



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: Auditor-Controller  
Department No.: 061  
For Agenda Of: 7/06/2010  
Placement: Administrative  
Estimated Time:  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Robert W. Geis, CPA, Auditor-Controller, 568-2100  
Director(s)  
Contact Info: Heather Harkless, CPA, Audit Manager, 568-2456  
**SUBJECT:** Auditor's Report on the basic financial statements of Orcutt Fire Protection District as of 6/30/09 and for then year then ended.

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Other Concurrence:** N/A

As to form: No

**Recommended Actions:**

That the Board of Supervisors:

Receive and file the Auditor-Controller's Audit Report on the basic financial statements of Orcutt Fire Protection District as of June 30, 2009 and for the year then ended.

**Summary Text:**

We have audited the basic financial statements of Orcutt Fire Protection District as of June 30, 2009 and for the year then ended. It is our responsibility under U.S. Generally Accepted Auditing Standards to communicate audit results to your Board.

**Background:**

The Orcutt Fire Protection District (OFPD) was formed in 1928 to provide fire/emergency services within a prescribed area. As the community grew OFPD found it increasingly difficult to adequately provide desired services. On April 15, 2008 your Board approved a Joint Resolution of the Board of Supervisors and OFPD for annexation of OFPD into the Santa Barbara County Fire Protection District (SBCFPD). On the same date, your Board approved a Memorandum of Understanding between SBCFPD and OFPD for operation of the Orcutt Fire Station commencing April 21, 2008. This annexation was finalized by LAFCO on October 13, 2008.

Under Government Code Section 26909 the Auditor-Controller is required to make or contract with a certified public accountant to make an annual audit of the accounts and records of every special district

within the county for which an audit by a certified public accountant is not otherwise provided. Because OFPD operated as a separate entity for part of the fiscal year the Auditor-Controller performed an audit of this entity for the fiscal year ended June 30, 2009.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Although OFPD was annexed during the fiscal year ended June 30, 2009, the merger was omitted from the financial statements of OFPD. Therefore, after the legal date of annexation, transactions continued to be recorded to the records of OFPD until July 1, 2010 when the merger was completed in the financial records. Due to the effects of the delay in recording the merger, the attached financial statements do not present fairly, in all material respects, the financial position of the Orcutt Fire Protection District as of June 30, 2009, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Under Statement on Auditing Standards 114 it is required that auditors communicate with those charged with governance certain significant matters related to the audit. Because the County Board of Supervisors became responsible for overseeing the strategic direction of OFPD and the obligations related to the accountability of the entity during the fiscal year ended June 30, 2009 we are presenting these communications to your Board. The attached report entitled *Auditor's Communication with Those Charged with Governance* discloses those matters.

**Background:**

**Performance Measure:**

**Fiscal and Facilities Impacts:** None

Budgeted: N/A

**Fiscal Analysis:** N/A

**Staffing Impacts:**

**Legal Positions:**  
N/A

**FTEs:**  
N/A

**Special Instructions:**

None

**Attachments:**

Auditor's Report

Basic Financial Statements – As of June 30, 2009, with accompanying notes

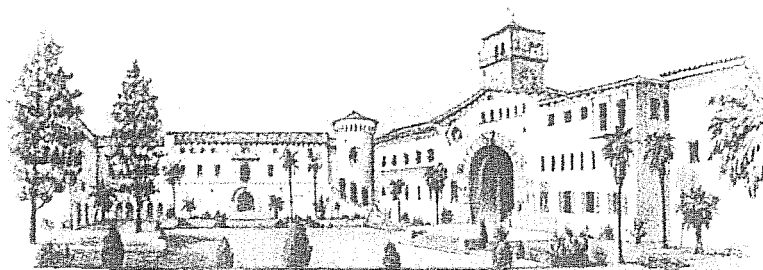
Auditor's Communication with Those Charged with Governance

**Authored by:** Heather Harkless, Audit Manager

# COUNTY OF SANTA BARBARA

ROBERT W. GEIS, C.P.A.  
Auditor-Controller

THEO FALLATI, C.P.A.  
Assistant Auditor-Controller



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## OFFICE OF THE AUDITOR-CONTROLLER

February 19, 2010

To the Board of Supervisors of the County of Santa Barbara:

We have audited the financial statements of Orcutt Fire Protection District for the year ended June 30, 2009, and have issued our report thereon dated February 19, 2010. Additionally, professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated October 16, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to management in our meeting about planning matters on October 16, 2009.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Orcutt Fire Protection District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of

existing policies was not changed during the fiscal year 2008-2009. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus.

