



**Financial Statements
And
Report of Independent Auditors
Year Ended June 30, 2007**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentfield Fire Protection District

We have audited the accompanying basic financial statements of the Kentfield Fire Protection District (District) as of and for the year ended June 30, 2007, 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 the audit in accordance with auditing standards generally accepted in the United States of America and the California State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentfield Fire Protection District as of June 30, 2007, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Management's discussion and analysis on pages 2 through 5 and the required supplemental information on pages 30 and 31 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Maher Accountancy

December 5, 2007



KENTFIELD FIRE PROTECTION DISTRICT

1004 Sir Francis Drake Boulevard, Kentfield, CA 94904

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2007. Please read it along with the District's financial statements, which begin on page 6.

FINANCIAL HIGHLIGHTS

The District's net assets increased by \$799,000 during 2007. Total revenues increased by \$553,000 and total expenses increased by \$123,000.

Included in the required supplemental information section is a budgetary comparison schedule. That schedule indicates that we had a net positive variance of approximately \$640,000 when comparing actual activity with amounts budgeted. Variance details are listed on the schedule on page 30.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the District as a whole with more detailed information about the District's general fund. The statement of net assets and the statement of activities provide information about the activities of the District as a whole and present a long-term view of the District's finances (they include capital assets and long-term liabilities). The fund financial statements present a short-term view of the District's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future).

THE DISTRICT AS A WHOLE

One important question asked about the District's finances is, "Is the District better or worse off as a result of the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net assets (the difference between total assets and total liabilities) over time is one indicator of whether the District's financial health is improving or deteriorating. However, one must consider other nonfinancial factors in making an assessment of the District's health, such as changes in the economy, changes in the District's tax base and assessed valuations to assess the overall health of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in the District's net assets (in thousands) were as follows:

	<u>2007</u>	<u>2006</u>	Increase (decrease)
Current assets	\$ 3,638	\$ 2,941	\$ 697
Noncurrent assets	1,639	1,552	87
Total assets	<u>5,277</u>	<u>4,493</u>	<u>784</u>
Current liabilities	166	159	7
Noncurrent liabilities	131	153	(22)
Total liabilities	<u>297</u>	<u>312</u>	<u>(15)</u>
Net assets:			
Invested in capital assets	1,639	1,552	87
Unrestricted	3,341	2,629	712
Total net assets	<u>\$ 4,980</u>	<u>\$ 4,181</u>	<u>\$ 799</u>

The increase in current assets is primarily because of the increase in cash as a result of higher property tax receipts. The increase in noncurrent assets reflects capital assets acquired during the year, less the annual charge for depreciation expense.

Changes in the District's revenues (in thousands) were as follows:

	<u>2007</u>	<u>2006</u>	Increase (decrease)
General revenues:			
Property taxes	\$ 3,346	\$ 2,976	\$ 370
Intergovernmental	42	51	(9)
Use of money and property	218	165	53
Total general revenues	<u>3,606</u>	<u>3,192</u>	<u>414</u>
Program revenues:			
Charges for services	55	50	5
Operating grants	148	29	119
Miscellaneous	32	17	15
Total program revenues	<u>235</u>	<u>96</u>	<u>139</u>
Total revenue	<u>\$ 3,841</u>	<u>\$ 3,288</u>	<u>\$ 553</u>

Property tax revenue increased as a result of appreciating asset values and State of California revenue for mutual aid fire responses accounts for most of the increase in total revenue. Revenue from the use of money and property increased over the previous year primarily due to the improvement of interest rates obtained by our investments with the County of Marin Treasury.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in the District's expenses and net assets (in thousands) were as follows:

	<u>2007</u>	<u>2006</u>	<u>Increase (decrease)</u>
Public safety-fire protection:			
Personnel	\$ 2,440	\$ 2,336	\$ 104
Material and services	503	499	4
Depreciation	99	84	15
Total expenses	<u>3,042</u>	<u>2,919</u>	<u>123</u>
Less program revenues	<u>235</u>	<u>96</u>	<u>139</u>
Net expenses	2,807	2,823	(16)
General revenues	<u>3,606</u>	<u>3,192</u>	<u>414</u>
Change in net assets	<u>\$ 799</u>	<u>\$ 369</u>	<u>\$ 430</u>

The increase in personnel costs, primarily attributed to a pay increase, accounts for most of the increase in total expenses.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the District's general fund.

