

SOUTHERN MARIN FIRE PROTECTION DISTRICT

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-5
<u>Basic Financial Statements</u>	
Statement of Net Assets	6
Statement of Activities	7
Governmental Fund Balance Sheet	8
Reconciliation of the Governmental Fund – Balance Sheet with the Governmental Activities Statement of Net Assets	9
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances	10
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances with the Governmental Activities Statement of Activities	11
Notes to Basic Financial Statements	12-24
<u>Required Supplemental Information</u>	
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	25

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 the major fund of the Southern Marin Fire Protection District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic 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 District at June 30, 2012 and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 2-5) and the required supplementary information (page 25), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 9, 2013

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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, 2012. 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, 2012

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 increased \$392,866 this fiscal year due primarily to an increase in property tax revenue. Property taxes increased \$87,651, as assessed valuations increased. Actual general fund revenues received were \$229,519 more than estimated.

General Fund expenditures were \$8,326,259, a decrease of \$349,690 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 \$436,641 less than budgeted.

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2012

Governmental Activities

Table 1
Governmental Net Assets

	Governmental Activities	
	2012	
Current and other assets	\$ 6,420,505	\$ 5,119,093
Capital assets, net of accumulated depreciation	3,071,850	2,404,950
Total assets	9,492,355	7,524,043
Other liabilities	412,514	299,570
Long-term debt outstanding	1,237,323	929,314
Total liabilities	1,649,837	1,228,884
Net assets:		
Invested in capital assets, net of related debt	2,806,108	2,404,950
Unrestricted	5,036,410	3,890,209
Total net assets	\$ 7,842,518	\$ 6,295,159

The District's governmental net assets amounted to \$7,842,518 as of June 30, 2012, an increase of \$1,547,359 from . 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, 2012 comprised the following:

- Cash and investments of \$5,560,683. 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 \$3,071,850, 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 \$412,514.
- Long-term (noncurrent) accrued compensated absence, capital lease and OPEB liabilities payable to employees of \$1,237,323.
- Net assets invested in capital assets, net of related debt, of \$2,806,108, 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 had \$5,036,410 of unrestricted net assets as of June 30, 2012.

Southern Marin Fire Protection District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2012

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.

Table 2
Changes in Governmental Net Assets

	Governmental Activities	
	2012	
Revenues		
Program revenues:		
Charges for services	\$ -	\$ 815,313
Capital grants and contributions	885,531	-
General revenues:		
Taxes and assessments	8,236,974	7,336,642
Other revenue	1,267,230	949,910
Interest income	10,523	19,996
Total revenues	10,400,258	9,121,861
 Program Expenses		
Public safety - fire protection	8,852,899	8,559,899
Total expenses	8,852,899	8,559,899
 Change in Net Assets	\$ 1,547,359	\$ 561,962

As Table 2 above shows, \$885,531, or 9%, of the District's fiscal year 2012 governmental revenue came from program revenues and \$9,514,727 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, 2012

ASSETS

Cash and investments	\$	5,560,683
Accounts receivable		669,748
Prepaid items		190,074
Capital assets:		
Non-depreciable		214,807
Depreciable, net of accumulated depreciation		2,857,043
Total assets		<u>9,492,355</u>

LIABILITIES

Accounts payable		271,810
Accrued expenditures		140,704
Long-term liabilities:		
Due within one year		49,566
Due in more than one year		1,187,757
Total liabilities		<u>1,649,837</u>

NET ASSETS

Invested in capital assets, net of related debt		2,806,108
Unrestricted		5,036,410
Total net assets	\$	<u>7,842,518</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, 2012

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services</u>	<u>and Contributions</u>	<u>Changes in Net</u>
				<u>Assets</u>
				<u>Total</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Public safety - fire prevention and protection	\$ 8,852,899	\$ -	\$ 885,531	\$ (7,967,368)
Total governmental activities	<u>\$ 8,852,899</u>	<u>\$ -</u>	<u>\$ 885,531</u>	<u>(7,967,368)</u>
General revenues:				
Property taxes				7,424,293
Special assessment				812,681
Other revenue				1,267,230
Interest income				<u>10,523</u>
Total general revenues				<u>9,514,727</u>
Change in net assets				<u>1,547,359</u>
Net assets, beginning of period				<u>6,295,159</u>
Net assets, end of period				<u>\$ 7,842,518</u>

