

**Schedule of Findings
and
Questioned Costs**

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified.
Internal control over financial reporting:	
• Material weakness(es) identified?	No.
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.
<i>Federal Awards</i>	No major programs.

Section II - Financial Statement Findings

Our audit of the accompanying basic financial statements of the Santa Clara County Central Fire Protection District, as of and for the year ended June 30, 2008, disclosed no findings nor questioned costs.

Our report on the Santa Clara County Central Fire Protection District's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2008, disclosed no findings nor questioned costs.

Section III - Federal Award Findings and Questioned Costs

The Santa Clara County Central Fire Protection District has no major federal program as of and for the year ended June 30, 2008.

**Summary Schedule of
Prior Audit Findings**

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Section I - Financial Statement Findings

Our audit of the basic financial statements of the Santa Clara County Central Fire Protection District, as of and for the year ended June 30, 2007, disclosed no findings nor questioned costs.

Our report on the Santa Clara County Central Fire Protection District's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2007, disclosed no findings nor questioned costs.

Section II - Federal Award Findings and Questioned Costs

The Santa Clara County Central Fire Protection District has no major federal program as of and for the year ended June 30, 2007.