The fund financial statements provide a short-term view of the District's operations. They are reported using an accounting basis called modified accrual which reports cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

As shown on page 10, the fund balance of the general fund increased by \$712,000. On page 11, there is a reconciliation between the fund balance increase and the change in net assets.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Governmental Accounting Standards Board's Statement No. 34 requires the District to capitalize and depreciate capital assets. Depreciation is a systematic approach to allocate the cost of capital assets over their estimated useful lives. The District's policies regarding depreciation are disclosed in Note 1 and a summary of changes in capital assets is reported in Note 3.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC OUTLOOK

The Kentfield Fire Protection District's financial position continues to be sufficient to maintain a high level of service to its constituents. Financial planning is based on assumptions from recent trends in real property values, State of California economic forecasts, and historical growth patterns in the service area. The District has conservatively estimated property tax revenue growth at 5% annually. With recent severe downturns in home sales, which have traditionally resulted in higher property tax assessment, coupled with a softening of the real estate market, it is unlikely that the District, at least for the short term, will experience revenue growth as robust as it has been in the past five years.

It appears that CalPERS retirement contribution rates have leveled off after several years of double digit increases, in part due to CalPERS adopting a new actuarial "smoothing" formula. We have seen dramatic budgetary increases in District contributions to CalPERS, from \$232,000 in 2004 to \$564,000 in 2007, which affect the ability of the District to raise reserves at previously experienced levels. We expect labor costs will increase in accordance with a memorandum of understanding with the firefighters union. The cost of health care premiums is expected to increase at a rate that is difficult to forecast.

The District Board has approved expenditure of funds to undergo a modernization of the Fire District facility. Although approximately 1.5 million dollars is earmarked for this project, additional funding will need to be obtained. Indications are that the ability of the District to obtain this funding through traditional lenders should not be difficult based on the District's strong current reserve base and its ability to repay outstanding debt. Any number of mechanisms for funding this project is available to the District, and a recommendation has not yet been made to the Board.

We plan to rigorously manage other expenses, and we anticipate that property taxes and other assessments will be adequate to continue our high standards of serving the communities of Kentfield and Greenbrae.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to the address on our letterhead.

Respectfully submitted,

Paul D. Smith

Paul D. Smith, Fire Chief

Basic Financial Statements

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,491,423
Interest receivable	42,675
Accounts receivable	35,822
Property taxes receivable	58,992
Prepaid expenses	9,243
Total current assets	<u>3,638,155</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,639,303</u>
Total assets	<u><u>5,277,458</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	28,870
Insurance assessment payable	10,376
Compensated absences payable	126,264
Total current liabilities	<u>165,510</u>
Noncurrent liabilities:	
Compensated absences payable	109,094
Insurance assessment payable	22,378
Total noncurrent liabilities	<u>131,472</u>
Total liabilities	<u><u>296,982</u></u>

NET ASSETS

Invested in capital assets	1,639,303
Unrestricted	3,341,173
Total net assets	<u><u>\$ 4,980,476</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

EXPENSES	
Personnel	\$ 2,439,930
Material and services	503,036
Depreciation	<u>99,015</u>
Total expenses	3,041,981
PROGRAM REVENUES	
Charges for services	55,382
Operating grants	148,265
Miscellaneous	<u>32,054</u>
Net program expense	2,806,280
GENERAL REVENUES	
Property taxes	3,345,992
Intergovernmental	41,695
Use of money and property	<u>217,836</u>
Total general revenues	<u>3,605,523</u>
Increase in net assets	799,243
NET ASSETS	
Beginning of year	<u>4,181,233</u>
End of year	<u><u>\$ 4,980,476</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2007**

ASSETS

Cash and cash equivalents	\$ 3,491,423
Interest receivable	42,675
Accounts receivable	35,822
Prepaid expenses	<u>9,243</u>
Total assets	<u><u>\$ 3,579,163</u></u>

LIABILITIES

Accounts payable	<u>\$ 28,870</u>
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FUND BALANCE

Fund balance	
Unreserved, designated	2,939,910
Unreserved, undesignated	<u>610,383</u>
Total fund balance	<u>3,550,293</u>
Total liabilities and fund balance	<u><u>\$ 3,579,163</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2007
(Continued)**

Reconciliation of governmental fund balance to net assets of governmental activities:

