

**SANTA CLARA COUNTY
CENTRAL FIRE PROTECTION
DISTRICT**

AUDIT REPORT

YEAR ENDED JUNE 30, 2011



Vargas and Company
certified public accountants

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
June 30, 2011

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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 the aggregate 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, 2011, which collectively comprise the District's 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 opinions on these 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 financial statements are free of material misstatement. 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 the 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 opinions.

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 the aggregate remaining fund information of the Santa Clara County Central Fire Protection District, as of June 30, 2011, 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 August 26, 2011, on our consideration of the Santa Clara County Central Fire Protection District's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, and schedule of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Vargas and Company
San Jose, California
August 26, 2011

Management's Discussion and Analysis
(Required Supplementary Information)

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

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, 2011. 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 2010-2011 fiscal year by \$3,568,891 (*net assets*). Of this amount, negative \$22,563,902 (*unrestricted net assets*) represents the District's current inability to meet its long term obligation to fund the cost of its retiree medical program, and \$26,132,793 is invested in capital assets, net of related debt.
- The District's total net assets decreased by \$12,178,328, mainly due to the increase in net OPEB (Other Post-Employment Benefits) obligation of \$11.2 million.
- As of June 30, 2011, the District's governmental funds reported combined ending fund balances of \$14,088,777, a decrease of \$434,187 in comparison with the prior year. The District's board has set aside \$3.7 million for OPEB expenditures. The remaining \$10.4 million is available to meet the District's current and future needs (*unassigned fund balance*).
- At the end of the fiscal year, unassigned fund balance for the general fund was \$10,438,503 or 13% of total general fund expenditures.
- The District's total long-term debt increased by \$11 million in comparison with the prior year. The increase is mainly related to the increase in the District's net OPEB obligation.

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
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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, 2011

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 a governmental fund, the general fund. If there were other types of governmental funds, the 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 non-major governmental funds would be in a single presentation.

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 a 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 an internal service fund 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 a 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, 2011

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 \$3,568,891 at the close of the current fiscal year.

Net Assets		<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>	Increase/ (Decrease)	
Assets:				
Current assets	\$19,995,133	\$19,439,599	3%	
Other assets	4,181,405	4,181,405	-	
Capital assets, net	<u>28,624,657</u>	<u>29,408,610</u>	(3%)	
Total assets	<u>52,801,195</u>	<u>53,029,614</u>	(0%)	
Liabilities:				
Current liabilities	6,056,157	5,118,979	18%	
Long-term liabilities	<u>43,176,147</u>	<u>32,163,416</u>	34%	
Total liabilities	<u>49,232,304</u>	<u>37,282,395</u>	32%	
Net assets:				
Invested in capital assets, net of related debt	26,132,793	26,848,610	(3%)	
Unrestricted net assets	<u>(22,563,902)</u>	<u>(11,101,391)</u>	(103%)	
Total net assets	<u>\$3,568,891</u>	<u>\$15,747,219</u>	(77%)	

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

Analysis of Net Assets

The larger portion of the District's net assets, \$26,132,793 or 732%, 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 is a negative \$22,563,902 or -632%%, which means the District is not currently able to meet its long-term obligation to fund its retiree medical program.

At the end of the current fiscal year, the District reported a positive balance in one of the two categories of net assets.

Changes in Net Assets

	<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$28,077,249	\$27,981,490	0%
General revenues:			
Property taxes and assessments	49,320,718	50,392,119	(2%)
Licenses and permits	510,417	424,614	20%
Intergovernmental revenues	1,247,935	1,107,431	13%
Interest and investment income	88,631	152,313	(42%)
Rental income	42,750	37,471	14%
Miscellaneous	<u>581,574</u>	<u>967,828</u>	(40%)
Total revenues	<u>79,869,274</u>	<u>81,063,266</u>	(1%)
Expenses:			
Public protection	91,984,514	89,669,905	3%
Interest on long-term debt	<u>63,088</u>	<u>131,203</u>	(52%)
Total expenses	<u>92,047,602</u>	<u>89,801,108</u>	3%
Change in net assets	(12,178,328)	(8,737,842)	(39%)
Net assets, beginning	<u>15,747,219</u>	<u>24,485,061</u>	
Net assets, ending	<u>\$ 3,568,891</u>	<u>\$15,747,219</u>	(77%)

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

Analysis of Changes in Net Assets

Governmental activities decreased the District's net assets by \$12,178,328 thereby accounting for 100% of the total decrease in net assets of the District. Key elements of this decrease are as follows:

- Property taxes decreased \$1,071,401 or 2% due to declining property values within the District's boundaries and the annexation of certain unincorporated parcels into the boundaries of neighboring cities.
- Intergovernmental revenues increased \$140,504 or 13% due to higher utilization of grant funds from the federal government.
- Miscellaneous revenues decreased \$386,254 or 40% due to a one-time reimbursement from the Los Altos Hills Fire District for the purchase of a new fire engine in the prior fiscal year and a decline in the amount of revenue received from insurance carriers.
- Public protection expense increased \$2,314,609 or 3% due to increases in overtime costs to backfill vacant positions due to retirements or injuries and higher than anticipated health care expenses.

