Kentfield Fire Protection District

Paul D. Smith
Fire Chief

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Financial Statements

And

Report of Independent Auditors

Year Ended June 30, 2011

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MAHER ACCOUNTANCY 1101 FIFTH AVENUE • SUITE 200 • SAN RAFAEL, CA 94901

Financial Plumbline

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, 2011, 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, 2011, 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 6 and the required supplemental information on pages 35 through 38 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

November 11, 2011

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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, 2011. Please read it along with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The District's net assets decreased by $181,000 during 2011. Total revenues decreased by $127,000 and total expenses decreased by $32,000.

Included in the required supplemental information section is a budgetary comparison schedule. That schedule indicates that we had a negative variance of approximately $49,000 when comparing actual activity with amounts budgeted. Variance details are listed on the schedule on page 35. The primary reason for the variance is that revenues from response to state fires were budgeted during the year but never occurred.

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.

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

	2011	2010	Increase (decrease)
Current assets	$ 3,031	$ 3,308	$ (277)
Noncurrent assets	6,720	6,918	(198)
Total assets	9,751	10,226	(475)
Current liabilities	472	508	(36)
Noncurrent liabilities	3,179	3,438	(259)
Total liabilities	3,651	3,946	(295)
Net assets:			
Invested in capital assets	3,432	3,414	18
Restricted for capital projects	-	53	(53)
Unrestricted	2,668	2,814	(146)
Total net assets	$ 6,100	$ 6,281	$ (181)

The decrease in current assets is primarily attributed to lower cash balances than last year. The decrease in noncurrent assets reflects the increase in accumulated depreciation, which is netted with a capital assets total that did not significantly change from the prior year. Noncurrent liabilities decreased due to scheduled principal payments towards our fire station remodel and solar equipment leases.

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

	2011	2010	Increase (decrease)
General revenues:			
Property taxes	$ 3,774	$ 3,771	$ 3
Operating grants and contributions	22	22	0
Use of money and property	85	99	(14)
Total general revenues	3,881	3,892	(11)
Program revenues:			
Charges for services	82	192	(110)
Miscellaneous	9	15	(6)
Total program revenues	91	207	(116)
Total revenue	$ 3,972	$ 4,099	$ (127)

Property tax revenue remained stable as a result of consistent assessed property values. Lower interest rates in the general economy accounted for the decrease in use of money and property. A reduction in mutual aid fires accounted for the decrease in charges for services.

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

	2011	2010	Increase (decrease)
Public safety-fire protection:			
Personnel	$ 3,170	$ 3,080	$ 90
Material and services	565	674	(109)
Depreciation	266	248	18
Interest	152	183	(31)
Total expenses	4,153	4,185	(32)
Less program revenues	91	207	(116)
Net expenses	4,062	3,978	84
General revenues	3,881	3,892	(11)
Special item	0	(53)	53
Change in net assets	$ (181)	$ (139)	$ (42)

Personnel costs increased as a result of a pay increase and additional sick leave benefits to be paid at retirement in accordance with the MOU between the Firefighters Union and the District. The material and services line decreased primarily due to occupancy costs for temporary facilities during last year's building renovation were not incurred during the current year. Depreciation increased since we utilized the renovated fire house for the entire 2011 year. Interest expense declined as payments towards the station remodel lease continue to decrease as we amortize the capital lease. The special item relates to last year's abandonment of capitalized building improvements acquired in previous years and is not applicable to 2011.

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 11, the fund balance of the general fund decreased by $270,000. On page 12 there is reconciliation between the fund balance increase and the change in net assets. Fund balance decreased during the year due to various changes in revenues and expenditures. The largest decrease related to the decline in intergovernmental revenues and increasing costs associated with salaries and benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

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.

Detail about our debt is shown in Note 4 in the financial statements.

ECONOMIC OUTLOOK

As discussed in the District financial statements the past few years, the State of California continues to experience a severe budget crisis. Due to the economic downturn, revenues of all classes have declined. Property tax revenue remains as the District's most stable, yet most vulnerable revenue source. Any economic recovery will be slow, with some experts predicting only moderate improvement by 2015.

We have experienced a slightly positive upturn of the real estate market in the service area. Future property tax revenues will, in at least the short term, continue flat. Additionally, the income received on the District's investment account continues to earn minimal interest, estimated at approximately one half of one percent. Income relative to the Marin General Hospital Service contract and site leases for telecommunication equipment continues to increase but only at the contracted inflationary rate, which continues to be very modest.

