

SOUTHERN MARIN FIRE PROTECTION DISTRICT

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Southern Marin Fire Protection District
Mill Valley, California

We have audited the financial statements of the governmental activities and each major fund of the Southern Marin Fire Protection District as of and for the year ended June 30, 2010, which collectively comprise the Southern Marin Fire Protection District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Southern Marin Fire Protection 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 described in Note 10, the Southern Marin Fire Protection District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

In our opinion the financial statements referred to in the first paragraph present fairly in all material respects the respective financial position of the governmental activities and each major fund of the Southern Marin Fire Protection District at June 30, 2010 and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis (pages 2-5) and the required supplementary information (page 24), as listed in the table of contents, are not part of the basic financial statements but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

R. J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 4, 2011

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010

This section of Southern Marin Fire Protection District's (the District's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2010. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements, which are comprised of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*. The Single Governmental Program for Special Purpose Governments reporting model is used which best represents the activities of the District.

The required financial statements include the Government-wide and Fund Financial Statements; Statement of Net Assets and Governmental Funds Balance Sheet; Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances; and the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - All Governmental Fund Types.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

The Basic Financial Statements

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the District's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the District as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the District's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the District's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the District's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report the District's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the District's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the District and are presented individually. Major Funds are explained below.

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the District as a whole.

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental Activities

The District's basic services are considered to be governmental activities. These services are supported by general District revenues such as taxes, and by specific program revenues such as benefit assessments and service charges.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the District's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually; the District has no Non-major Funds. Major Funds present the major activities of the District for the year, and may change from year to year as a result of changes in the pattern of the District's activities.

In the District's case, the General Fund is the only Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Analyses of Major Funds

Governmental Funds

General Fund revenues decreased \$210,400 this fiscal year due primarily to decreases in property taxes. Property taxes decreased \$391,505 due to State Proposition 1A and a decrease in property valuations. Actual general fund revenues received were \$1,083,148 more than estimated.

General Fund expenditures were \$8,542,899, a decrease of \$191,328 from the prior year. The District continues its conservative approach towards its spending in anticipation of a continued decrease in property taxes in years to come. Expenditures were \$130,523 less than budgeted.

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2010

Governmental Activities

Table 1
Governmental Net Assets

	Governmental Activities	
	2010	2009
Current and other assets	\$ 4,654,717	\$ 4,082,377
Capital assets, net of accumulated depreciation	<u>2,268,780</u>	<u>2,525,159</u>
Total assets	<u>6,923,497</u>	<u>6,607,536</u>
Other liabilities	281,106	194,843
Long-term debt outstanding	<u>909,194</u>	<u>637,643</u>
Total liabilities	<u>1,190,300</u>	<u>832,486</u>
Net assets:		
Invested in capital assets, net of related debt	2,268,780	2,525,159
Unrestricted	<u>3,464,417</u>	<u>3,249,891</u>
Total net assets	<u>\$ 5,733,197</u>	<u>\$ 5,775,050</u>

The District's governmental net assets amounted to \$5,733,197 as of June 30, 2010, an increase of \$91,458 from 2009. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The District's net assets as of June 30, 2010 comprised the following:

- Cash and investments of \$4,607,364. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 2 of the basic financial statements.
- Capital assets of \$2,268,780 net of depreciation charges, which includes all the District's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$281,106.
- Long-term (noncurrent) accrued compensated absence liabilities payable to employees of \$630,331.
- Net assets invested in capital assets, net of related debt, of \$2,268,780, representing the District's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The District has \$3,464,417 of unrestricted net assets as of June 30, 2010.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2010

Table 2
Changes in Governmental Net Assets

	Governmental Activities	
	2010	2009
Revenues		
Program revenues:		
Charges for services	\$ 815,377	\$ 818,195
General revenues:		
Property taxes	6,992,837	7,384,342
Other revenue	1,186,161	1,209,281
Interest income	34,601	69,813
Total revenues	9,028,976	9,481,631
Program Expenses		
Public safety - fire protection	8,937,518	8,349,011
Total expenses	8,937,518	8,349,011
Change in Net Assets	\$ 91,458	\$ 1,132,620

As Table 2 above shows, \$815,377, or 9%, of the District's fiscal year 2010 governmental revenue came from program revenues and \$8,213,599 or 91%, came from general revenues such as taxes and interest.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets

Detail on capital assets, current year additions and construction in progress can be found in Note 3.