While the key elements noted above account for the year-to-year changes in major revenue and expense categories, the main reason for the \$12.2 million decline in net assets is attributable to the District's inability to fully fund its annual obligation for the other postemployment benefits (OPEB).

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The type of governmental fund reported by the District is the General Fund.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

At June 30, 2011, the District's governmental funds reported an ending fund balance of \$14,088,777, a decrease of \$434,187 in comparison with the prior year. The Board committed \$3,650,274 of the fund balance for future OPEB expenditures so the remaining unassigned fund balance of \$10,438,503 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, 2011, the \$14,088,777 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 unassigned fund balance and total fund balance to total fund expenditures. The general fund's unassigned and total fund balance represents 13% and 17% of general fund expenditures of \$80,831,674.

Revenues for governmental functions totaled \$79,857,944 in fiscal year 2010-2011, which represents an increase of \$2,977,321 or 4% from the previous fiscal year. Expenditures for governmental functions, totaling \$80,831,674, increased by \$1,019,244 or 1% from the previous fiscal year. In fiscal year 2010-2011, expenditures for governmental functions exceeded revenues by \$973,730.

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

Revenues Classified by Source Governmental Funds						
<u>Revenues by Source</u>	<u>FY 2011</u>		<u>FY 2010</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>
Property taxes and assessments	\$49,320,718	62%	\$46,210,714	60%	\$3,110,004	7%
Licenses and permits	510,417	1%	424,614	1%	85,803	20%
Intergovernmental revenues	1,247,935	1%	1,107,431	1%	140,504	13%
Use of money and property	131,381	0%	189,784	1%	(58,403)	(31%)
Charges for services	28,077,249	35%	27,981,490	36%	95,759	0%
Miscellaneous revenues	<u>570,244</u>	<u>1%</u>	<u>966,590</u>	<u>1%</u>	<u>(396,346)</u>	<u>(41%)</u>
Total	<u>\$79,857,944</u>	<u>100%</u>	<u>\$76,880,623</u>	<u>100%</u>	<u>\$2,977,321</u>	<u>4%</u>

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
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The following provides an explanation of revenues by source that changed significantly over the prior year.

- Property taxes and assessments – Increased due to a temporary reallocation of District property taxes to the State of California in the prior fiscal year. Current year revenues are more reflective of historical trends.
- Intergovernmental revenues – Increased due to a higher utilization of federal grant funds in the current fiscal year.
- Use of money and property – Decreased due to lower interest rates and a reduction in the amount of cash on hand due to a reallocation of property tax revenues by the State at the end of the prior fiscal year.
- Miscellaneous revenues – Decreased due to one-time revenues recorded in the prior fiscal year for reimbursement from the Los Altos Hills Fire District for a fire engine and reimbursements from various insurance carriers.

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

Expenditures by Function
Governmental Funds

<u>Expenditures by Function</u>	<u>FY 2011</u>		<u>FY 2010</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	\$79,126,054	98%	\$76,586,959	96%	\$2,539,095	3%
Capital outlay	1,061,855	1%	2,802,673	4%	(1,740,818)	(62%)
Debt service – principal	511,818	1%	290,000	0%	221,818	76%
Debt service – interest	<u>131,947</u>	<u>0%</u>	<u>132,798</u>	<u>0%</u>	(<u>851</u>)	(1%)
Total	<u>\$80,831,674</u>	<u>100%</u>	<u>\$79,812,430</u>	<u>100%</u>	<u>\$1,019,244</u>	<u>1%</u>

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

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

- Public protection – Increased due to higher overtime costs to backfill vacant positions due to retirements or injuries and higher than anticipated health care expenses.
- Capital outlay – Decreased due to fewer large ticket items (i.e. fire engines) needing replacement in the current fiscal year.
- Debt service-principal – Increased due to additional debt service requirements required under a new capital lease used in the acquisition of a new rescue engine.

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> <u>General</u> <u>Fund</u>
Revenues	\$79,857,944
Expenditures	(80,831,674)
Net other financing sources (uses)	<u>539,543</u>
Net change in fund balances	(434,187)
Fund balances, beginning	<u>14,522,964</u>
Fund balances, ending	<u>\$14,088,777</u>

The fund balance in the District's General Fund decreased by \$434,187 during the fiscal year. The decrease is mainly due to increasing costs for salaries and benefits coupled with flat revenue growth. As noted above, the District's general fund public protection expenditures increased by 3% due to higher overtime costs to backfill vacant positions due to retirements or injuries and higher than anticipated health care expenses. Overall, the general fund's performance resulted in a net decrease in fund balance for the fiscal year ended June 30, 2011 of \$434,187, an increase of 85% over the prior year's net decrease in fund balance of \$2,928,471.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

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 fund had unrestricted net assets of \$280,910 at June 30, 2011. The total increase in net assets for the Health Benefit fund was \$163,249 due to the nature and timing of month to month funding requirements.