The District's CalPERS retirement rates continue to increase, but not at proportions previously experienced. The District's costs to the program were predicted to increase approximately two per cent per year for fiscal years 2011/12 and 2012/13. To date the Fire District paid down approximately $250k of the CalPERS side fund obligation which has resulted in smaller than predicted retirement cost escalation. The CalPERS fund losses experienced in 2008 have rebounded significantly and CalPERS investment earnings during the period have done well. If this trend continues, the District should see a favorable retirement rate adjustment. The District has funded an OPEB (Other Post Employment Benefits) Trust account with CalPERS at the full rate prescribed by an actuarial study completed by Bickmore Risk. This action will, over time, significantly reduce the District's unfunded liability to retired employee benefits while meeting GASB 45 compliance.

We plan to continue to rigorously manage Fire District expenses while continuing to provide a high standard of fire protection, emergency medical service, and preparedness training to our constituents in Kentfield and Greenbrae. No layoffs or reductions of service are anticipated at this time in spite of flat revenues.

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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, 2011

ASSETS

Current assets:		
Cash and cash equivalents	$	2,971,565
Property taxes receivable		59,752
Total current assets		3,031,317
Noncurrent assets:		
Overfunded other post employment benefit obligations		128,030
Capital assets, net of accumulated depreciation		6,547,771
Prepaid expense		12,898
Deferred charge - debt issuance costs		31,089
Total noncurrent assets		6,719,788
Total assets		9,751,105

LIABILITIES

Current liabilities:		
Accounts payable		98,088
Capital lease obligations		193,250
Compensated absences payable		181,071
Total current liabilities		472,409
Noncurrent liabilities:		
Compensated absences payable		224,927
Capital lease obligations		2,953,653
Total noncurrent liabilities		3,178,580
Total liabilities		3,650,989

NET ASSETS

Invested in capital assets, net of related debt		3,431,957
Unrestricted		2,668,159
Total net assets	$	6,100,116

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

KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

EXPENSES	
Personnel	$ 3,170,252
Material and services	565,279
Depreciation	266,059
Interest on debt	152,160
Total expenses	4,153,750
PROGRAM REVENUES	
Charges for services	82,214
Miscellaneous	9,379
Total program revenues	91,593
Net program expense	4,062,157
GENERAL REVENUES	
Property taxes	3,774,173
Operating grants and contributions	21,823
Use of money and property	85,010
Total general revenues	3,881,006
Change in net assets	(181,151)
NET ASSETS	
Beginning of year	6,281,267
End of year	$ 6,100,116

KENTFIELD FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2011

ASSETS

Cash and cash equivalents	$	2,971,565
Property taxes receivable		59,752
Prepaid items		12,898
Total assets	$	3,044,215

LIABILITIES

Accounts payable	$	98,088
Deferred revenue		59,752
Total liabilities		157,840

FUND BALANCE

Fund balance		
Nonspendable		12,898
Assigned		2,849,568
Unassigned		23,909
Total fund balance		2,886,375
Total liabilities and fund balance	$	3,044,215

KENTFIELD FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2011
(Continued)

Total governmental fund balance	$	2,886,375
Amounts reported for *governmental activities* in the statement of net assets are different because:		
Property taxes receivable that are not available to pay current period expenditures and therefore are deferred in the balance sheet		59,752
Capital assets used in the government activities are not financial resources and therefore are not reported in the funds		6,547,771
Debt issuance costs are reported as as outflow in the funds, but are capitalized and amortized to expense in the statement of activities		31,089
Some assets (liabilities) are not due and receivable (payable) in the current period and therefore are not reported as fund assets (liabilities)		
Other post employment benefit payable		128,030
Capital lease obligations		(3,146,903)
Compensated absences		(405,998)
Net assets of governmental activities	$	6,100,116

KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2011

REVENUES	
Property taxes	$ 3,774,210
Intergovernmental	44,036
Use of money and property	85,010
Charges for services	60,001
Miscellaneous	9,379
Total revenues	3,972,636
EXPENDITURES	
Current:	
Salaries and benefits	3,241,824
Material and services	558,929
Capital outlay	49,709
Debt service:	
Principal	242,802
Interest	149,519
Total expenditures	4,242,783
Net change in fund balance	(270,147)
FUND BALANCE	
Beginning of year	3,156,522
End of year	$ 2,886,375

KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUND
AS OF JUNE 30, 2011
(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	$ (270,147)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	
Capital asset purchases capitalized	43,359
Depreciation expense	(266,059)
Revenues in the statement of activities that do not provide current resources are not reported as revenue in the fund financial statements	
Property taxes	(37)
Debt principal transactions reported in the government fund statement of revenue, expenditures and changes in fund balance are not considered an operating activity in the statement of activities (but only as changes in liabilities)	
Payments to reduce capital lease obligations	242,802
Debt issuance costs are reported as a financial outflow in the fund statements, but are capitalized and amortized to expense in the statement of activities	(2,641)
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:	
Other post employment benefits	65,592
Accrued compensated absences	5,980
Change in net assets	$ (181,151)

KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
DEFERRED COMPENSATION PLAN
AS OF JUNE 30, 2011

ASSETS

Contributions receivable	$ 39,885
Investments in mutual funds	1,595,127
Net assets held in trust for benefits	$ 1,635,012

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
DEFERRED COMPENSATION PLAN
YEAR ENDED JUNE 30, 2011

ADDITIONS	
Employee contributions	$ 110,429
Dividends	22,503
Net increase (decrease) in fair value of investments	279,319
Total additions	412,251
DEDUCTIONS	
Benefits	50,000
Net increase (decrease)	362,251
NET ASSETS HELD IN TRUST FOR BENEFITS	
Beginning of year	1,272,761
End of year	$ 1,635,012

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 principles (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 net of related debt 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. Program revenues include (a) fees and charges paid by recipients for services and (b) operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants.

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 are focused on the 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.

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).

Deferred charge – debt issuance costs

Debt issuance costs associated with the financing of the modernization of the District's fire station are included as a deferred charge.

Investments

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

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:

<u>Sick leave</u> 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. Effective for the year ended June 30, 2010 employees with 15 years of service receive at retirement or death a one-time payment equal to 50% of the value of accumulated sick leave.

<u>Vacations</u> Shift personnel earn vacation shifts at a rate of 6 to 13 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.

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.

Fund balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Governmental accounting principles provide that fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned. The District's policy is that committed and assigned fund balances are considered to have been spent first before unassigned fund balances are spent.

Nonspendable – This component includes amount that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL STATEMENT AMOUNTS (continued)

Fund balance (continued)

Restricted – This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislations. The District does not have a restricted fund balance.

Committed – This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority which includes ordinances and resolutions. Those committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed previously to commit those amounts. The District does not have any reserves that meet this component of fund balance.

Assigned – This component consists of amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Directors, Fire Chief or their designee as established in the District's fund balance policy.

Unassigned – This classification represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund.

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 AND CASH EQUIVALENTS

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.”

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, 2011, the County’s investment pool had a weighted average maturity of 281 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.”

2. CASH AND CASH EQUIVALENTS (continued)

CONCENTRATION OF CREDIT RISK

This is the risk of loss attributed to the concentration of the District's investment in a single issuer.

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, 2011.

	Percent of Portfolio
Investments in Investment Pool	
Federal agency - discount	75%
Federal agency - coupon	23%
Money market funds	2%
	100%

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.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the District's name, and held by the counterparty. The District's investment securities are not exposed to custodial credit risk because all securities are held by the District's custodial bank in the District's name.

2. CASH AND CASH EQUIVALENTS (continued)

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 statue.

BALANCES

Cash and cash equivalents consist of the following:

Cash with County Treasurer	$ 2,894,438
Cash in banks	76,927
Petty cash	200
Total	$ 2,971,565

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Dispositions	Balance June 30, 2011
Capital assets not subject to depreciation:				
Land	$ 10			$ 10
Construction-in-progress				-
Artwork	35,000			35,000
Subtotal	35,010	-	-	35,010
Capital assets subject to depreciation:				
Building and improvements	5,842,003	$ 24,295		5,866,298
Fire apparatus	1,304,182			1,304,182
Vehicles	69,459			69,459
Equipment and furniture	562,390	19,064		581,454
Subtotal	7,778,034	43,359	-	7,821,393
Total assets	7,813,044	43,359	-	7,856,403
Less: Accumulated depreciation	1,042,573	266,059		1,308,632
Capital assets, net	$ 6,770,471	$ (222,700)	$ -	$ 6,547,771

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.

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 reports the liability, segregating the amount expected to be paid within one year as a current liability.

Balance as of June 30, 2010	$ 411,978
Increases during the year	193,433
Decreases during the year	(199,413)
Balance as of June 30, 2011	405,998
Less amount due within 1 year	(181,071)
Amount due after 1 year	$ 224,927

4. NONCURRENT LIABILITIES (Continued)

Capital Lease Obligations

In December 2008, the District entered into a capital lease arrangement with Municipal Finance Corporation (MFC) pursuant to approval from the Internal Revenue Service for the issuance of Clean Renewable Energy Bonds in the principal amount of $153,845 for the purpose of obtaining zero interest financing to purchase solar equipment. The arrangement provided for a cash payment to the District (to be used to acquire the equipment) in consideration for a lease of that equipment to MFC. MFC then subleased the equipment to the District in exchange a stream of annual payments. The District's lease payments to the Corporation are payable from any source of legally available funds. The transaction has been reported as a capital lease in these financial statements. During 2010-11, the District prepaid a portion of the lease by approximately $53,000.

