



Basic Financial Statements
Fiscal Year Ended June 30, 2015

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**KENTFIELD FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

Table of Contents

| | |
|--|-----|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 5-8 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Fund | 11 |
| Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position | 12 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund | 13 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities | 14 |
| Notes to the Basic Financial Statements | 15 |
| Required Supplemental Information: | |
| Budgetary Comparison Schedule – General Fund | 38 |
| Notes to the Required Supplemental Information | 38 |
| Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date | 39 |
| Schedule of Contributions | 40 |
| Other Post-Employment Benefit - Schedule of Funding Progress | 41 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 43 |

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kentfield Fire Protection District
Kentfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentfield Fire Protection District (District), California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 required a prior period adjustment as discussed in Note 1 to the financial statements:

Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB No. 68.*

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, Supplemental Information, and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mare & Associates

Pleasant Hill, California
December 2, 2015

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KENTFIELD FIRE 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, 2015. Please read it along with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The District's beginning net position was adjusted and reduced by \$5,617,000 due to the implementation of Governmental Accounting Standards Board Statements 68 and 71, as discussed in Note 1. The District's net position increased \$472,105 during 2015. District-wide revenues increased by \$188,000 and total expenses increased by \$67,000.

Included in the required supplemental information section is a budgetary comparison schedule. As indicated in the budgetary comparison schedule on page 40, our revenues were higher than budgeted amounts by almost \$220,000 and operating expenditures exceeded amounts budgeted by \$483,000.

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 position 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 position (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. In the following table, the amounts presented for prior fiscal year ended in June 30, 2014, were not restated for GASB 68 and 71 because not all of the information required to restate prior year amounts was readily available.

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

| | 2015 | 2014 | Increase (decrease) |
|----------------------------------|----------|----------|------------------------|
| Current assets | \$ 3,340 | \$ 3,398 | \$ (58) |
| Noncurrent assets | 6,290 | 6,378 | (88) |
| Total assets | 9,630 | 9,776 | (146) |
| Deferred outflows | 1,275 | - | 1,275 |
| Current liabilities | 596 | 525 | 71 |
| Noncurrent liabilities | 7,492 | 2,454 | 5,038 |
| Total liabilities | 8,088 | 2,979 | 5,109 |
| Deferred inflows | 1,165 | - | 1,165 |
| Net position: | | | |
| Net investment in capital assets | 3,507 | 3,455 | 52 |
| Unrestricted | (1,855) | 3,342 | (5,197) |
| Total net position | \$ 1,652 | \$ 6,797 | \$ (5,145) |

The decrease in current assets is primarily a result of normal changes in working capital. Note that Noncurrent Liabilities increased dramatically due to the implementation of GASB 68 relative to CalPERS pension obligations, only slightly offset due to scheduled principal payments towards our fire station remodel and solar equipment leases. Additionally, the District elected to pay down an existing CalPERS side-fund obligation by \$680,000.

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

| | 2015 | 2014 | Increase (decrease) |
|------------------------------------|----------|----------|------------------------|
| General revenues | | | |
| Property taxes | \$ 4,570 | \$ 4,227 | \$ 343 |
| Use of money and property | 147 | 119 | 28 |
| Total general revenues | 4,717 | 4,346 | 371 |
| Program revenues | | | |
| Charges for services | 233 | 234 | (1) |
| Operating grants and contributions | - | 182 | (182) |
| Total program revenues | 233 | 416 | (183) |
| Total revenues | \$ 4,950 | \$ 4,762 | \$ 188 |

Property tax revenue increased due to higher assessed valuations. Additionally, the Special Assessment Tax now includes all improved structure square footage. Previously, garages and out-buildings were not assessed. The Grant Revenue received from FEMA was used to purchase safety equipment, specifically self-contained breathing apparatus.

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

| | 2015 | 2014 | Increase (decrease) |
|-------------------------------------|----------|----------|------------------------|
| Personnel | \$ 3,672 | \$ 3,485 | \$ 187 |
| Material and services | 454 | 521 | (67) |
| Depreciation | 269 | 257 | 12 |
| Interest | 83 | 148 | (65) |
| Total expenses | 4,478 | 4,411 | 67 |
| Less: Program revenues | 233 | 416 | (183) |
| Net expenses | 4,245 | 3,995 | 250 |
| General revenues | 4,717 | 4,346 | 371 |
| Change in net position | 472 | 351 | 121 |
| Beginning net position, as restated | 1,180 | 6,446 | (5,266) |
| Ending net position | \$ 1,652 | \$ 6,797 | \$ (5,145) |

Personnel expense increase primarily due to new labor agreement, including a new Provisional Firefighter position.