We noted one significant transaction or event, the dissolution/merger of Orcutt Fire Protection District with the Santa Barbara County Fire Department that was not made effective in the correct period. Our audit evidence indicates that the effective date of said incident should have occurred as of October 13, 2008, but instead took place as of July 1, 2009.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not note any particularly sensitive accounting estimates in the course of our audit.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We reduced expenditures by \$13,169 for a sales tax payment that was already recognized in the prior year. We noted one uncorrected misstatement of \$2,023 for an insurance payment which was made during fiscal year 08-09 but related to fiscal year 07-08. We consider the uncorrected misstatement immaterial to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

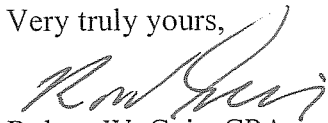
We have requested certain representations from management that are included in the management representation letter dated *February 19, 2010*.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the Board of Supervisors of the County of Santa Barbara and management of Santa Barbara County Fire Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Robert W. Geis".

Robert W. Geis, CPA  
Auditor-Controller

# ORCUTT FIRE PROTECTION DISTRICT

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## Annual Financial Report

For the Fiscal Year Ended  
June 30, 2009



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*Issued by the Office of Santa Barbara County Auditor-Controller  
Robert W. Geis, CPA, Auditor-Controller*

# **Orcutt Fire Protection District**

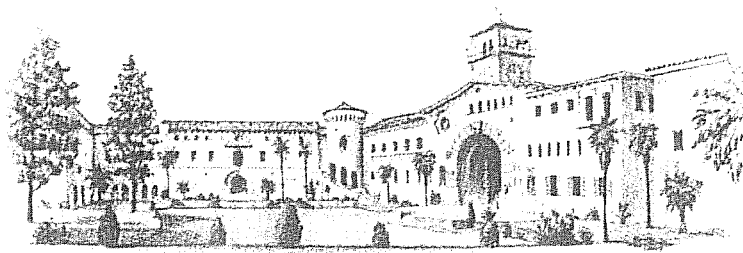
## **Annual Financial Report For the Fiscal Year Ended June 30, 2009**

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# COUNTY OF SANTA BARBARA



ROBERT W. GEIS, C.P.A.  
Auditor-Controller

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## OFFICE OF THE AUDITOR-CONTROLLER

### Auditor's Report

To the Board of Supervisors of the County of Santa Barbara:

We have audited the accompanying basic financial statements of the Orcutt Fire Protection District as of June 30, 2009 and for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by various statutes within the California Government Code, county auditor-controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, impair independence standards. We believe that the following safeguards and division of responsibility exist to retain the audit organization independence. The Santa Barbara County Auditor-Controller is directly elected by the voters of the jurisdiction being audited. Also, the audit staff, having the responsibility to perform audits, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being audited.

Orcutt Fire Protection District's merger with the Santa Barbara County Fire Department was effective on October 13, 2008. Management omitted this merger from the financial statements. The amount by which this departure would affect the financial statements is not readily determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Orcutt Fire Protection District as of June 30, 2009, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Budgetary Comparison Schedule and accompanying notes are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Orcutt Fire Protections District has not presented management's discussion and analysis that the Governmental Accounting Standards Board have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Robert W. Geis, CPA  
Auditor-Controller  
February 18, 2010



**ORCUTT FIRE PROTECTION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**June 30, 2009**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 282,067
Use of money and property receivable	1,288
Capital Assets:	
Land	8,883
Equipment, net of depreciation	264,782
Total assets	<u>557,020</u>
<b>LIABILITIES</b>	
Interest payable	6,001
Long-term obligations (Note 7):	
Due in one year	13,233
Due in more than one year	134,194
Total liabilities	<u>153,428</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	126,238
Unrestricted	<u>277,354</u>
Total net assets	<u><u>\$ 403,592</u></u>

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

**ORCUTT FIRE PROTECTION DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2009**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
<u>Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Governmental Activities</u>
Governmental activities:					
Fire protection	\$ 76,194	\$ 10,826	\$ -	\$ -	\$ (65,368)
Total governmental activities	<u>\$ 76,194</u>	<u>\$ 10,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(65,368)</u>
General Revenues:					
Taxes					
Secured and unsecured property taxes					147,632
Special					1,731
Use of money and property					9,174
Other					<u>5,707</u>
Total general revenues					<u>164,244</u>
Change in net assets					98,876
Net assets - beginning					<u>304,716</u>
Net assets - ending					\$ 403,592

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

**ORCUTT FIRE PROTECTION DISTRICT  
GOVERNMENTAL FUND  
BALANCE SHEET  
June 30, 2009**

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	<u>General</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 282,067
Use of money and property receivable	<u>1,288</u>
Total assets	<u><u>\$ 283,355</u></u>
 <b>FUND BALANCES</b>	
Unreserved:	
Undesignated	<u>\$ 283,355</u>
Total fund balances	<u><u>\$ 283,355</u></u>

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

**ORCUTT FIRE PROTECTION DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2009**

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Total fund balance - governmental fund		\$	283,355
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In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	934,896	
Accumulated depreciation	<u>(661,231)</u>	
Net		273,665

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred.	(6,001)
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Long-term liabilities: In governmental fund only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities are reported. Long-term liabilities relating to governmental activities consist of:

Capital leases	<u>(147,427)</u>
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Net assets of governmental activities	<u>\$</u>	<u>403,592</u>
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The notes to the financial statements are an integral part of this statement.