In January 2009, the District also entered into a similar lease financing arrangement with Municipal Finance Corporation for the purpose of obtaining financing for the modernization of its fire station. The capital lease was for $4,030,000 and it also is payable from any source of legally available funds.

Following is a summary of the District's capital leases:

	Fire Station Modernization	Solar Equipment
Date of lease	January 2009	December 2008
Semi-annual payment	$ 163,907	
Annual payment		$ 6,567
Number of payments	30	13
Effective interest rate	4.65%	0.87%
Prepaid financing costs	$ 30,000	$ 7,692
Cost of building/equipment	4,934,000	68,000
Accumulated amortization	235,600	3,400

4. NONCURRENT LIABILITIES (Continued)

The following is a summary of the District's future annual obligations:

Year ending June 30	Fire Station Modernization	Solar Equipment	Total
2012	$ 327,815	$ 6,567	$ 334,382
2013	327,815	6,567	334,382
2014	327,815	6,567	334,382
2015	327,815	6,567	334,382
2016	327,815	6,567	334,382
2017-2021	1,639,075	32,836	1,671,911
2022-2024	819,535		819,535
Total payments	4,097,685	65,671	4,163,356
Less: Interest	(1,016,453)	-	(1,016,453)
Net	3,081,232	65,671	3,146,903
Less: Amount due within 1 year	(186,683)	(6,567)	(193,250)
Amount due after 1 year	$ 2,894,549	$ 59,104	$ 2,953,653

The following is a schedule of changes in capital lease obligations during the year:

	Fire Station Modernization	Solar Equipment	Total
Balance as of June 30, 2010	$ 3,259,528	$ 130,177	$ 3,389,705
Decreases during the year	(178,296)	(64,506)	(242,802)
Balance as of June 30, 2011	$ 3,081,232	$ 65,671	$ 3,146,903

5. FUND BALANCE

The District's fund balance is reported in classifications as described in Note 1. The following amounts are classified as nonspendable:

Prepaid items	$ 12,898

The following are assigned fund balances as of the balance sheet date:

Apparatus	$ 552,643
Building replacement	272,899
Compensated absences	407,973
Contingencies and emergencies	295,000
LDH (Hose)	30,000
Marin Emergency Radio Authority	72,580
PERS unfunded liability	427,390
OPEB	199,983
SCBA	180,000
General insurance deductible	23,100
Health insurance	25,000
Hydrants and mains	30,000
Mapping and planning	58,000
Heavy rescue equipment	25,000
Debt service sinking fund	250,000
	$ 2,849,568

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.

Financial statements of the deferred compensation plan are shown on page 13.

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.

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, 2011 was 33.759% for safety employees and 30.548% for miscellaneous employees.

ANNUAL PENSION COST

For the year ended June 30, 2011, the District's required and actual pension costs were approximately $697,000. The required contribution was determined as part of the July 1, 2008, actuarial valuation. In June 2011, the District made an additional contribution of $250,000 towards its Employer Side Fund. At the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funding status of the District's plan.

7. DEFINED BENEFIT PENSION PLAN (continued)

The most recent actuarial valuation was performed as of June 30, 2010 under the following methods and assumptions:

Actuarial cost method:	Entry age
Amortization method:	Level percent of payroll
Average remaining period:	17 years safety, 18 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:	3.55% to 14.45% depending on age, service and type of employment
Inflation:	3.00%
Payroll growth:	3.25%
Individual salary growth	A 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%

THREE-YEAR TREND INFORMATION FOR THE DISTRICT

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obiligation
2009	$ 630,000	100%	$0
2010	658,000	100%	0
2011	697,000	100%	0

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

PLAN DESCRIPTION

In accordance with its agreement with the Kentfield Association of Professional Firefighters, the District provides post-retirement health care benefits to its retirees through the Kentfield Fire Protection District Retiree Health Plan (Plan). The Plan is a single-employer plan for which audited financial statements are not available.

Payments are made on a pay-as-you-go basis. The District implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45 effective prospectively for the 2009-10 fiscal year.