Total governmental fund balance	\$	3,550,293
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:		
Property taxes receivable that are not available to pay current period expenditures are deferred in the balance sheet		58,992
Capital assets used in the government activities are not financial resources and therefore are not reported in the funds		1,639,303
Some liabilities are not due and payable in the current period and therefore are not reported in the balance sheet:		
Workers' compensation assessments		(32,754)
Compensated absences		(235,358)
Net assets of governmental activities	\$	<u><u>4,980,476</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2007**

REVENUES

Property taxes	\$ 3,343,923
Intergovernmental	180,255
Use of money and property	217,836
Fees for services	55,382
Miscellaneous	<u>32,054</u>
Total revenues	3,829,450

EXPENDITURES

Current:	
Personnel	2,416,861
Material and services	472,701
Capital outlay	<u>227,598</u>
Total expenses / expenditures	3,117,160
Excess (deficiency) of revenues over expenditures	<u>712,290</u>

FUND BALANCE

Beginning of year	<u>2,838,003</u>
End of year	<u><u>\$ 3,550,293</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-GOVERNMENTAL FUND
AS OF JUNE 30, 2007
(Continued)**

**Reconciliation of the change in fund balance-total governmental funds
to the change in net assets of governmental activities:**

Net change in fund balance	\$	712,290
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital asset purchases capitalized		186,129
Depreciation expense		(99,015)
<p>Revenues in the statement of activities that do not provide current resources are not reported as revenue in the fund financial statements</p>		
Grant revenue		9,705
Property taxes		2,069
<p>Expenditures reported in the modified accrual basis statement of revenues expenditures and changes in fund balance are recognized in the period incurred if they are to be paid from current financial resources. Expenses reported in accrual basis statement of activities are recognized when incurred, regardless of the timing of the payment:</p>		
Workers' compensation assessments		11,134
Accrued compensated absences		(23,069)
Change in net assets of governmental activities	\$	<u><u>799,243</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2007**

	Deferred Compensation Trust Fund
ASSETS	
Cash and cash equivalents	\$ 42,336
Investments in mutual funds	<u>1,071,996</u>
Net assets held in trust for benefits	<u><u>\$ 1,114,332</u></u>

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007**

	Deferred Compensation Trust Fund
ADDITIONS	
Employee contributions	\$ 126,703
Investment income (loss)	<u>237,235</u>
Total additions	363,938
DEDUCTIONS	
Benefits	<u>84,640</u>
Net increase (decrease)	279,298
NET ASSETS HELD IN TRUST FOR BENEFITS	
Beginning of year	<u>835,034</u>
End of year	<u><u>\$ 1,114,332</u></u>

The accompanying notes are an integral part of these financial statements.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Kentfield Fire Protection District (the District) is a separate governmental unit established as a special district of the State of California. The purpose of the District is to provide fire protection, emergency medical and related services to Kentfield and the surrounding area. A five-person Board of Directors elected by the citizens governs the District. The District's legal authority and responsibilities are contained in the State of California Health and Safety Code under the "Fire Protection District Law of 1987."

INTRODUCTION

The District's financial statements are prepared in accordance with generally accepted accounting principals (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.).

The District presents its financial statements using the reporting model for special purpose governments engaged in a single government program. This model allows the government-wide and fund financial statements to be combined using a columnar format that displays reconciling items on the face of the financial statements rather than in separate schedules.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include all of the activities of the District. The District has no component units (other governments under the District's oversight or control). The statement of net assets and the statement of activities display information about the reporting government as a whole. They display the District's activities on a full accrual accounting basis and economic resource measurement focus.

The statement of net assets includes long-term assets as well as long-term debt and other obligations. The District's net assets are reported in two parts: (1) invested in capital assets and (2) unrestricted net assets.

The activities of the District are supported primarily by general government revenues (property taxes and intergovernmental revenues). The statement of activities presents gross expenses (including depreciation) and deducts related program revenues, operating and capital grants to indicate the net cost of operations. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT-WIDE STATEMENTS (continued)

The government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

FUND FINANCIAL STATEMENTS

The financial transactions of the government are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

The District uses the following fund types:

Governmental funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial positions (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

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

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not incorporated in the government-wide statements. The following is a description of the fiduciary fund of the District:

Deferred Compensation Trust Fund is used to account for assets held in the District's deferred compensation plan.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING (continued):

Accrual

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

FINANCIAL STATEMENT AMOUNTS

Cash and cash equivalents

The District has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with its fiscal agent (County of Marin).