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

	<u>Health Benefit</u>		
	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Operating revenues	\$5,348,021	\$4,200,662	27%
Operating expenses	(<u>5,184,772</u>)	(<u>4,210,209</u>)	23%
Change in net assets	<u>\$ 163,249</u>	(<u>9,547</u>)	1810%

GENERAL FUND BUDGETARY HIGHLIGHTS

There was no difference between the original and the final budget for estimated revenues.

The difference between the original and the final budget resulted in a \$9,331 decrease in the total charges for appropriations. Those changes can be briefly summarized as follows:

- Salaries and benefits budget increased by \$1,023,357 due to higher than anticipated costs for overtime and health care expenses.
- Services and supplies budget decreased by \$861,823 to cover cost increases for salaries and benefits.
- City provided services budget decreased by \$331,865 to cover cost increases for salaries and benefits and debt service.
- Debt service – principal budget increased by \$161,000 to reflect the debt service requirements of the new capital lease used to fund the acquisition of a rescue engine.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

During the year, actual revenues were less than budgetary estimates by \$296,553. The main components of the negative variance are as follows:

- Intergovernmental revenues had a positive variance of \$305,935 due to higher than anticipated reimbursements from federal grant monies.
- Charges for services had a negative variance of \$1,481,691 due to a restructured payment schedule from one of the District's contract cities and lower than anticipated revenues from the County Fire Marshall's contract.
- Miscellaneous revenues had a positive variance of \$570,244 due to a failure to budget for reimbursements from retirees for dependent medical coverage.

Actual expenditures were less than budgetary estimates by \$190,102. The main component of the positive variance is as follows:

- Services and supplies had a positive variance of \$166,967 due to the deferral or elimination of purchases for non-critical items.

Overall, the net effect of under-realization of revenues and under-utilization of expenditures versus budgeted amounts resulted in an unfavorable variance of \$106,451.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounted to \$28,624,657 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery, equipment, and furnishings. The total decrease in the District's investment in capital assets for the current period was 3%.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2011

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

- The lease purchase of a new rescue engine.
- The purchase of computers and network equipment.
- Sale or disposal of various vehicles and equipment.

For government-wide financial statement presentation, depreciation is not taken in the year acquisition, but a full year of depreciation is taken in the year of disposal. Fund financial statements record capital asset purchases as expenditures.

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

	<u>Governmental Activities</u>		<u>Increase/ (Decrease)</u>
	<u>2011</u>	<u>2010</u>	<u>% of Change</u>
Land	\$ 4,065,549	\$ 4,065,549	-%
Buildings	17,440,804	17,429,347	0%
Vehicles, machinery, equipment, and furnishings	<u>22,790,554</u>	<u>22,480,586</u>	1%
Total cost	44,296,907	43,975,482	1%
Less: accumulated depreciation	<u>(15,672,250)</u>	<u>(14,566,872)</u>	8%
Capital assets, net	<u>\$28,624,657</u>	<u>\$29,408,610</u>	(3%)

Long-term debt

At June 30, 2011, the District had total long-term debt outstanding of \$43,593,569 as compared to \$32,468,416 in the prior year. This amount was comprised of \$1,785,000 of bonds payable (lease revenue bonds); \$402,857 of deferred gain from refunded debt; \$304,007 of capital lease payable; \$6,531,105 of compensated absences; and \$34,570,600 of net OPEB obligations. During the year, principal payments in bonds payable were \$305,000; amortization of deferred gain from refunded debt of \$67,143; net addition of \$304,007 in capital lease payable; decrease of long-term compensated absences by \$55,711; and an additional \$11,249,000 in net OPEB obligation was recognized.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The District's labor agreement with its represented bargaining unit is set to expire on November 13, 2011. The District will soon begin negotiations with the bargaining unit on a new agreement. The District's financial situation may be impacted to the extent that the new agreement differs from the assumptions used to create the FY 2012 budget. The District does not anticipate any significant negative impacts to the budget from the new labor agreement.
- The District is forecasting flat growth in property tax revenues in the coming fiscal year. Revenues from contract agencies are expected to grow by 2% to 3% in the coming year. Increases for retirement and health care costs are expected to rise and the District is forecasting a \$3.3 million deficit in its 2012 adopted budget.

All of these factors were considered in preparing the District's budget for fiscal year 2012.

During the current fiscal year, the unassigned fund balance in the general fund decreased to approximately \$10.4 million. Surplus funds of \$3.3 million will be used in funding 2012 appropriations.