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2012

ASSETS

Cash and investments	\$ 5,560,683
Accounts receivable	669,748
Prepaid items	<u>190,074</u>
Total assets	<u>\$ 6,420,505</u>

LIABILITIES

Accounts payable	\$ 271,810
Accrued expenditures	<u>140,704</u>
Total liabilities	<u>412,514</u>

FUND BALANCES

Nonspendable	190,074
Assigned	<u>5,817,917</u>
Total fund balances	<u>6,007,991</u>
 Total liabilities and fund balances	 <u>\$ 6,420,505</u>

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, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUND \$ 6,007,991

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. 3,071,850

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 Governmental Fund:

Equipment capital lease	(265,742)
Other post employment benefits	(248,641)
Non-current portion of compensated absences	<u>(722,940)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 7,842,518

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, 2012

Revenues:	
Property taxes	\$ 7,424,293
Special assessment	812,681
Other revenue	1,267,230
Interest income	10,523
Total revenues	9,514,727
Expenditures:	
Public safety - fire prevention and protection	8,326,259
Total expenditures	8,326,259
Excess (deficit) of revenues over (under) expenditures	1,188,468
Fund balances, beginning of period	4,819,523
Fund balances, end of period	\$ 6,007,991

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, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	\$	1,188,468
---	----	-----------

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		984,813
Depreciation expense is deducted from the fund balance		(317,913)

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):

Equipment capital lease		(265,742)
Other post employment benefits		69,395
Long-term compensated absences		<u>(111,662)</u>

Changes in net assets of governmental activities	\$	<u>1,547,359</u>
--	----	------------------

The accompanying notes are an integral part of these financial statements

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

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. Effective June 24, 2012, the District annexed the City of Sausalito's Fire Department and acquired 12 new employees. With the new hires, the District now employs a full time staff of 1 Fire Chief, 2 Battalion Chiefs, 9 Captains, 34 firefighters/engineers, and 1 administrative support staff, for a total of 47. The District contracts with the Town of Corte Madera for sharing of the C Shift Battalion Chief.

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, and 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, 2012

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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

The Board of Directors adopts a final budget by the August board meeting. 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 manager monitors appropriations on a Department/Division basis and conveys this information to the Fire Chief/District Board 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 (the County) 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 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 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, 2012

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 \$317,913.

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: fees paid by the Golden Gate National Recreation Area for emergency services provided by the District; payments from the Southern Marin Emergency Medical Paramedic System for ambulance services rendered; and payments from 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 No. 31, which requires that the District's investments be carried at fair value instead of cost. Under GASB No. 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, 2012:

County of Marin - Operating Fund	\$ 4,864,932
County of Marin - Reserve Account	468,000
Cash Deposits with Banks - Payroll	<u>227,751</u>
	<u>\$ 5,560,683</u>

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

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, 2012, 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 6/30/11	Contributions/ Acquisitions	Deletions/ Adjustments	Balance at 6/30/12
Land (not depreciated)	\$ 214,807	\$ -	\$ -	\$ 214,807
Buildings and improvements	3,290,739	275,987	-	3,566,726
Equipment	2,901,611	1,228,275	364,791	3,765,095
Construction-in-progress (not depreciated)	<u>275,987</u>	<u>-</u>	<u>275,987</u>	<u>-</u>
Subtotal	6,683,144	<u>\$ 1,504,262</u>	<u>\$ 640,778</u>	7,546,628
Accumulated depreciation	<u>(4,278,194)</u>			<u>(4,474,778)</u>
Net capital assets	<u>\$ 2,404,950</u>			<u>\$ 3,071,850</u>

NOTE 4 - NET ASSETS AND FUND BALANCE

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:

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 - NET ASSETS AND FUND BALANCE (concluded)

A. Net Assets (concluded)

Invested in Capital Assets describes the portion of Net Assets 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.