Investments

Investments, including deferred compensation funds, are stated at fair value (quoted market price).

Prepaid expenses / expenditures

The District records payments for payroll and health insurance paid before the related services are rendered as prepaid expenses / expenditures.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL STATEMENT AMOUNTS (continued)

Capital assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

- | | |
|-------------------------------------|--------------|
| • Buildings and improvements | 40 years |
| • Fire apparatus | 20- 25 years |
| • Other vehicles | 10 Years |
| • Furniture, fixtures and equipment | 3-20 years |

Artwork donated to the District is not expected to decline in value and, therefore, is not depreciated. The District owns no infrastructure assets meeting the criteria for capitalization.

Compensated absences

The District accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee.

In accordance with an agreement with the Kentfield Association of Professional Firefighters, the District is obligated to provide the following compensated absence benefits:

Sick leave Shift employees of the District earn sick leave at 12 hours per month (one-half shift) and may accumulate up to 2,880 hours. Management and administrative employees earn 8 hours per month. First effective for the year ended June 30, 2006 employees with 15 years of service receive at retirement or death a one-time payment equal to 25% of the value of accumulated sick leave.

Vacations Shift personnel earn vacation shifts at a rate of 6 to 12 shifts per year, depending on length of service. The District's two management and administrative employees earn 25 days per year due to length of service. Vacations may be accumulated and carried forward from year to year subject to a maximum one year's allowance plus nine shifts (reduced by compensatory time accumulated) and two years' allowance (400 hours) for non-management administrative personnel.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL STATEMENT AMOUNTS (continued)

Compensated absences (continued)

Compensatory time-off All District personnel may accumulate accrued overtime pay at one and one-half times their basic pay rate. Accumulated compensatory time is limited to 9 shifts. Amounts in excess of 9 shifts are paid to the employee.

PROPERTY TAXES

The County of Marin levies taxes and places liens on real property as of January 1 on behalf of the District. Secured property taxes are due the following November 1 and March 1 and become delinquent April 10 and December 10, for the first and second installments, respectively. Unsecured property taxes are levied throughout the year.

As provided by the California Revenue and Taxation Code, the County of Marin advances the District its share of the annual gross levy of secured property taxes and special assessments. In consideration, the District gives the County of Marin its rights to penalties and interest on delinquent property tax receivables and actual proceeds collected.

Special fire tax charges are assessed by the District Board of Directors before September 1 and adopted by resolution. These special tax charges are incorporated on property tax bills, and therefore are attached as an enforceable lien on real property located within the District.

USE OF ESTIMATES

The basic financial statements have been prepared in conformity to generally accepted accounting principles and therefore include amounts based on informed estimates and judgments of management. Actual results could differ from those estimates.

2. CASH

The District maintains most of its cash in the County of Marin pooled investment fund for the purpose of increasing interest earnings through pooled investment activities. Interest earned on the investment pool is allocated quarterly to the participating funds using the daily cash balance of each fund. This pool, which is available for use by all funds, is displayed in the financial statements as "Cash and Cash Equivalents."

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

2. CASH (continued)

The County Pool includes both voluntary and involuntary participation from external entities. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the County Treasurer.

The County's investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust. The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value.

INTEREST RATE RISK

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2007, the County's investment pool had a weighted average maturity of 238 days.

For purposes of computing weighted average maturity, the maturity date of variable rate notes is the length of time until the next reset date rather than the stated maturity date.

CREDIT RISK

State law and the County's Investment Policy limits investments in commercial paper, corporate bonds, and medium term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard & Poor's Corporation. The County's Investment Policy limits investments purchased by Financial Institution Investment Accounts, a type of mutual fund, to United States Treasury and Federal Agency obligations with a credit quality rating of "AAA."

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

2. CASH (continued)

CONCENTRATION OF CREDIT RISK

The following is a summary of the concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2007.

Investments in Investment Pool	<u>Percent of Portfolio</u>
U.S. Federal Agency	53%
U.S. Treasury	22%
Local Agency Investment Fund	5%
Money market funds	3%
Certificates of deposits	10%
Commercial paper	7%
	<u>100%</u>

CUSTODIAL CREDIT RISK

For investments and deposits held with safekeeping agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the County's investment pool had no securities exposed to custodial credit risk.