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, 2011

	<u>Governmental Activities</u>
Assets	
Cash and investments	
Unrestricted	\$ 18,063,318
Restricted with fiscal agents	280,910
Accounts receivable	68,300
Interest receivable	30,459
Due from other governmental agencies	1,552,146
Loan receivable - Prop 1A	4,181,405
Capital assets, net	<u>28,624,657</u>
Total Assets	<u>\$ 52,801,195</u>
Liabilities	
Accounts payable	\$ 624,186
Accrued salaries and benefits	4,999,210
Other accrued liabilities	15,339
Compensated absences	6,531,105
Capital lease payable, due within one year	97,422
Capital lease payable, due beyond one year	206,585
Deferred gain from refunded debt	402,857
Bonds payable, due within one year	320,000
Bonds payable, due beyond one year	1,465,000
Net OPEB Obligation	<u>34,570,600</u>
Total Liabilities	<u>49,232,304</u>
Net Assets	
Invested in capital assets, net of related debt	26,132,793
Unrestricted	<u>(22,563,902)</u>
Total Net Assets	<u>3,568,891</u>
Total Liabilities and Net Assets	<u>\$ 52,801,195</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, 2011

	Expenses	Program Revenues	Charges for Services	Net (Expenses) Revenues and Changes in Net Assets
Functions/Programs				
Governmental Activities				
Public protection	\$ 91,984,514	\$ 28,077,249		\$ (63,907,265)
Interest on long-term debt	<u>63,088</u>	<u>-</u>		<u>(63,088)</u>
Total Governmental Activities	<u>\$ 92,047,602</u>	<u>\$ 28,077,249</u>		<u>(63,970,353)</u>
General Revenues				
Property taxes and assessments				49,320,718
Licenses and permits				510,417
Intergovernmental revenues				1,247,935
Interest and investment income				88,631
Rental income				42,750
Miscellaneous				<u>581,574</u>
Total General Revenues				<u>51,792,025</u>
Change in Net Assets				(12,178,328)
Net Assets, Beginning				<u>15,747,219</u>
Net Assets, Ending				<u>\$ 3,568,891</u>

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, 2011

	<u>General Funds</u>
Assets	
Cash and investments	
Unrestricted	\$ 18,063,318
Accounts receivable	68,300
Interest receivable	30,459
Due from other governmental agencies	1,552,146
Due from other governmental agencies - Prop 1A	<u>4,181,405</u>
Total Assets	<u>\$ 23,895,628</u>
Liabilities	
Accounts payable	\$ 624,186
Accrued salaries and benefits	4,532,924
Other accrued liabilities	2,050
Insurance claims payable	466,286
Deferred revenue	<u>4,181,405</u>
Total Liabilities	<u>9,806,851</u>
Fund Balances	
Committed	
OPEB expenditures	3,650,274
Unassigned	
General fund	<u>10,438,503</u>
Total Fund Balances	<u>14,088,777</u>
Total Liabilities and Fund Balances	<u>\$ 23,895,628</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, 2011

Fund Balances - Total Governmental Funds		\$ 14,088,777
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		28,624,657
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.		280,910
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.		(13,289)
Prop 1A state borrowing are not revenues but deferred revenues in the governmental funds since it does not meet the availability criterion of modified accrual basis of accounting. These are revenues in the statement of activities since it uses full accrual in which the availability criterion does not apply.		4,181,405
Deferred gain from refunded debt is recognized and amortized over the life of the bond for purposes of the statement of net assets.		(402,857)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	\$ (6,531,105)	
Net OPEB Obligation	(34,570,600)	
Capital lease payable	(304,007)	
Bonds payable	<u>(1,785,000)</u>	<u>(43,190,712)</u>
Net Assets of Governmental Activities		\$ <u>3,568,891</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, 2011

	<u>General Funds</u>
Revenues	
Property taxes and assessments	\$ 49,320,718
Licenses and permits	510,417
Intergovernmental revenues	1,247,935
Use of money and property	131,381
Charges for services	28,077,249
Miscellaneous revenues	<u>570,244</u>
Total Revenues	<u>79,857,944</u>
Expenditures	
Public protection	
Salaries and benefits	67,014,047
Services and supplies	6,257,842
City provided services	5,168,133
Other charges	686,032
Capital outlay	1,061,855
Debt service - principal	511,818
Debt service - interest	<u>131,947</u>
Total Expenditures	<u>80,831,674</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(973,730)</u>
Other Financing Sources (Uses)	
Sale of capital assets	28,718
Proceeds from lease purchase financing	<u>510,825</u>
Net Other Financing Sources (Uses)	<u>539,543</u>
Net Change in Fund Balances	(434,187)
Fund Balance, Beginning	<u>14,522,964</u>
Fund Balance, Ending	<u>\$ 14,088,777</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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (434,187)

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	\$ 1,059,825	
Less: current year depreciation	<u>(1,826,390)</u>	(766,565)