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 15, the fund balance of the general fund decreased by \$105,805. On page 14 there is reconciliation between the fund balance increase and the change in net position.

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 accounting policies are disclosed in Note 1 and a summary of changes in capital assets is reported in Note 3.

Details about our debt are shown in Note 4 in the financial statements.

ECONOMIC OUTLOOK

The Kentfield Fire District's financial position continues to be sufficient to maintain a continued high level of service to its constituents. The District's financial planning and fiscal forecast continues to be based on sound and conservative calculations of economic trends. Some assumptions, relative to recent positive trends in increasing real property values and State economic forecasts, predict a slow recovery out of the recessionary period that has stressed local agency budgets for several reporting periods. The District is currently experiencing a stronger recovery than other areas of California due to the strength of the local economy and real estate market. Predictably, an increase in property tax revenue is expected. However, national and international economic and social uncertainties continue to impact the ability of local agencies, such as the District, to anticipate future trends with any reliable certainty. Adequate resources are being maintained for long range needs, but future major purchases must be approached with increased deliberation. During these times of economic recovery, vigilance must be maintained to ensure outside sources such as local and state governments do not negatively impact the Mission and Strategic Goals of the District.

With regard to other income sources, the revenue received on the District's investment account continues to earn minimal interest, estimated at one half of one percent. Income received from the Marin General Hospital contract and cellular communication leases for site rental use continues to increase, but only at very modest inflationary rates.

This June 30, 2015 reporting period includes the District's unfunded liability relative to pension obligations in the financials instead of in the footnotes, as had been reported in previous years, in accordance with GASB 68.

The District will continue to rigorously manage Fire District expenses and plan conservatively while continuing to provide a high standard of fire protection, emergency medical service and preparedness training to our constituents in Greenbrae and Kentfield.

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

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2015**

ASSETS

| | |
|--|-------------|
| Current assets: | |
| Cash and cash equivalents (Note 2) | \$3,261,202 |
| Property taxes receivable | 70,082 |
| Accounts receivable | 8,664 |
| | <hr/> |
| Total current assets | 3,339,948 |
| | <hr/> |
| Noncurrent assets: | |
| Pre-funded OPEB obligation (Note 8) | 476,246 |
| Land and artwork (Note 3) | 35,010 |
| Depreciable capital assets, net (Note 3) | 5,779,068 |
| | <hr/> |
| Total noncurrent assets | 6,290,324 |
| | <hr/> |
| Total assets | 9,630,272 |
| | <hr/> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|-----------------------------|-----------|
| Related to pension (Note 7) | 1,274,830 |
| | <hr/> |

LIABILITIES

| | |
|---------------------------------------|-----------|
| Current liabilities | |
| Accounts payable | 65,419 |
| Accrued expense | 67,619 |
| Compensated absences payable (Note 4) | 222,319 |
| Capital lease obligations (Note 4) | 240,896 |
| | <hr/> |
| Total current liabilities | 596,253 |
| | <hr/> |
| Noncurrent liabilities | |
| Compensated absences payable (Note 4) | 223,454 |
| Capital lease obligations (Note 4) | 2,066,371 |
| Net pension liability (Note 7) | 5,202,429 |
| | <hr/> |
| Total non-current liabilities | 7,492,254 |
| | <hr/> |
| Total liabilities | 8,088,507 |
| | <hr/> |

DEFERRED INFLOWS OF RESOURCES

| | |
|-----------------------------|-----------|
| Related to pension (Note 7) | 1,164,747 |
| | <hr/> |

NET POSITION

| | |
|----------------------------------|-------------|
| Net Investment in capital assets | 3,506,811 |
| Unrestricted | (1,854,963) |
| | <hr/> |
| Total net position | \$1,651,848 |
| | <hr/> |

See accompanying notes to financial statements

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

EXPENSES

| | |
|-----------------------|-------------|
| Public Safety: | |
| Salaries and benefits | \$3,672,105 |
| Material and services | 453,569 |
| Depreciation | 269,218 |
| Interest on debt | 82,901 |
| | <hr/> |
| Total expenses | 4,477,793 |