LOCAL AGENCY INVESTMENT FUND

The County Treasurer's Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisor Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

2. CASH (continued)

Cash held with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. The district did not have any uninsured bank accounts. Cash and investments consisted of the following:

Cash with County Treasurer	\$ 3,476,517
Cash in banks	14,706
Petty cash	<u>200</u>
Total	<u><u>\$ 3,491,423</u></u>

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance	Additions	Deletions	Balance
	June 30, 2006			June 30, 2007
Capital assets not subject to depreciation				
Land	\$ 10			\$ 10
Artwork	<u>35,000</u>			<u>35,000</u>
Subtotal	<u>35,010</u>			<u>35,010</u>
Capital assets subject to depreciation				
Building and improvements	647,440	\$ 75,767		723,207
Fire apparatus	988,596	458,487	\$142,901	1,304,182
Vehicles	52,538	37,652		90,190
Equipment and furniture	<u>254,440</u>	<u>67,260</u>		<u>321,700</u>
Subtotal	<u>1,943,014</u>	<u>639,166</u>	<u>142,901</u>	<u>2,439,279</u>
Total assets	1,978,024	639,166	142,901	2,474,289
Less: Accumulated depreciation	<u>878,872</u>	99,015	(142,901)	<u>834,986</u>
Balances as of June 30, 2007	<u><u>\$ 1,099,152</u></u>			<u><u>\$ 1,639,303</u></u>

In addition to the fire apparatus listed above, the District utilizes a fire engine owned by the State of California to provide fire protection services.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

4. NONCURRENT LIABILITIES

Compensated Absences Payable

Accrued compensated absences are not due and payable in the current period and therefore, are not considered liabilities of the general fund in the fund financial statements. The government-wide statement of net assets record the liability, segregating the amount expected to be paid within one year as a current liability.

Balance at June 30, 2006	\$ 212,289
Increase	192,026
Decrease	<u>(168,957)</u>
Balance at June 30, 2007	<u><u>\$ 235,358</u></u>

Insurance Assessment Payable

The District is a member of the Fire Agencies Self Insurance System (FASIS) as described in Note 11. Under its agreement with FASIS, the District is obligated to honor a special assessment by FASIS intended to provide for its accumulated deficit. The following summarizes the change in that obligation during the year.

Balance at June 30, 2006	\$ 43,888
Amount payable in 2006-2007	(12,055)
Adjustment due to favorable experience	<u>921</u>
Balance at June 30, 2007	<u><u>\$ 32,754</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

4. NONCURRENT LIABILITIES (Continued)

Insurance Assessment Payable (continued)

The assessment was made in current dollars. The balance recorded in the financial statements has been adjusted for interest imputed at the District's expected rate of return on investments (5.12%). Future annual debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2008	\$ 10,376	\$ 1,677	\$ 12,053
2009	10,909	1,146	12,055
2010	<u>11,469</u>	<u>586</u>	<u>12,055</u>
Total	<u>\$ 32,754</u>	<u>\$ 3,409</u>	<u>\$ 36,163</u>

5. NET ASSETS AND FUND BALANCE

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Fund balance consists of reserved and unreserved amounts. Reservations of fund balance indicate that portion of fund balance not available for appropriation for expenditures or amount legally segregated for a specific future use.

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

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

5. NET ASSETS AND FUND BALANCE (continued)

The following are the unreserved fund balance designations made by the District's Board of Directors as of June 30, 2007:

Apparatus	\$	431,089
Building replacement		1,053,070
Compensated absences		235,784
Contingencies and emergencies		295,000
LDH (Hose)		41,696
Marin Emergency Radio Authority		69,125
PERS unfunded liability		594,098
SCBA		36,048
General insurance deductible		26,000
Health insurance		25,000
Hydrants and mains		53,000
Mapping and planning		60,000
Heavy rescue equipment		20,000
		\$ 2,939,910
		\$ 2,939,910

6. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. This plan, available to all permanent District employees, permits employees to defer a portion of their current salary until future years. Assets held in IRC Section 457 plans are generally subject to claims of creditors.