In the statement of activities, only the gain 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. (17,388)

Proceeds from lease purchase financing are an other financing source in the funds, but a long-term liabilities in the statement of net assets. (510,825)

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		
Capital lease payable	206,818	
Bonds payable	<u>305,000</u>	511,818

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. 163,249

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	1,716	
Amortization of deferred gain from refunded debt	67,143	
Change in net OPEB obligation	(11,249,000)	
Change in compensated absences	<u>55,711</u>	<u>(11,124,430)</u>

Change in Net Assets of Governmental Activities \$ (12,178,328)

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, 2011

	Governmental Activities <u>Health Benefit</u>
Assets	
Cash and investments	
Restricted with fiscal agents	\$ 280,910
Accounts receivable	<u>425,484</u>
Total Assets	<u>\$ 706,394</u>
Liabilities	
Insurance claims payable	\$ <u>425,484</u>
Total Liabilities	<u>425,484</u>
Net Assets	
Unrestricted	<u>280,910</u>
Total Net Assets	<u>280,910</u>
Total Liabilities and Net Assets	<u>\$ 706,394</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, 2011

	Governmental Activities
Operating Revenues	
Health contribution	\$ 5,348,021
Total Operating Revenues	5,348,021
Operating Expenses	
Claims expenses	5,184,772
Total Operating Expenses	5,184,772
Change in Net Assets	163,249
Net Assets, Beginning	117,661
Net Assets, Ending	\$ 280,910

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, 2011

	Governmental Activities <hr/> Health Benefit <hr/>
Cash Flows from Operating Activities	
Cash receipts from interfund services provided - contributions to the plan	\$ 5,269,052
Cash payment for interfund services used - paid claims	<u>(5,105,803)</u>
Net cash provided by operating activities	163,249
Cash and Investments, Beginning	
Restricted with fiscal agents	<u>117,661</u>
Cash and Investments, Ending	
Restricted with fiscal agents	<u><u>\$ 280,910</u></u>
Reconciliation of change in net assets to net cash provided (used) by operating activities	
Change in Net Assets	\$ 163,249
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities	
Decrease (increase) in assets	
Accounts receivable	(78,969)
Increase (decrease) in liabilities	
Insurance claims payable	<u>78,969</u>
Net cash provided by operating activities	<u><u>\$ 163,249</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, 2011

	<u>Workers Compensation</u>
Assets	
Cash and investments	
Unrestricted	\$ 11,204,471
Interest receivable	<u>15,365</u>
Total Assets	<u>11,219,836</u>
Liabilities	
Insurance claims payable	<u>7,625,649</u>
Total Liabilities	<u>7,625,649</u>
Net Assets	
Net assets held in trust for workers' compensation	<u><u>\$ 3,594,187</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, 2011

	<u>Workers Compensation</u>
Additions	
Plan contributions	\$ 3,256,308
Interest and investment income	<u>78,852</u>
Total Additions	<u>3,335,160</u>
Deductions	
Estimated claims	1,562,288
Claim payments	799,664
Administrative expenses	<u>477,165</u>
Total Deductions	<u>2,839,117</u>
Change in Net Assets	496,043
Net Assets, Beginning	<u>3,098,144</u>
Net Assets, Ending	<u><u>\$ 3,594,187</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, 2011

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, 2011:

Dave Cortese, President
George Shirakawa, Vice-President
Mike Wasserman
Ken Yeager
Liz Kniss

Administrative Officers

The chief administrative officers of the District at June 30, 2011, were:

Kenneth R. Kehmna, 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, 2011

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 basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below:

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.

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.

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

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 District does not have nonmajor governmental funds. 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.

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 (via Coastal Healthcare Administrators, a third party administrator).

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 object category 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.

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.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.
- *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 District, not restricted for any project or other purpose.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental funds report fund balances in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form—such as inventory, prepaid amounts or long-term notes receivable, or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity. The “not in spendable form” criterion includes items that are expected to be converted to cash.
- *Restricted Fund Balance* – constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Restriction may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – amounts that can be used only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the Board. Commitments may be changed or lifted by the District taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance* – comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the District’s Board or (b) a body (e.g., a budget or finance committee) or official to which the District’s Board has delegated the authority to assign, modify, rescind amounts to be used for specific purposes. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.
- *Unassigned Fund Balance* – the residual classification for the General Fund. It is also used to report negative fund balance in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

J. Subsequent Events

Management has evaluated subsequent events through August 26, 2011.

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.

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.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

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. The County’s comingled pool consists of cash in bank, U.S. government and agency securities, corporate bonds, negotiable certificates of deposit, commercial paper, securities lending collateral, and deposits in the State’s Local Agency Investment Fund. Additional information regarding the County’s investment policy and cash and investments, including interest rate risk, credit risk, custodial credit risk categories, securities lending transactions, 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 the 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 \$250,000.