PROGRAM REVENUES

| | |
|------------------------|-----------|
| Charges for services | 233,049 |
| | <hr/> |
| Total program revenues | 233,049 |
| | <hr/> |
| Net program expense | 4,244,744 |

GENERAL REVENUES

| | |
|---------------------------|-----------|
| Property taxes | 4,569,999 |
| Use of money and property | 141,888 |
| Miscellaneous | 4,962 |
| | <hr/> |
| Total general revenues | 4,716,849 |
| | <hr/> |
| Change in net position | 472,105 |

NET POSITION

| | |
|---|-------------|
| Beginning of year, as adjusted (Note 1) | 1,179,743 |
| | <hr/> |
| End of year | \$1,651,848 |
| | <hr/> <hr/> |

See accompanying notes to financial statements

**KENTFIELD FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2015**

ASSETS

| | |
|------------------------------------|---------------------------|
| Cash and cash equivalents (Note 2) | \$3,261,202 |
| Property taxes receivable | 70,082 |
| Accounts receivable | <u>8,664</u> |
| Total assets | <u><u>\$3,339,948</u></u> |

LIABILITIES

| | |
|-------------------|----------------|
| Accounts payable | \$65,419 |
| Accrued expenses | <u>67,619</u> |
| Total liabilities | <u>133,038</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|--------------------------------------|---------------|
| Unavailable revenue - property taxes | <u>70,082</u> |
|--------------------------------------|---------------|

FUND BALANCE

| | |
|---|---------------------------|
| Assigned | 2,609,568 |
| Unassigned | <u>527,260</u> |
| Total fund balance | <u>3,136,828</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u><u>\$3,339,948</u></u> |

See accompanying notes to financial statements

**KENTFIELD FIRE PROTECTION DISTRICT
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2015**

| | |
|---|---------------------------|
| Total governmental fund balance | \$3,136,828 |
| Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because: | |
| Property taxes receivable that are not available to pay current period expenditures and therefore are deferred in the fund balance sheet | 70,082 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in fund balance sheet | 5,814,078 |
| Some assets (liabilities) are not due and receivable (payable) in the current period and therefore are not reported as fund assets (liabilities) | |
| Net pension liability | (5,202,429) |
| Deferred outflows related to pension | 1,274,830 |
| Deferred inflows related to pension | (1,164,747) |
| Net OPEB asset | 476,246 |
| Capital lease obligations | (2,307,267) |
| Compensated absences | (445,773) |
| | <hr/> |
| Net position of government activities | <u><u>\$1,651,848</u></u> |

See accompanying notes to basic financial statements

**KENTFIELD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES- GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

REVENUES:

| | |
|---------------------------|-------------|
| Property taxes | \$4,544,841 |
| Intergovernmental | 154,053 |
| Use of money and property | 141,888 |
| Charges for services | 101,024 |
| Miscellaneous | 4,962 |
| | <hr/> |
| Total revenues | 4,946,768 |
| | <hr/> |

EXPENDITURES:

| | |
|-----------------------|-----------|
| Current: | |
| Public Safety: | |
| Salaries and benefits | 4,194,951 |
| Material and services | 441,510 |
| Capital outlay | 100,083 |
| Debt Service : | |
| Principal | 233,128 |
| Interest | 82,901 |
| | <hr/> |
| Total expenditures | 5,052,573 |
| | <hr/> |

| | |
|--|-----------------|
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <hr/> (105,805) |
|--|-----------------|

| | |
|-----------------------------------|-----------|
| NET CHANGE IN FUND BALANCE | (105,805) |
|-----------------------------------|-----------|

FUND BALANCE

| | |
|-------------------|-------------------------|
| Beginning of year | <hr/> 3,242,633 |
| End of year | <hr/> <hr/> \$3,136,828 |

See accompanying notes to basic financial statements

**KENTFIELD FIRE PROTECTION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

| | |
|----------------------------|-------------|
| Net change in fund balance | (\$105,805) |
|----------------------------|-------------|

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 | 88,024 |
| Depreciation expense | (269,218) |

Revenues in the statement of activities that do not provide current resources
are not reported as revenue in the fund financial statements (net change)

| | |
|----------------|-------|
| Property taxes | 3,130 |
|----------------|-------|

Debt principal transactions reported in the governmental 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)

| | |
|---|---------|
| Payment to reduce capital lease obligations | 233,128 |
|---|---------|

Expenditures reported in the modified accrual 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:

| | |
|---|----------|
| Net pension liability, deferred inflows and outflows of resources | 524,826 |
| Other post employment benefits | 93,141 |
| Accrued compensated absences | (95,121) |

| | |
|------------------------|-------------------------|
| Change in net position | <u><u>\$472,105</u></u> |
|------------------------|-------------------------|

See accompanying notes to basic financial statements

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

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.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

| |
|--|
| NOTE 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 Position resulting from the current year's activities.