FUNDING POLICY

The required contribution rate is based on the annual required contribution (ARC), and amount that is 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the District over a period not to exceed thirty years.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

During the year ended June 30, 2010, the District began partial pre-funding of the retiree health care liabilities. For the year ended June 30, 2011, a pay-go contribution of $64,366 was paid and a pre-funding contribution of $170,000 was made to the CalPERS Trust.

Annual required contribution/Annual OPEB cost (expense)	$ 169,967
Interest on net OPEB obligation	(4,839)
Adjustment to annual required contribution	3,646
Annual OPEB Cost (expense)	168,774
Contributions made	(234,366)
Increase (decrease) in net OPEB obligation	(65,592)
Net OPEB obligation (asset) - beginning of the year	(62,438)
Net OPEB obligation (asset) - end of the year	$ (128,030)

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011 is as follows:

Fiscal Year Ending June 30	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2010	$169,967	$232,405	137%	$ (62,438)
2011	168,774	234,366	139%	(65,592)

FUNDING STATUS

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 trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial 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.

In the July 1, 2010 actuarial valuation, the entry-age actuarial cost method was used. The actuarial assumptions include a 7.75% investment rate of return and a general inflation rate of 3.25%. The UAAL were amortized using a 30-year level-percent of payroll amortization period.

9. 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 became 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.

10. 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, 2011, as follows:

Appropriations limit	3,879,040
Annual subject appropriations	3,879,040
Amount (over) under the appropriation limit	-

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, 2011:

Total assets	$26,086,918
Total liabilities	21,464,967
Net assets	$ 4,621,951
Total revenues	$ 3,644,798
Total expenses	4,031,306
Net income (loss)	$ (386,508)

12. COMMITMENTS

The District has a memorandum of understanding (MOU) with the Kentfield Association of Professional Firefighters (the Union) that provides various terms of employment through June 30, 2012. The agreement provides for an annual pay increase of 0.00% for the fiscal year ending June 30, 2012.

13. NEW ACCOUNTING PRONOUNCEMENT

In June 2011, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement establishes guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in the statement of financial position. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2011.

Required Supplemental Information

KENTFIELD FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Property taxes	$ 3,142,368	$ 3,142,368	$ 3,108,479	$ (33,889)
Special assessments	396,200	396,200	396,201	1
Supplemental assessment	14,000	14,000	35,283	21,283
Excess ERAF	229,019	229,019	234,247	5,228
Other governmental aid	22,000	22,000	21,823	(177)
Use revenue / money & property	374,247	374,247	176,603	(197,644)
Total revenues	4,177,834	4,177,834	3,972,636	(205,198)
EXPENDITURES				
Current				
Salaries and employee benefits	3,037,522	3,287,522	3,241,824	45,698
Service and supplies	562,078	566,978	544,550	22,428
Total operating expenditures	3,599,600	3,854,500	3,786,374	68,126
Capital outlay	156,000	156,000	64,088	91,912
Debt service	387,993	387,993	392,321	(4,328)
Total expenditures	4,143,593	4,398,493	4,242,783	155,710
Excess of revenues over expenditures	$ 34,241	$ (220,659)	(270,147)	$ (49,488)
Fund balance at beginning of year			3,156,522	
Fund balance at end of year			$ 2,886,375	

KENTFIELD FIRE PROTECTION DISTRICT
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2011

DEFINED BENEFIT PENSION PLAN

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)
6/30/2006	$ 1,252	$ 1,473	$ 221	85.0%	$ 177	125%
6/30/2007	1,422	1,648	226	86.3%	201	112%
6/30/2008	1,518	1,756	238	86.4%	211	113%
6/30/2009	1,520	1,803	283	84.3%	222	127%
6/30/2010	1,629	1,915	286	85.1%	225	127%

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)
6/30/2006	$ 502	$ 620	$ 118	81.0%	$ 126	94%
6/30/2007	576	700	124	82.3%	139	89%
6/30/2008	641	776	135	82.6%	155	87%
6/30/2009	694	883	189	78.6%	162	117%
6/30/2010	755	945	190	79.9%	159	119%

KENTFIELD FIRE PROTECTION DISTRICT
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2011

POSTEMPLOYMENT HEALTHCARE PLAN

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 Percentage of Covered Payrol (c)/(e)
7/1/2008	$ -	$ 1,904,321	$ 1,904,321	0%	1,158,833	164%
7/1/2010	169,093	1,984,568	1,815,475	9%	1,293,127	140%

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2011

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.

2. POST EMPLOYMENT HEALTHCARE PLAN

The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Multi-year trend information is not available as this is the first valuation under GASB 45. In the future, information from the three most recent valuations will be presented.