**ORCUTT FIRE PROTECTION DISTRICT**  
**GOVERNMENTAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**For the Fiscal Year Ended June 30, 2009**

	<u><b>General</b></u>
<b>REVENUES</b>	
Taxes	\$ 147,632
Use of money and property	9,174
Intergovernmental revenues	1,731
Other local revenues	10,826
Other revenues	<u>5,707</u>
Total revenues	<u>175,070</u>
<b>EXPENDITURES</b>	
Services and supplies	27,807
Debt service:	
Principal	117,504
Interest	<u>18,719</u>
Total expenditures	<u>164,030</u>
Net change in fund balances	11,040
Fund balances - beginning	<u>272,315</u>
Fund balances - ending	<u><u>\$ 283,355</u></u>

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

**ORCUTT FIRE PROTECTION DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2009**

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Net change in fund balance - governmental fund	\$ 11,040
The cost of capital assets are allocated over their estimated useful lives and reported as depreciation expense in the statement of activities.	(35,863)
Principal payments on long-term obligations use current financial resources and have no effect on net assets.	117,504
The decrease in accrued interest on long-term obligations does not increase current financial resources but is recorded as decrease in expenses in the statement of activities.	6,195
Change in net assets (Statement of Activities, Governmental Activities)	<u>\$ 98,876</u>

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Organization

The Orcutt Fire Protection District (the District) is an independent division of local government, authorized by the Health and Safety Code Sections 13800-13970 of the State of California. The District is governed by a three member Board of Commissioners elected to serve four year terms or until successors are appointed and qualified.

### B. Reporting Entity

The reporting entity is the Orcutt Fire Protection District. There are no component units included in this report which meets the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

### C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### D. Basis of Presentation

#### Government-wide financial statements:

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's 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. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

#### Fund financial statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a now of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, and grants. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenues arise when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first then unrestricted resources as they are needed.

**F. Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures. The District's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into one major fund, as follows:

Major Governmental Fund

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**G. Budgets and Budgetary Accounting**

Budgetary Procedures - The annual budget is approved by the Board of Commissioners. Formal budgetary accounting records are not maintained by the District.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Investments**

Investments are stated at fair value.

**I. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is not utilized by the District.

**J. Capital Assets**

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years.

Capital assets include public domain (infrastructure) capital assets placed in service after June 30, 1980, consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the governmental column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net assets. The estimated useful lives are as follows:

Equipment	5 to 15 years
Structures	30 years

**K. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**L. Fund Equity:**

- Reserved Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes;
- Designated Fund Balance indicates that portion of fund equity for which the Board of Commissioners has made tentative plans for financial resource utilization in a future period; and
- Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

**NOTE 2 - CASH AND INVESTMENTS**

The District maintains cash in the Santa Barbara County Treasury. The County Treasurer pools and invests the District's cash with other funds under its control. Interest earned on pooled investments is apportioned quarterly into participating funds based upon each fund's average daily deposit balance. Any investment gains or losses are proportionately shared by all funds in the pool.

Investments are carried at fair value. On June 30, 2009, the District had the following cash and investments on hand:

Cash and investments with the County Treasurer	\$ 282,067
Total cash and investments	<u>\$ 282,067</u>

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash and investments, statement of net assets	\$ 282,067
Total cash and investments	<u>\$ 282,067</u>

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the County of Santa Barbara. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Santa Barbara County					
Investment Pool	\$ 282,067	\$ 282,067	\$ -	\$ -	\$ -
Total	<u>\$ 282,067</u>	<u>\$ 282,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an *investment* will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
Santa Barbara County						
Investment Pool	\$ 282,067	N/A	\$ -	\$ -	\$ -	\$ 282,067
Total	<u>\$ 282,067</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282,067</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California *Government* Code. There are no investments in anyone issuer that represent 5% or more of total District investments.

**NOTE 2 - CASH AND INVESTMENTS (Continued)**Custodial Credit Risk

The custodial credit risk for *investments* is the risk that, in the *event* of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Santa Barbara County Investment Pool).

Investment in Santa Barbara County Investment Pool

The District is a voluntary participant in the Santa Barbara County Investment Pool that is regulated by the California Government Code. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by the Santa Barbara County Investment Pool for the entire Santa Barbara County Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara County Investment Pool, which are recorded on an amortized cost basis.