Debt Administration

The District currently does not utilize long-term debt to fund operations or growth.

Economic Outlook and Major Initiatives

The District's financial position continues to be adequate. Financial planning is based on specific assumptions from recent trends in real property values, new residential development, State of California economic forecasts and historical growth patterns in the various communities served by the District.

The economic condition of the District as it appears on the balance sheet reflects financial stability and the potential for organizational growth. The District will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Contacting the District's Financial Management

This basic financial statement is intended to provide citizens, taxpayers, and creditors with a general overview of the District's finances. Questions about this report should be directed to 308 Reed Blvd., Mill Valley, CA 94941.

Southern Marin Fire Protection District

STATEMENT OF NET ASSETS

June 30, 2010

ASSETS

Cash and investments	\$	4,607,364
Accounts receivable		29,260
Prepaid items		18,093
Capital assets:		
Non-depreciable		214,807
Depreciable, net of accumulated depreciation		2,053,973
Total assets		<u>6,923,497</u>

LIABILITIES

Accounts payable		220,579
Accrued expenditures		60,527
Long-term liabilities:		
Other post employment benefits		278,863
Compensated absences		630,331
Total liabilities		<u>1,190,300</u>

NET ASSETS

Invested in capital assets, net of related debt		2,268,780
Unrestricted		3,464,417
Total net assets	\$	<u>5,733,197</u>

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u> Charges for Services	<u>Net (Expense) Revenue and Changes in Net Assets</u> Total Governmental Activities
Governmental activities:			
Public safety - fire prevention and protection	\$ 8,937,518	\$ 815,377	\$ (8,122,141)
Total governmental activities	<u>\$ 8,937,518</u>	<u>\$ 815,377</u>	<u>(8,122,141)</u>
General revenues:			
Property taxes			6,992,837
Other revenue			1,186,161
Interest income			<u>34,601</u>
Total general revenues			<u>8,213,599</u>
Change in net assets			<u>91,458</u>
Net assets, beginning of period			5,775,050
Prior period adjustment			<u>(133,311)</u>
Net assets, beginning of period restated			<u>5,641,739</u>
Net assets, end of period			<u>\$ 5,733,197</u>

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
 GOVERNMENTAL FUND
BALANCE SHEET
 June 30, 2010

ASSETS

Cash and investments	\$	4,607,364
Accounts receivable		29,260
Prepaid items		18,093
Total assets	\$	4,654,717

LIABILITIES

Accounts payable	\$	220,579
Accrued expenditures		60,527
Total liabilities		281,106

FUND BALANCES

Reserved for:		
Prepaid items		18,093
Acquisition and construction of facilities and equipment		4,355,518
Unreserved		-
Total fund balances		4,373,611
Total liabilities and fund balances	\$	4,654,717

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
Reconciliation of the
GOVERNMENTAL FUND - BALANCE SHEET
with the Governmental Activities
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2010

TOTAL FUND BALANCES - GOVERNMENTAL FUND \$ 4,373,611

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Fund above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Fund. 2,268,780

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Other post employment benefits	(278,863)
Non-current portion of compensated absences	<u>(630,331)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 5,733,197

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
GOVERNMENTAL FUND
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2010

Revenues:		
Property taxes	\$	6,992,837
Special assessment		815,377
Other revenue		1,186,161
Interest income		34,601
Total revenues		<u>9,028,976</u>
Expenditures:		
Public safety - fire prevention and protection		<u>8,542,899</u>
Total expenditures		<u>8,542,899</u>
Net change in Fund Balances		486,077
Fund balances, beginning of period		<u>3,887,534</u>
Fund balances, end of period	\$	<u><u>4,373,611</u></u>

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
 Reconciliation of the
GOVERNMENTAL FUND - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
 with the Governmental Activities
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2010

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	\$	486,077
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to the fund balance		95,441
Depreciation expense is deducted from the fund balance		(218,509)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide (or require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Other post employment benefits		(278,863)
Long-term compensated absences		<u>7,312</u>
Changes in net assets of governmental activities	\$	<u>91,458</u>

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Description

The Southern Marin Fire Protection District (the District) was organized on July 1, 1999 as a result of a merger between the Alto-Richardson Bay Fire Protection District and the Tamalpais Fire Protection District under the California Health and Safety Code.