Cash and investments at June 30, 2011 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	\$14,415,028	\$14,432,901
General Fund - Retiree Medical	3,646,190	3,650,711
Fiduciary - Worker’s Compensation	11,204,471	11,218,363
Proprietary - Health Benefit (restricted)	280,910	280,910
Petty cash	<u>2,100</u>	<u>2,100</u>
Total cash and investments	<u>\$29,548,699</u>	<u>\$29,584,985</u>

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 4. CASH AND INVESTMENTS - Continued

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 \$17,873 for the General Fund-District Maintenance, \$4,521 for General Fund-Retiree Medical, and \$13,892 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.

The Pool's securities lending transactions/activities were also allocated to the District by the County but are not reflected in the accompanying financial statements. The allocated amount for securities lending collateral (other current asset) and SLC – due borrowers (other current liability) are \$428,496 for the General Fund-District Maintenance, \$59,107 for the General Fund-Retiree Medical, \$222,671 for the Fiduciary-Worker's Compensation.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 6. CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions/</u> <u>Adjustment</u>	<u>Disposals/</u> <u>Adjustment</u>	<u>Balance</u> <u>6/30/11</u>
Land	\$ 4,065,549	\$ - .	\$ - .	\$ 4,065,549
Buildings	17,429,347	11,457	- .	17,440,804
Vehicles, machinery, equipment, and furnishings	<u>22,480,586</u>	<u>1,048,368</u>	<u>(738,400)</u>	<u>22,790,554</u>
Totals at historical cost	<u>43,975,482</u>	<u>1,059,825</u>	<u>(738,400)</u>	<u>44,296,907</u>
Less accumulated depreciation				
Buildings	4,636,878	348,589	(721,012)	4,264,455
Vehicles, machinery, equipment, and furnishings	<u>9,929,994</u>	<u>1,477,801</u>	<u>- .</u>	<u>11,407,795</u>
Total accumulated depreciation	<u>14,566,872</u>	<u>1,826,390</u>	<u>(721,012)</u>	<u>15,672,250</u>
Capital assets, net	<u>\$29,408,610</u>	<u>(\$766,565)</u>	<u>(\$17,388)</u>	<u>\$28,624,657</u>

For the year ended June 30, 2011, depreciation expense charged to public protection under governmental activities was \$1,826,390.

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, 2011

NOTE 8. LONG-TERM DEBT

A. Bonds Payable

On February 18, 2010, the Santa Clara County Financing Authority issued \$50,110,000 in lease revenue bonds with an average coupon rate of 4.53% to refund \$15,595,000 in outstanding 1998 Series A lease revenue bonds with an average interest rate of 4.60% and \$37,245,000 in outstanding 2000 Series B lease revenue bonds with an average interest rate of 5.50%. The net proceeds of \$53,839,005 (including a premium of \$4,263,916 and a payment of \$539,703 in underwriting fees and other issuance costs) plus an additional \$654,811 in reserve funds from the 1998 Series A Lease revenue bonds and the 2000 Series B lease revenue bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Series A lease revenue bonds and the 2000 Series B lease revenue bonds. As a result, the 1998 Series A lease revenue bonds and the 2000 Series B lease revenue bonds are considered to be defeased and the Fire District's share of the liability for the 1998 Series A bonds has been removed from the government-wide statement of net assets.

The Santa Clara County Financing Authority refunded the 1998 Series A lease revenue bonds and the 2000 Series B lease revenue bonds to reduce its total debt service payments over the next seven (7) years by almost \$5.2 million and to obtain an economic gain of \$856,113. The Fire District's share of the remaining debt on the 1998 Series A lease revenue bonds was \$2,560,000. The Fire District's share of the 2010 Series N refunding bonds is \$2,090,000 for a net reduction in principal payments of \$470,000 and interest payments of \$76,175 over the next seven (7) years. The economic gain attributable to the Fire District's share of the refinancing is \$133,126.

As of June 30, 2011, the outstanding principal balance amounted to \$1,785,000. The annual requirements to amortize debt outstanding are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 320,000	\$106,313	\$ 426,313
2013	265,000	67,500	332,500
2014	285,000	54,250	339,250
2015	290,000	42,850	332,850
2016	305,000	29,200	334,200
2017	<u>320,000</u>	<u>13,950</u>	<u>333,950</u>
Bond payable	1,785,000	<u>\$314,063</u>	<u>\$2,099,063</u>
Deferred gain on refunding	<u>402,857</u>		
Total	<u>\$2,187,857</u>		

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 8. LONG-TERM DEBT - Continued

B. Capital lease Payable

On October 1, 2010, the District entered into a lease/purchase agreement with California First National Bank (CalFirst) for the purchase of a fire truck. Terms include a downpayment of \$109,251 and four annual payment of \$109,476 starting July 1, 2011. Interest rate is 3.965%.