FUND FINANCIAL STATEMENT 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, assigned or unassigned resources, 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.

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.

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.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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

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 are stated at fair value (quoted market price).

Capital assets

Capital assets purchased or acquired with an original cost of \$1,000 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. 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.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacations 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 from 10 to 25 days per year, depending on 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.

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 Fire Chief is authorized as the designee to assign amounts to a specific purpose. 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. The District does not have a nonspendable fund balance.

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 legislation. The District does not have a restricted fund balance.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 resources 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.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

PRIOR PERIOD ADJUSTMENT

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*.

The implementation of the above statements required the District to make prior period adjustments. As a result, the beginning net position of the Governmental Activities was reduced by \$5,617,172. See Note 7 for additional information.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

FUTURE GASB PRONOUNCEMENTS

The following Governmental Accounting Standards Board (GASB) pronouncements that will take effect in the next few years.

Effective in fiscal year 2015-16

GASB 72 – Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles.

Effective in fiscal year 2016-17:

GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

GASB 74 – Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB 77 – Tax Abatement Disclosures

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government’s tax revenues.

**KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective in fiscal year 2017-18:

GASB 75 –Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

NOTE 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. The District's position in the pool is the same as the value of the pool shares. 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.

Cash and cash equivalents consist of the following:

| | |
|----------------------------|--------------------|
| Cash with County Treasurer | \$3,152,756 |
| Cash in banks | 108,246 |
| Petty cash | 200 |
| Total | <u>\$3,261,202</u> |

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

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, 2015, the County's investment pool had a weighted average maturity of 176 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."

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 Marin County investment pool's fair value at June 30, 2015.

| Marin County Investment Pool | Percent of portfolio |
|------------------------------|-------------------------|
| Federal agency - coupon | 13% |
| Federal agency - discount | 85% |
| 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.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 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 statute.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Balance June 30, 2014 | Additions | Balance June 30, 2015 |
|--|--------------------------|--------------------|--------------------------|
| Nondepreciable capital assets: | | | |
| Land | \$10 | | \$10 |
| Artwork | 35,000 | | 35,000 |
| Total nondepreciable capital assets | <u>\$35,010</u> | | <u>\$35,010</u> |
| Capital assets being depreciated: | | | |
| Buildings and building improvements | \$5,866,298 | | \$5,866,298 |
| Fire apparatus | 1,304,182 | | 1,304,182 |
| Vehicles | 69,459 | \$46,184 | 115,643 |
| Equipment and furniture | 806,863 | 41,840 | 848,703 |
| Total capital assets being depreciated | <u>8,046,802</u> | <u>88,024</u> | <u>8,134,826</u> |
| Less accumulated depreciation for: | | | |
| Buildings and building improvements | 897,288 | 144,173 | 1,041,461 |
| Fire apparatus | 693,852 | 60,441 | 754,293 |
| Vehicles | 58,476 | 3,765 | 62,241 |
| Equipment and furniture | 436,924 | 60,839 | 497,763 |
| Total accumulated depreciation | <u>2,086,540</u> | <u>269,218</u> | <u>2,355,758</u> |
| Total depreciable assets | <u>\$5,960,262</u> | <u>(\$181,194)</u> | <u>\$5,779,068</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 THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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

| | |
|-------------------------------|-------------------------|
| Balance as of June 30, 2014 | \$350,652 |
| Increases during the year | 274,196 |
| Decreases during the year | <u>179,075</u> |
| Balance as of June 30, 2015 | 445,773 |
| Less amount due within 1 year | <u>222,319</u> |
| Amount due after 1 year | <u><u>\$223,454</u></u> |

Capital Lease Obligations

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, 2014 | \$2,494,425 | \$45,970 | \$2,540,395 |
| Decreases during the year | <u>(226,561)</u> | <u>(6,567)</u> | <u>(233,128)</u> |
| Balance as of June 30, 2015 | <u><u>\$2,267,864</u></u> | <u><u>\$39,403</u></u> | <u><u>\$2,307,267</u></u> |

Solar Equipment Capital Lease

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 for 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.