The District furnishes fire protection, rescue services and other emergency services to the cities of Tiburon, Belvedere, and Mill Valley pursuant to joint powers agreements with those cities.

The District is governed by an elected Board of Fire Commissioners consisting of seven members elected by the voters in its service area. The Board appoints a Fire Chief to oversee the day-to-day operations of the District. The District currently employs a full time staff of one Fire Chief, three Battalion Chiefs, 5 Captains, 24 firefighters/engineers and 1 administrative support staff, for a total of 34.

The District maintains its headquarters at 308 Reed Boulevard, Mill Valley, California 94941.

B. Reporting Entity

The District does not exercise oversight responsibility over any other governmental unit, thus its financial statements do not include any financial activity of any other agency. It is not a component unit of any other reporting entity.

C. Basis of Presentation

The District's Basic Financial Statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

Those Statements require that the financial statements described below be presented.

Government-wide Statements – The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, are other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues of each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (concluded)

Fund Financial Statements - The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

D. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds.

The District reported its only fund as a major governmental fund in the accompanying financial statements:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources. The major revenue sources for this Fund are property taxes, ambulance service revenues and interest income. Expenditures are made for public safety and other operating expenditures.

E. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District may fund programs with a combination of cost-reimbursement grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

The Board of Directors adopts a final budget prior to July 1. The budget includes appropriations (budgeted expenditures) on a line item basis and the means of financing them (budgeted revenues).

Formal budgetary integration is employed as a management control device during the year for all funds. Budgeted and actual revenues and expenditures are reviewed monthly by the Board and budget amendments and transfers are made as needed. The Finance Director monitors appropriations on a Department/Division basis and conveys this information to the Fire Chief/Treasurer who can approve appropriation transfers so long as appropriations in total by fund do not change. This approach allows the Fire Chief to hold Department/Division heads accountable. The District reports expenditures and appropriations on a line item basis to its Board. Only the Board may approve amendments to appropriations in total by fund. This approach allows the Board to hold the Fire Chief accountable for the overall District operations.

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all funds. Budgeted amounts presented in the financial statements are as originally adopted and as amended by the Board. Supplemental amendments to the budget were adopted by the Board and have been included in the budget versus actual statement. Appropriations lapse at year end.

G. Property Taxes

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Marin levies, bills and collects property taxes for the District; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the personal property being taxed.

Property tax revenue is recognized in the fiscal year for which the tax is levied. The County of Marin distributes property tax (termed "settlements") under the Teeter Plan, which allows the District to receive all property taxes in the year in which they are levied. The County of Marin retains any collections of interest, penalties and delinquencies under this plan. A settlement apportionment for 95% of unsecured property taxes is received in October, with the remainder distributed in June. Secured property taxes are received in three settlements and apportioned as follows: 55% in December, 40% in April and 5% in June.

H. Accumulated Compensated Absences

Compensated absences comprise unpaid vacation leave, and sick leave. The District's liability for compensated absences is recorded in the General Fund. The liability for compensated absences is determined annually.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

I. Capital Assets and Depreciation

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets with a value of \$5,000 or more are recorded as capital assets. Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation expense for the current year was \$228,337.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Buildings	50 years
Equipment & Vehicles	5-50 years

J. General Revenue

General revenues consist primarily of reimbursements from the City of Sausalito and the State of California for firefighting expenses incurred by the District.

NOTE 2 - CASH AND INVESTMENTS

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

B. Investments

The District adopted Governmental Accounting Standards Board (GASB) Statement 31, which requires that the District's investments be carried at fair value instead of cost. Under GASB 31, the District adjusts the carrying value of its investments to reflect their fair value monthly, and it includes the effects of these adjustments in income for that fiscal year.