It is the District's position that it has no liability for investment losses under the plan, but has the duty of due care that would be required of an ordinary prudent investor. The District believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

7. DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The District contributes to the California Public Employees' Retirement System (CalPERS); an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of CalPERS' annual financial report may be obtained from its Executive Office – 400 P Street, Sacramento, CA 95817.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

7. DEFINED BENEFIT PENSION PLAN (continued)

FUNDING POLICY

The District makes the contributions required of District employees on their behalf and for their account. The safety employee rate is 9% of pay, excluding overtime pay and the miscellaneous employee rate is 8% of pay, excluding overtime pay, as determined by CalPERS. The District is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year ended June 30, 2007 was 31.819% for safety employees and 34.205% for miscellaneous employees.

ANNUAL PENSION COST

For the year ended June 30, 2007, the District's required and actual pension costs were approximately \$564,000. The required contribution was determined as part of the July 1, 2004, actuarial valuation.

The most recent actuarial valuation was performed as of June 30, 2006 under the following methods and assumptions:

Actuarial cost method:	Entry age
Amortization method:	Level percent of payroll
Average remaining period:	15 years safety, 17 years miscellaneous, as of the valuation date
Asset valuation method:	15 year smoothed market
Investment rate of return:	7.75% (net of administrative expenses)
Projected salary increases:	3.25% to 14.45% depending on age, service and type of employment
Inflation:	3.00%
Payroll growth:	3.25%
Individual salary growth	Merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

7. DEFINED BENEFIT PENSION PLAN (continued)

THREE-YEAR TREND INFORMATION FOR THE DISTRICT

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 232,000	100%	\$0
2005	479,000	100%	0
2006	543,000	100%	0

REQUIRED SUPPLEMENTARY INFORMATION

Following is a schedule of funding progress for CalPERS Safety (dollars in millions):

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b) - (a)	(d) Funded Ratio (a) / (b)	(e) Covered Payroll	(f) UAAL as a % of Covered Payroll (c) / (e)
6/30/2004	\$ 1,026	\$ 1,252	\$ 226	81.9%	\$ 155	146%
6/30/2005	1,105	1,325	220	83.4%	161	137%
6/30/2006	1,252	1,473	221	85.0%	177	125%

Following is a schedule of funding progress for CalPERS Miscellaneous (dollars in millions):

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b) - (a)	(d) Funded Ratio (a) / (b)	(e) Covered Payroll	(f) UAAL as a % of Covered Payroll (c) / (e)
6/30/2004	\$ 335	\$ 427	\$ 92	78.5%	\$ 91	101%
6/30/2005	405	499	94	81.2%	109	86%
6/30/2006	502	620	118	81.0%	126	94%

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District provides health care benefits for retirees and dependents based on negotiated employee bargaining unit contracts. Substantially all of the District's employees that reach normal retirement age and have vested with the California Public Employees' Retirement System are eligible for the benefit. On average, the District pays 50% of the cost of the benefit.

The amount of post-retirement health benefit expenditures paid during the year was approximately \$38,000, and is funded on a "pay-as-you-go" basis. There are 8 participants eligible to receive benefits.

9. ARTICLE XIII OF THE STATE CONSTITUTION

The Constitution of the State of California allows local governments to increase appropriations annually by the rate of population increase and the rate of inflation (determined to be the lesser of the U.S. Consumer Price index or California per capita income). As provided by California Statute, the voters of the District voted by more than the two-thirds majority required, to increase the appropriations limit to the actual amount of taxes collected.

The District's appropriations were greater than the limitation for the year ended June 30, 2007, as follows:

Appropriations limit	3,515,424
Annual subject appropriations	<u>3,515,424</u>
Amount (over) under the appropriation limit	<u><u>-</u></u>

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District obtains insurance coverage.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those 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 risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, 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 risk pools are not the District's responsibility.

Fire Agencies Insurance Risk Authority

The District is insured for Comprehensive Liability coverage as a member of the Fire Agencies Insurance Risk Authority (the Authority). The Authority is a public agency risk pool created pursuant to a joint powers agreement between the numerous member fire agencies. The Authority manages one pool for all member agencies. Each member pays an annual premium to the system based on numerous factors including the number of personnel, types and values of assets held. Each member is insured for \$6,000,000 and may elect to purchase umbrella coverage up to an additional \$5,000,000. The Authority is not a component entity of the District for purposes of GASB Statement No. 14.