Restricted describes the portion of Net Assets that 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, acquisition and construction of facilities, and equipment.

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

B. Fund Balance

The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB Statement No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level of decision-making authority. The Board of Directors serves as the District's highest level of decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minutes action.

Assigned fund balance includes amounts intended to be used by the District for specific purposes, subject to change, as established either directly by the Board of Directors or by management officials to whom assignment authority has been delegated by the Board of Directors.

Unassigned fund balance is the residual classification that includes spendable amounts in the General Fund that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the District's policy specifies that restricted revenues will be applied first. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, the District's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

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 (the 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 Plan's provisions and benefits in effect at June 30, 2012, are summarized as follows:

	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Miscellaneous</u>
Benefit vesting schedule	10 years service	10 years service	10 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	55	55
Required employee contribution rates	Varies	Varies	Varies
Required employer contribution rates	24.35%	20.04%	14.05%

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

The District paid actuarially required contributions for fiscal year 2012, 2011, and 2010 of \$1,321,376, \$1,390,708 and \$1,242,701, respectively. Retirement age varies and is based on different criteria, as described in the plan.

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, 2011, an investment rate of return of 7.5% is assumed, including inflation at 3.25%. Annual salary increases are assumed to vary by duration of service and annual retirement benefit increases are assumed to be 3.25%. 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, 2040.

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, 2011:

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

NOTE 5 - PENSION PLAN (concluded)

Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio
6/30/2011	\$ 176,694	\$ 71,467	\$ 105,227	40.4%
6/30/2010	\$ 176,447	\$ 85,181	\$ 91,266	48.3%

Safety Plan:

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio
6/30/2011	\$ 13,872,027	\$ 6,489,539	\$ 7,337,488	46.8%
6/30/2010	\$ 15,475,918	\$ 7,910,294	\$ 7,565,624	51.1%

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.

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:

Type	Coverage Limit	Deductible
General Liability	\$1,000,000 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 Combined Single Limit	\$250 Comp/\$500 Collision
Management Liability	\$1,000,000 per occurrence and \$3,000,000 aggregate	No deductible
Umbrella/Excess Liability	\$10,000,000 per occurrence and \$20,000,000 aggregate	No deductible

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - RISK MANAGEMENT (concluded)

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 is involved in various claims and litigation arising in the ordinary course of business. District management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters will not have a materially adverse effect on the District's financial position or results of operations.

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 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.

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.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

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 with a minimum 10 years' of service credit

Hired prior to 7/1/10:

The District shall provide 5% of the cost of the lowest cost "employee-only" Kaiser premium, as provided by MCERA, for every year served, up to a total of 100% after 20 years served. If the retiree elects spousal coverage, it must be self-paid unless the retiree has at least 30 years of service.

Hired 7/1/10 and after:

The District shall provide 5% of the cost of the lowest cost "employee-only" Kaiser premium, as provided by MCERA, for every year served, up to a total of 100% after 20 years served. Any spousal coverage must be self-paid.

Administrative Employees with a minimum 10 years' service credit

The District shall provide 5% of the cost of the lowest cost "employee-only" Kaiser premium, as provided by MCERA, for every year served, up to a total of 100% after 20 years served. Any spousal coverage must be self-paid.

Fire Chief Officers' Association (SMFCOA)

Hired before 7/1/2001:

For retired Deputy Chief and Battalion Chiefs covered by IAFF Local 1775 the District will provide 100% of the Kaiser premium for retirees with a minimum 5 years' service credit. Retirees with a minimum 15 years' service credit are also eligible for spousal medical coverage.

Hired between 7/1/01 – 6/30/10:

For retirees with a minimum 10 years' service credit, the District shall provide 5% of the cost of Kaiser "employee-only" premium for every year served, up to a total of 100% after 20 years served. Retirees with 30 years' service credit are eligible for spousal Kaiser coverage.

Hired on or after 7/1/10:

For retirees with a minimum 10 years' service credit, the District shall provide 5% of the cost of Kaiser "employee-only" premium for every year served, up to a total of 100% after 20 years served.