Investments are carried at fair value, which is the same as fair market value. Cash and investments were as follows at June 30, 2010:

County of Marin - Operating Fund	\$ 4,594,147
Cash Deposits with Banks - Payroll	12,668
Cash Deposits with Banks - Petty Cash	549
	<u>\$ 4,607,364</u>

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 2 - CASH AND INVESTMENTS (concluded)

B. Investments (concluded)

The District has authorized staff to deposit cash with the Marin County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The pooled cash is invested principally in banker's acceptances, negotiable certificates of deposit and various U.S. Government Agency and commercial notes. Interest is earned on the daily earnings of the fund prorated to the District based on the ratio of the District's pooled investment fund.

The County of Marin's investment policies are governed by State statutes. In addition, the County of Marin has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in any one financial institution or amounts that may be invested in long-term instruments.

During the year ended June 30, 2010, the investment committee's permissible investments included obligations of the U.S. Government Agencies bills, notes or bonds and certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, money market funds, medium term corporate notes or deposit notes and municipal obligations.

NOTE 3 - CAPITAL ASSETS

Capital assets activity comprised the following:

	Balance at 6/30/09	Acquisitions	Deletions/ Adjustments	Balance at 6/30/10
Land (not depreciated)	\$ 214,807	\$ -	\$ -	\$ 214,807
Buildings and improvements	3,290,739	-	-	3,290,739
Equipment	<u>2,718,734</u>	<u>95,441</u>	-	<u>2,814,175</u>
Subtotal	6,224,280	<u>\$ 95,441</u>	<u>\$ -</u>	6,319,721
Accumulated depreciation	<u>(3,699,121)</u>			<u>(4,050,941)</u>
Net capital assets	<u>\$ 2,525,159</u>			<u>\$ 2,268,780</u>

NOTE 4 - NET ASSETS AND FUND BALANCES

Net Assets are on the full accrual basis while Fund Balance is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the District's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 4 - NET ASSETS AND FUND BALANCES (concluded)

A. Net Assets (concluded)

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include debt service and acquisition and construction of facilities and equipment.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balance

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of a fund balance, which is legally segregated for a specific future use. The remaining portion is unreserved. Unreserved fund balance may be designated to indicate District plans for financial resource use in a future period, such as for general contingencies or capital projects. Such plans are subject to change by the District at its discretion.

NOTE 5 - PENSION PLAN

Substantially all qualified permanent and probationary District employees are eligible to participate in pension plans offered by Marin County Employee Retirement Association (MCERA), a cost sharing multiple employer defined benefit pension plan that acts as a common investment and administrative agent for its participating member employers within Marin County. MCERA provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries.

Benefit provisions under the Plan are established by State statute and County resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis by MCERA; the District must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2010, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	10 years service	10 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	Varies	Varies
Required employee contribution rates	Varies	Varies
Required employer contribution rate	31.35%	50%

The District pays a portion of employee contributions calculated on base pay. The remainder of employee contributions are paid by each employee.

The District paid actuarially required contributions for fiscal year 2010, 2009 and 2008 of \$1,242,701, \$1,477,126 and \$1,579,238, respectively. Retirement age varies and is based on different criteria, as described in the plan.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 5 - PENSION PLAN (concluded)

MCERA determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liabilities.

MCERA uses the market related value method of valuing the Plan's assets. As of June 30, 2007, an investment rate of return of 8.00% is assumed, including inflation at 4.00%. Annual salary increases are assumed to vary by duration of service and annual retirement benefit increases are assumed to be 4.00%. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period ends June 30, 2027.

The Miscellaneous and Safety Plans actuarial value (which differs from market value) and funding progress is set forth below at their actuarial valuation date of June 30, 2007:

Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio
6/30/2007	\$143,519	\$79,705	\$63,814	56%

Safety Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio
6/30/2007	\$18,016,626	\$8,924,823	\$9,091,803	50%

Trend information for the District is not available. Complete trend data is available in separately issued financial statements of the Plan which can be obtained from MCERA located at 3501 Civic Drive Center, Room 217, San Rafael, CA 94903.