In order to meet the payment due date, the check payment was issued a few days before the June 30, 2011 fiscal year end. As of June 30, 2011, the outstanding principal balance amounted to \$304,007. The future minimum lease payments are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 97,422	\$12,054	\$109,476
2013	101,285	8,191	109,476
2014	<u>105,300</u>	<u>4,176</u>	<u>109,476</u>
Capital lease payable	<u>\$304,007</u>	<u>\$24,421</u>	328,428
Interest rate			3.965%
Present value of future minimum lease payments			<u>\$304,007</u>

As of June 30, 2011, governmental activities' capital assets and accumulated depreciation under capital lease are as follows:

Vehicles, machinery, equipment, and furnishings	\$510,825
Less: Accumulated depreciation	<u>12,771</u>
Net book value	<u>\$498,054</u>

C. Compensated Absences

As of June 30, 2011, the District's long-term compensated absences amounted to \$6,531,105 as reported in the government wide statements. The current portion of \$1,935,316 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, 2011

NOTE 8. LONG-TERM DEBT - Continued

D. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>	<u>Due beyond</u> <u>one year</u>
Bonds Payable	\$ 2,090,000	\$ -	\$305,000	\$ 1,785,000	\$320,000	\$ 1,465,000
Deferred gain on refunding	470,000	-	67,143	402,857	67,143	335,714
Capital lease	-	510,825	206,818	304,007	97,422	206,585
Compensated absences	6,586,816	-	55,711	6,531,105	-	6,531,105
Net OPEB Obligation (see Note 10)	<u>23,321,600</u>	<u>11,249,000</u>	<u>-</u>	<u>34,570,600</u>	<u>-</u>	<u>34,570,600</u>
Totals	<u>\$32,468,416</u>	<u>\$11,759,825</u>	<u>\$634,672</u>	<u>\$43,593,569</u>	<u>\$484,565</u>	<u>\$43,109,004</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.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 9. PENSION PLAN – Continued

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. These plans include a pre-retirement Option 2W Death Benefit.

- **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 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. During the fiscal year 2010-11, the Miscellaneous Plan Members rate, as a percentage of wages, was 8% while the Safety Plan Members rate was 9%.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 9. PENSION PLAN – Continued

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). The District's payroll for employees covered by CalPERS for fiscal year ended June 30, 2011 was \$37,521,197 (consisting of \$4,917,341 for Miscellaneous Plan employees and \$32,603,856 for Public Safety Plan employees), out of the total payroll for the District of \$45,423,562. The CalPERS employer rate and annual costs are described below.

D. Annual Pension Cost

The required contribution for the year ended June 30, 2011 was determined as part of the June 30, 2009, 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, 2009 was 19 years for the Miscellaneous Plan and 30 years for the Safety Plan.

The significant assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2011 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 3.55% to 14.45% for Miscellaneous Plan members, and 3.55% to 13.15% for Safety Plan members.
- Overall payroll growth of 3.25% compounded annually.
- Inflation factor of 3.00% compounded annually.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

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	
6/30/09	26.177%	20.530%	\$9,249,928	100%	\$ -	
6/30/10	26.490%	19.915%	\$9,489,417	100%	-	
6/30/11	26.709%	20.210%	\$9,805,566	100%	-	
<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratios</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
<u>MISCELLANEOUS PLAN:</u>						
6/30/09	\$2,140,438,884	\$1,674,260,302	\$466,178,582	78.2%	\$440,071,499	105.9%
<u>SAFETY PLAN:</u>						
6/30/09	372,860,423	300,245,483	72,614,940	80.5%	30,871,454	235.2%

Above is the funded status as of the latest valuation date. The schedule of funding progress is presented in the RSI.

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 (Coastal Healthcare Administrators, a third party administrator). Each plan offers a prescription drug benefit. As of June 30, 2011, the District set aside \$3,650,274 of cash which may eventually be set up as a health benefit trust fund.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 10. HEALTH BENEFIT – Continued

Annual Required Contributions	\$14,688,900
Interest on Net OPEB Obligation	700,000
Amortization of NOO	(1,172,400)
Annual OPEB Cost	\$14,216,100
Benefit Payments	(2,967,100)
NOO at beginning of year	<u>23,321,600</u>
NOO at end of year	<u>\$34,570,600</u>

Fiscal Year <u>Ending</u>	Annual OPEB <u>Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
6/30/09	\$14,593,000	15%	\$12,461,067
6/30/10	14,004,000	20%	23,321,600
6/30/11	14,216,100	21%	34,570,600

The latest actuarial valuation report is as of June 30, 2010. For this valuation the Projected Unit Credit method was used, which spreads costs from hire to the projected date of full eligibility for plan benefits. The amortization used here is level dollar over a static 30 years. Interest cost is approximately a full year of 3% on AAL, plus a half year of 3% on the excess of Normal Cost over Benefit Payments. Discount rate and compensation increase rates are both 3% per annum. The actuarial valuation of the postretirement welfare benefits is available directly from the District.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratios</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/10	\$176,569,300	\$-	\$176,569,300	0%	\$38,956,000	453%

Above is the funded status as of the latest valuation date. The schedule of funding progress is presented in the RSI.