Fire Station Modernization Capital Lease

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. During 2009-10, the District prepaid a portion of the lease by approximately \$480,000.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 4 – NONCURRENT LIABILITIES (Continued)

In June 2014, the District amended the fire station lease agreement with a bank in the amount of \$2,494,425. Interest rate is 3.40% per annum. Interest and principal payments are due each June 30 and December 30. Final payment is due December 30, 2023.

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

| | Fire Station Modernization | Solar Equipment |
|--------------------------------|-------------------------------|--------------------|
| Date of lease | June 30, 2014 | December 2008 |
| Semi-annual payment | \$154,730 | |
| Annual Payment | | \$6,567 |
| Number of payments | 19 | 13 |
| Effective annual interest rate | 3.40% | 0.87% |
| Financing costs | | \$7,692 |
| Cost of building/equipment | \$4,934,000 | \$68,000 |
| Accumulated amortization | \$484,600 | \$3,400 |

Future debt service are as follow:

| Year ending June 30 | Fire Station Modernization | Solar Equipment | Total |
|----------------------------------|-------------------------------|--------------------|-------------|
| 2016 | \$309,461 | \$6,567 | \$316,028 |
| 2017 | 309,461 | 6,567 | 316,028 |
| 2018 | 309,461 | 6,567 | 316,028 |
| 2019 | 309,461 | 6,567 | 316,028 |
| 2020 | 309,461 | 6,567 | 316,028 |
| 2021 - 2025 | 1,083,114 | 6,568 | 1,089,682 |
| Total payments | 2,630,419 | 39,403 | 2,669,822 |
| Less: Interest | 362,555 | | 362,555 |
| Principal | 2,267,864 | 39,403 | 2,307,267 |
| Less: Amount due within one year | (234,329) | (6,567) | (240,896) |
| Amount due after one year | \$2,033,535 | \$32,836 | \$2,066,371 |

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 5 – FUND BALANCE

The following are assigned fund balances:

| | |
|---------------------------------|---------------------------|
| Apparatus replacement | \$592,643 |
| Building replacement | 72,899 |
| Compensated absences | 130,973 |
| Contingencies and emergencies | 395,000 |
| LDH (Hose) | 30,000 |
| Marin Emergency Radio Authority | 37,580 |
| PERS unfunded liability | 800,490 |
| OPEB | 199,983 |
| General insurance deductible | 10,000 |
| Health insurance | 25,000 |
| Hydrants and mains | 10,000 |
| Mapping and planning | 30,000 |
| Heavy rescue equipment | 25,000 |
| Debt service sinking fund | <u>250,000</u> |
| Total | <u><u>\$2,609,568</u></u> |

NOTE 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.

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

NOTE 7 – PENSION PLANS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLANS (Continued)

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the District's separate Safety (fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | <u>Miscellaneous Tier 1</u> | <u>Miscellaneous Tier 2</u> |
|---|-----------------------------|-----------------------------|
| Benefit formula | 3% @ 60 | 2.5% @ 55 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 55 | 55 |
| Monthly benefits, as a % of eligible compensation | 2% | 2.5% |
| Required employee contribution rates | N/A | 8% |
| Required employer contribution rates | N/A | 14.083% |
| | <u>Safety</u> | <u>Safety PEPR</u> |
| Benefit formula | 3% @ 55 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 55 | 57 |
| Monthly benefits, as a % of eligible compensation | 3% | 2.7% |
| Required employee contribution rates | 11.715% | 8.980% |
| Required employer contribution rates | 12.250% | 35.785% |

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

| | Miscellaneous Tier 1 | Safety | Safety PEPRA |
|--------------------------|-------------------------|-----------|-----------------|
| Contributions - employer | \$135,637 | \$678,750 | \$13,703 |

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

| | Proportionate Share of Net Pension Liability |
|----------------------|---|
| Miscellaneous Tier 1 | \$235,064 |
| Miscellaneous Tier 2 | 4,481 |
| Safety PEPRA | 28 |
| Safety | 4,962,856 |
| Total | <u>\$5,202,429</u> |

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

| | Miscellaneous Tier 1 | Miscellaneous Tier 2 | Safety | Safety PEPRA |
|------------------------------|-------------------------|-------------------------|----------|-----------------|
| Proportion - June 30, 2013 | 0.00378% | 0.00007% | 0.07976% | 0.00000% |
| Proportion - June 30, 2014 | 0.00378% | 0.00007% | 0.07976% | 0.00000% |
| Change - Increase (Decrease) | 0.00% | 0.00% | 0.00% | 0.00% |