NOTE 6 - DEFERRED COMPENSATION PLAN

District employees may defer a portion of their compensation under two District sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plans.

The laws governing deferred compensation plan assets require plan assets to be held in a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property, are not managed by the District and are not subject to claims by general creditors of the District, they have been excluded from these financial statements.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 7 - RISK MANAGEMENT

The District is self insured through the Volunteers Firemen's Insurance Services, Inc. The following types of loss risks are covered by the policy above:

<u>Type</u>	<u>Coverage Limit</u>	<u>Deductible</u>
General Liability	\$1,500,000 per occurrence	None
Property	Guaranteed Replacement Cost	\$500 per occurrence
Portable Equipment	Guaranteed Replacement Cost	\$250 per claim
Workers' Compensation	\$300,000,000 per occurrence	No deductible
Auto	\$1,000,000 per occurrence and \$3,000,000 aggregate	\$250 Comprehensive and \$500 Collision
Management Liability	\$1,000,000 per occurrence	No deductible
Umbrella/Excess Liability	\$3,000,000 per occurrence	No deductible

Any liability the District may have for uninsured claims is limited to general liability claims. However, the District has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported.

NOTE 8 - CONTINGENT LIABILITIES AND COMMITMENTS

The District and the Sausalito Fire Department are in discussions regarding merging the two organizations.

NOTE 9 - JOINT GOVERNED ORGANIZATIONS

The District participates in the joint ventures discussed below through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the District's responsibility and the District does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

Southern Marin Emergency Medical Paramedic System

The Southern Marin Emergency Medical Paramedic System operates and maintains an emergency medical care-paramedic system. Financial statements may be obtained by mailing a request to Southern Marin Emergency Medical Paramedic System, 26 Corte Madera Ave., Mill Valley, CA 94941.

Hazardous Materials Response Unit

The Hazardous Materials Response Unit is responsible for managing the hazardous material spills, establishing a formula for management of financing joint expenses and defining signatory agency responsibilities. Financial statements may be obtained by mailing a request to Marin County Administrator's Office, 3501 Civic Center Drive, Room 325, San Rafael, CA 94903.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 9 - JOINT GOVERNED ORGANIZATIONS (concluded)

Fire Association Self Insurance System (FDAC-FASIS)

The Fire Association Self Insurance System has a self-insurance pooling program to purchase excess insurance. Financial statements may be obtained by mailing a request to Fire Association Self Insurance System (FDAC-FASIS) 154 Sunnyside Drive, San Leandro, CA 94577.

Marin Emergency Radio Authority

The District has financial interest and responsibility, along with 23 other Districts in the Marin Emergency Radio Authority pursuant to the joint powers agreement in order to issue bonds to be used to finance acquisition, construction, and improvement of certain public capital improvements.

In order to construct the emergency communications facility, Marin Emergency Radio Authority issued Revenue Bonds in the amount of \$26,940,000. Pursuant to the joint powers agreement, the District is obligated for 1.657% of this amount.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District provides health care for employees, and dependents (and also for retirees and their dependents) through the Marin County Employees' Retirement Association (MCERA). Employees may choose one of three medical options: Kaiser HMO High Option, Blue Cross Prudent Buyer Plus, and Blue Cross Prudent Buyer Classic. The District also offers dental and vision insurance through BRMS.

Upon retirement with 20 or more years of service under MCERA, at least 10 of which must be with the District, retirees are eligible to receive the following employer-paid health benefits for life, depending on job classification and tier:

Firefighters

Plan 1 - hired prior to October 1, 1987. The retiree receives 100% coverage for retiree only. If the retiree elects spousal coverage, it must be self-paid unless the retiree has at least 30 years of service and elects Plan 3, in which case benefits are paid up to the Plan 3 maximum for spousal coverage.

Plan 2 - hired on or after October 1, 1987 but before October 1, 1993. The retiree receives a contribution equal to \$2,275 per year towards the retiree-only medical coverage. If the retiree elects spousal coverage, it must be self-paid unless the retiree has at least 30 years of service and elects Plan 3, in which case benefits are paid up to the Plan 3 maximum for spousal coverage.