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2011

NOTE 11. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$4,181,405.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financials until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

Required Supplementary Information
(Other than MD&A)

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule - General Funds
Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, Beginning	\$ 14,522,964	\$ 14,522,964	\$ 14,522,964	\$ -
Resources (Inflows)				
Property taxes and assessments	49,177,600	49,177,600	49,320,718	143,118
Licenses and permits	380,500	380,500	510,417	129,917
Intergovernmental revenues	942,000	942,000	1,247,935	305,935
Use of money and property	120,000	120,000	131,381	11,381
Charges for services	29,558,940	29,558,940	28,077,249	(1,481,691)
Miscellaneous revenues	-	-	570,244	570,244
Sale of capital assets	5,000	5,000	28,718	23,718
Proceeds from lease purchase financing	<u>510,000</u>	<u>510,000</u>	<u>510,825</u>	<u>825</u>
Amounts Available for Appropriation	<u>80,694,040</u>	<u>80,694,040</u>	<u>80,397,487</u>	<u>(296,553)</u>
Charges to Appropriations (Outflows)				
Public protection				
Salaries and benefits	65,990,690	67,014,047	67,014,047	-
Services and supplies	7,286,632	6,424,809	6,257,842	166,967
City provided services	5,500,000	5,168,135	5,168,133	2
Other charges	697,600	697,600	686,032	11,568
Capital outlay	1,073,250	1,073,250	1,061,855	11,395
Debt service - principal	350,784	511,784	511,818	(34)
Debt service - interest	<u>132,151</u>	<u>132,151</u>	<u>131,947</u>	<u>204</u>
Total Charges to Appropriations	<u>81,031,107</u>	<u>81,021,776</u>	<u>80,831,674</u>	<u>190,102</u>
Budgetary Fund Balance, Ending	<u>\$ 14,185,897</u>	<u>\$ 14,195,228</u>	<u>\$ 14,088,777</u>	<u>\$ (106,451)</u>

Continued

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule - General Funds
Year Ended June 30, 2011

**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 \$ 80,397,487

Differences - budget to GAAP:

Proceeds from sale of capital assets are inflows of budgetary resources
but are not revenues for financial reporting purposes (28,718)

Proceeds from lease purchase financing are inflows of budgetary
resources but are not revenues for financial reporting purposes (510,825)

Total Revenues as Reported on the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds \$ 79,857,944

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriation" from the
budgetary comparison schedule \$ 80,831,674

Differences - budget to GAAP:

-

Total Expenditures as Reported on the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds \$ 80,831,674

Concluded

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Schedules of Funding Progress
June 30, 2011

	(a)	(b)	(a)-(b) Unfunded Actuarial Accrued Liability (UAAL)	(b)/(a)	(c)	[(a)-(b)]/(c)
Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)		Funded Ratios	Annual Covered Payroll	UAAL as a % of Payroll
<u>CalPERS Retirement Plan - Miscellaneous:</u>						
6/30/2007	\$1,627,025,950	\$1,362,059,317	\$264,966,633	83.7%	\$376,292,121	70.4%
6/30/2008	\$1,823,366,479	\$1,529,548,799	\$293,817,680	83.9%	\$414,589,514	70.9%
6/30/2009	\$2,140,438,884	\$1,674,260,302	\$466,178,582	78.2%	\$440,071,499	105.9%
<u>CalPERS Retirement Plan - Safety:</u>						
6/30/2007	\$ 304,726,096	\$ 259,099,406	\$ 45,626,690	85.0%	\$ 25,459,467	179.2%
6/30/2008	\$ 323,645,269	\$ 275,529,958	\$ 48,115,311	85.1%	\$ 26,396,673	182.3%
6/30/2009	\$ 372,860,423	\$ 300,245,483	\$ 72,614,940	80.5%	\$ 30,871,454	235.2%
<u>Other Postemployment Benefits - Health Benefit:</u>						
6/30/2008	\$ 165,398,000	\$ -	\$165,398,000	0%	\$ 33,269,000	497%
6/30/2010	\$ 176,569,300	\$ -	\$176,569,300	0%	\$ 38,956,000	453%

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



Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 financial statements of the governmental activities, major fund and the aggregate 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 26, 2011. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 management, the County of Santa Clara, others within the entity, 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
August 26, 2011

**Schedule of Findings
and
Questioned Costs**

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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?	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, 2011, 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 financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2011, 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, 2011.

**Summary Schedule of
Prior Audit Findings**

SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

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, 2010, 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 financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2010, 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, 2010.