Fire Districts Association of California – Fire Association Self Insurance System

Effective September 1993, the District was self-insured for Workers' Compensation coverage as a member of the Fire Districts Association of California – Fire Association Self-Insurance System (the System). The System is a public agency risk pool created pursuant to a joint powers agreement between the numerous member fire agencies. The System manages one pool for all member agencies. Each member pays an annual premium to the system based on the number of personnel, an estimated dollar amount of payroll and an experience factor. At fiscal year end, when actual payroll expenditures are available, an adjustment to the year's annual premium is made. The System reinsures through the Local Agency Excess Workers' Compensation Authority (LAWCX), a joint powers authority, for claims in excess of \$500,000 for each insured event. The System is not a component entity of the District for purposes of GASB Statement No. 14.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

10. RISK MANAGEMENT (continued)

The System is authorized under the agreement with its members to charge special assessments to its members. See Note 4 regarding the District's obligation for a prior year assessment.

11. JOINT VENTURE

The District entered into a Joint Powers Agreement in February 1998, establishing the Marin Emergency Radio Authority (the Authority). The Authority is responsible to acquire, construct, and improve a countywide emergency radio system. During the year ended June 30, 1999, the Authority issued Revenue Bonds to be used for the acquisition of the radio system. Of the \$27 million in Revenue Bonds, the District's share was for 0.812%, or approximately \$219,000. Each year through August 2020, approximately \$14,000 annual debt services payments will be due to the Authority. Including interest and principal, it is anticipated the District's total obligation over 20 years will be approximately \$288,000. In addition to making payments toward debt service, the District pays the Authority for operations and maintenance of MERA.

The financial statements of the Authority are available at the County of Marin office. Condensed financial information for the Authority is presented below for the year ended June 30, 2006:

Total assets	\$30,488,126
Total liabilities	<u>24,910,974</u>
Retained earnings	<u>\$ 5,577,152</u>
Total revenues	\$ 3,512,195
Total expenditures	<u>4,062,751</u>
Net income (loss)	<u><u>\$ (550,556)</u></u>

12. COMMITMENTS

The District has a memorandum of understanding with the Kentfield Association of Professional Firefighters that provides various terms of employment through June 30, 2008. The agreement provides for annual pay increases of 5.25% and 5.50% for the fiscal years ending June 30, 2007 and 2008, respectively.

The District has entered into an agreement with a consultant to provide architectural services for the District's fire station modernization project. The outstanding obligation for this agreement as of June 30, 2007 is approximately \$278,000.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

13. NEW ACCOUNTING PRONOUNCEMENT

The Government Accounting Standards Board (GASB) recently released several new accounting and financial reporting standards. One of the new standards, GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions (OPEB)*, may have a significant impact on the District's financial reporting process.

GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB No. 45 will be effective for the 2009-2010 fiscal year.

Required Supplemental Information

**KENTFIELD FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Property taxes and assessments	\$ 2,842,377	\$ 2,985,377	\$ 3,343,923	\$ 358,546
Intergovernmental	25,000	111,000	180,255	69,255
Use of money and property & other	220,899	220,899	305,272	84,373
Total revenues	<u>3,088,276</u>	<u>3,317,276</u>	<u>3,829,450</u>	<u>512,174</u>
EXPENDITURES				
Current				
Salaries and employee benefits	2,381,488	2,467,488	2,416,861	50,627
Service and supplies	495,512	495,512	457,257	38,255
Total operating expenditures	<u>2,877,000</u>	<u>2,963,000</u>	<u>2,874,118</u>	<u>88,882</u>
Capital outlay	206,768	281,768	243,042	38,726
Total expenditures	<u>3,083,768</u>	<u>3,244,768</u>	<u>3,117,160</u>	<u>127,608</u>
Excess of revenues over expenditures	<u>\$ 4,508</u>	<u>\$ 72,508</u>	712,290	<u>\$ 639,782</u>
Fund balance at beginning of year			<u>2,838,003</u>	
Fund balance at end of year			<u>\$ 3,550,293</u>	

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2007**

1. BUDGETARY BASIS OF PRESENTATION

The budget included in these financial statements represents the original budget and amendments approved by the Board of Directors. The budgetary basis is the modified accrual basis of accounting.

Various reclassifications have been made to the actual amounts to conform to classifications included in the budget approved by the Board of Directors.