Plan 3 - hired on or after October 1, 1993 but before January 1, 2008. Each year a Plan 3 allocation amount is determined. This amount is multiplied by years of service to a maximum of 20 years. Historically, the allocation amount has been set at 1/20 of the Kaiser single retiree rate. Retirees with at least 30 years of service receive an additional Plan 3 allocation amount towards the cost of spousal coverage.

Plan 4 - hired on or after January 1, 2008: Retiree receives a contribution equal to \$150 per year of credited service up to a maximum of 20 years (\$3,000 annual maximum). There is no 30-year spousal allocation, so if spousal coverage is elected it must be entirely self-paid by the retiree.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

A. Plan Description (concluded)

Administrative Employees

Retired administrative employees are eligible to receive an employer contribution equal to the retiree-only premium for the Kaiser HMO High Option (similar to Plan 3 for firefighters).

Fire Chief Officers' Association (SMFCOA)

Retired Deputy Chief and Battalion Chiefs covered by IAFF Local 1775 are eligible to receive an employer contribution towards medical and dental insurance after the completion of 5 years of service and retirement from the District through the Marin County Retirement System. Full-time employees of SMFCOA with 15 years of service qualify for continuation of District-paid spousal coverage. These provisions apply only to existing members of SMFCOA and Fire Chiefs who were employed and promoted prior to July 1, 2001. SMFCOA Members hired or promoted after that date are subject to provisions similar to Plan 3 for firefighters.

B. Funding Policy

As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. The District's funding policy is to pay healthcare premiums for retirees as they fall due ("pay-as-you-go"). The District's Board is currently researching the feasibility of pre-funding into an irrevocable trust.

C. Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2010, the amount actually contributed to the plan (including administrative costs), and changes in the District's Net OPEB Obligation/(Asset):

<u>Item</u>	<u>FYE 6/30/10</u>
Annual Required Contributions	\$ 575,707
Interest on Net OPEB Obligation/(Asset)	-
Adjustment to Annual Required Contributions	-
Annual OPEB cost (expense)	575,707
Contributions made	(296,844)
Increase in Net OPEB Obligation/(Asset)	278,863
Net OPEB Obligation/(Asset) – beginning of year	-
Net OPEB Obligation/(Asset) – end of year	<u>\$ 278,863</u>

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation/(Asset) for the fiscal year ended June 30, 2010 are as follows:

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2010

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (concluded)

C. Annual OPEB Cost and Net OPEB Obligation/(Asset) (concluded)

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/10	\$575,707	\$296,844	51.56%	\$278,863

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, the end of the first year of GASB 45 applicability, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$0	\$6,456,667	\$6,456,667	0.00%	\$2,836,669	227.61%

D. Funded Status and Funding Progress (concluded)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2009. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses) and an annual medical trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent after 2 years. The dental trend rate is 4 percent for all future years. These assumptions reflect an implicit 3 percent general inflation assumption. The District's Unfunded Actuarial Accrued Liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2010 was 30 years.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010

NOTE 11 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment represents an under-recording of depreciation expense in previous years of \$133,311.

Southern Marin Fire Protection District
 GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Budget and Actual
 For the Year Ended June 30, 2010
 (Unaudited)

	General Fund			
	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
Revenues:				
Property taxes	\$ 6,679,436	\$ 6,679,436	\$ 6,992,837	\$ 313,401
Special assessment	816,392	816,392	815,377	(1,015)
Other revenue	450,000	450,000	1,186,161	736,161
Interest income	-	-	34,601	34,601
Total revenues	7,945,828	7,945,828	9,028,976	1,083,148
Expenditures:				
Public safety - fire prevention and protection	8,197,881	8,673,422	8,542,899	130,523
Total expenditures	8,197,881	8,673,422	8,542,899	130,523
Net change in Fund Balances	\$ (252,053)	\$ (727,594)	486,077	\$ 1,213,671
Fund balances, beginning of period			3,887,534	
Fund balances, end of period			\$ 4,373,611	