**NOTE 3 - PROPERTY TAXES**

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

**Property Valuations** - are established by the Assessor of the County of Santa Barbara for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

**Tax Collections** - are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

**Tax Levy Apportionments** - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

**Property Tax Administration Fees** - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

**Tax Levies** - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

**Tax Levy Dates** - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
<b>Governmental activities</b>				
Non depreciable capital assets				
Land	\$ 8,883	\$ -	\$ -	\$ 8,883
Total non depreciable capital assets	8,883	-	-	8,883
Depreciable capital assets:				
Structures and improvements	48,364	-	-	48,364
Equipment	877,649	-	-	877,649
Total depreciable capital assets	926,013	-	-	926,013
Less: accumulated depreciation	625,368	35,863	-	661,231
Net depreciable capital assets	300,645	(35,863)	-	264,782
Net capital assets	\$ 309,528	\$ (35,863)	\$ -	\$ 273,665

**NOTE 5 – LONG-TERM DEBT**

Capital Leases

During September 2007, the District entered into a capital lease with Municipal Finance Corporation to finance the purchase of a Pierce quantum rescue pump. The terms of the lease are for 10 annual payments of \$20,973, beginning September 2008, with an interest rate of 5.25%. At June 30, 2009, the capital lease principal outstanding was \$147,427. The following is a schedule of future minimum lease payments, as of June 30, 2009.

Year Ending June 30,	Amount
2010	\$ 20,973
2011	20,973
2012	20,973
2013	20,973
2014	20,973
2015-2018	83,892
Total minimum lease payments	188,757
Less: amount representing interest	(41,330)
Present value of net minimum lease payments	\$ 147,427

The following is a summary of changes in the District's capital lease obligations:

Capital Lease Obligations:	July 1, 2008	Additions	Payments	June 30, 2009	Due in 1 Yr.
1998 Brush Truck	\$ 99,051	\$ -	\$ 99,051	\$ -	\$ -
1999 Pierce Quantum	160,000	-	12,573	147,427	13,233
Bauer Compressor	5,880	-	5,880	-	-
Total capital lease obligations	\$ 264,931	\$ -	\$ 117,504	\$ 147,427	\$ 13,233

**NOTE 5 – LONG-TERM DEBT (Continued)**

The following is a schedule of capital assets under capital leases by major class at June 30, 2009:

	<u>Balance</u>
Equipment	\$ 173,169
Less: Accumulated depreciation	<u>(22,211)</u>
Total capital assets, net	<u><u>\$ 150,958</u></u>

**NOTE 6 - NET ASSETS**

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted, and unrestricted.

*Invested in Capital Assets, Net Of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category

*Restricted Net Assets* - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* - This category represents net assets of the District, not restricted for any project or other purpose.

**NOTE 7 – CONTINGENCIES**

According to the District, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence as of June 30, 2009.

**NOTE 8 - SUBSEQUENT EVENTS**

Effective July 1, 2009, the Orcutt Fire Protection District was merged with Santa Barbara County Fire Department. The County presumed the role of the volunteer fire station to provide protection services to the surrounding Orcutt community.

**ORCUTT FIRE PROTECTION DISTRICT**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance Final Budget - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ --	\$ --	\$ 147,632	\$ 147,632
Use of money and property	--	--	9,174	9,174
Intergovernmental revenues	--	--	1,731	1,731
Other local revenues	--	--	10,826	10,826
Other Revenues	--	--	5,707	5,707
Total revenues	--	--	175,070	175,070
<b>EXPENDITURES</b>				
Services and supplies	--	--	27,807	(27,807)
Debt service:				
Principal	--	--	117,504	(117,504)
Interest	--	--	18,719	(18,719)
Total expenditures	--	--	164,030	(164,030)
Net change in fund balances	--	--	11,040	11,040
Fund balances - beginning	--	--	272,315	--
Fund balances - ending	\$ -	\$ -	\$ 283,355	\$ 11,040

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

**1. BUDGETARY AND LEGAL COMPLIANCE**

In accordance with California Health and Safety Code Section 13895, on or before October 1, the District must submit a board approved budget to the County Auditor. Annual budgets are adopted for the District's general fund. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Annually the Board of Directors conducts a public hearing for the discussion of proposed budgets. At the conclusion of the hearing, the Board adopts the final budgets. All appropriations lapse at fiscal year end and are subject to reappropriation as part of the following year's budget. The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the object level. Any changes in the annual budget must be changed by a vote of the Board. Governments are required to compare actual results with the original budget and the final amended budget for the general fund.

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Orcutt Fire Protection District was operating under the terms of a Memorandum of Understanding agreement which was effective as of April 21, 2008. The designated representatives under the MOU agreement did not adopt a budget for fiscal year 2008-09.