All Chiefs who were employed or promoted on or before July 1, 2001 and have a minimum 15 years' service credit are eligible for dental coverage for themselves and their spouse. The Fire Chief receives the same benefits as the Chiefs in IAFF Local 1775.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

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

B. Funding Policy

There is no statutory requirement for the District to prefund its OPEB obligation. The District currently pays for retiree healthcare benefits on a pay-as-you-go basis. There are no employee contributions. For the fiscal year ending June 30, 2012, the District paid approximately \$332,337 for retiree healthcare plan benefits. As of July 1, 2010, the plan membership consisted of 34 active participants and 27 retirees and beneficiaries currently receiving benefits.

The District is required to contribute or accrue the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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, 2012 and 2011, the amount actually contributed to the plan (including implicit subsidy, if any), and changes in the District's Net OPEB Obligation/(Asset):

	2012	2011
Annual Required Contribution	\$ 577,830	\$ 575,707
Interest on Net OPEB Obligation		
on Annual Required Contribution	20,672	13,943
Amortization Adjustment	(24,354)	(18,140)
Annual OPEB cost (expense)	574,148	571,510
Employer Contributions	(643,543)	(532,337)
Increase in Net OPEB Obligation / (Asset)	(69,395)	39,173
Net OPEB Obligation/ (Asset) - Beginning of year	318,036	278,863
Net OPEB Obligation/ (Asset) - End of year	<u>\$ 248,641</u>	<u>\$ 318,036</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, 2012, 2011, and 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
6/30/10	\$ 299,824	\$ 89,950	30.0%	\$ 209,874
6/30/11	\$ 571,510	\$532,337	93.1%	\$ 318,036
6/30/12	\$ 574,148	\$643,543	112%	\$ 248,641

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

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

D. Funded Status and Funding Progress

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%	\$ 2,897,452	222.8%
July 1, 2011	\$ 200,000	\$ 5,485,282	\$ 5,285,282	3.6%	\$ 2,941,373	179.6%

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, 2011. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 6.5% investment rate of return (net of administrative expenses) and an annual medical trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5% after 3 years. The dental trend rate is 4 % for all future years. These assumptions reflect an implicit 3% 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.

Southern Marin Fire Protection District
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2012

NOTE 11 - LONG-TERM OBLIGATIONS

Changes in long-term obligations and debt for the fiscal year ended June 30, 2012 are as follows:

	Original Amount	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Current Portion
Post Employment Benefits	\$ -	\$ 318,036	\$ -	\$ 69,395	\$ 248,641	\$ -
Capital Leases	265,742	-	265,742	-	265,742	49,566
Compensated absences	611,278	611,278	111,662	-	722,940	-
Total Debt	<u>\$ 877,020</u>	<u>\$ 929,314</u>	<u>\$ 377,404</u>	<u>\$ 69,395</u>	<u>\$1,237,323</u>	<u>\$ 49,566</u>

Capital lease: The District leases equipment under a capital lease agreements with Community First National Bank with an interest rate of 3.5%. The amortization schedule is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 49,566	\$ 9,303	\$ 58,869
2014	51,301	7,568	58,869
2015	53,096	5,773	58,869
2016	54,955	3,914	58,869
2017	56,824	2,045	58,869
Total	<u>\$ 265,742</u>	<u>\$ 28,603</u>	<u>\$ 294,345</u>

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, 2012
 (Unaudited)

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 7,336,641	\$ 7,336,641	\$ 7,424,293	\$ 87,652
Special assessment	815,313	815,313	812,681	(2,632)
Other revenue	1,118,254	1,118,254	1,267,230	148,976
Interest income	15,000	15,000	10,523	(4,477)
Total revenues	9,285,208	9,285,208	9,514,727	229,519
Expenditures:				
Public safety - fire prevention and protection	8,762,900	8,762,900	8,326,259	436,641
Total expenditures	8,762,900	8,762,900	8,326,259	436,641
Excess (deficit) of revenues over (under) expenditures	\$ 522,308	\$ 522,308	1,188,468	\$ 666,160
Fund balances, beginning of period			4,819,523	
Fund balances, end of period			\$ 6,007,991	