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the District recognized a negative pension expense of \$524,024. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$1,268,848 | |
| Differences between actual and expected experience | | |
| Changes in assumptions | | |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 5,982 | (\$70,150) |
| Net differences between projected and actual earnings on plan investments | | (1,094,597) |
| Total | <u>\$1,274,830</u> | <u>(\$1,164,747)</u> |

The \$1,268,848 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | Increase (Decrease) in Pension Expense |
|-----------------------|---|
| 2015 | (\$296,565) |
| 2016 | (296,565) |
| 2017 | (291,985) |
| 2018 | (273,650) |

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations for the District's Miscellaneous, Miscellaneous Tier 2, Safety, and Safety PEPRA plans were determined using the following actuarial assumptions:

| | |
|---------------------------|----------------------------------|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% |
| Inflation | 2.75% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | Varies by Entry Age and Service |
| Investment Rate of Return | 7.50% (1) |
| | Derived using CalPERS Membership |
| Mortality | Data for all Funds |

(1) Net of pension plan investment expenses, including inflation

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLANS (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLANS (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Global Equity | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 12.0% | 6.83% | 6.95% |
| Real Estate | 11.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | -0.55% | -1.05% |
| Total | 100% | | |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Miscellaneous Tier 1 | Miscellaneous Tier 2 | Safety | Safety PEPRA |
|-----------------------|-------------------------|-------------------------|-------------|-----------------|
| 1% Decrease | 6.50% | 6.50% | 6.50% | 6.50% |
| Net Pension Liability | \$341,555 | \$7,983 | \$7,676,850 | \$48 |
| Current Discount Rate | 7.50% | 7.50% | 7.50% | 7.50% |
| Net Pension Liability | \$235,064 | \$4,481 | \$4,962,856 | \$28 |
| 1% Increase | 8.50% | 8.50% | 8.50% | 8.50% |
| Net Pension Liability | \$146,852 | \$1,574 | \$2,726,642 | \$11 |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – OTHER POST EMPLOYMENT HEALTHCARE BENEFITS (OPEB)

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).

GASB 45 requires public agencies to estimate their Other Post Employment Benefits (OPEBs) and account for the future liability. Rather than use the “pay as you go” system and account for retiree benefits as they are due, GASB 45 requires the agencies to account for the expenses as benefits are accrued for the employees. On June 2010, the District established an agreement with the California Public Employees’ Retirement System (CalPERS) to set aside funds and deposit into the California Employer’s Retiree Benefit Trust (CERBT) fund to accumulate, and distribute assets for the exclusive benefit of retirees and their beneficiaries. Plan assets are irrevocable and may not be used for any purpose other than funding post-retirement health care. The CERBT fund is an agent multiple employer plan and in order to ensure that the CERBT fund remains compliant with all reporting requirements, the CALPERS is responsible for publishing aggregate GASB 43 compliance Financial Statements, Notes, and Required Supplementary Information (RSI). The information may be found on CalPERS web site at www.calpers.ca.gov.

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 ASSET

For the year ended June 30, 2015, a pay-go contribution of \$200,000 was made to the CalPERS Trust.

| | |
|--|---------------------------|
| Annual required contribution | \$195,449 |
| Interest on net OPEB (asset) | (29,858) |
| Adjustment to annual required contribution | <u>27,044</u> |
| Annual OPEB cost (expense) | 192,635 |
| Contributions made to OPEB trust | (200,000) |
| Contributions made on behalf of retirees | <u>(85,776)</u> |
| Increase (decrease) in net OPEB (asset) | (93,141) |
| Net OPEB (asset) - beginning of the year | <u>(383,105)</u> |
| Net OPEB (asset) - ending of the year | <u><u>(\$476,246)</u></u> |

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 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 2015 are as follows:

| <u>Fiscal Year</u> <u>Ending June 30</u> | <u>Annual</u> <u>OPEB Cost</u> | <u>Contribution</u> | <u>Percentage of</u> <u>Annual OPEB</u> <u>Cost</u> <u>Contributed</u> | <u>Net OPEB</u> <u>Obligation (Asset)</u> |
|---|-----------------------------------|---------------------|---|--|
| 2013 | \$164,741 | \$253,343 | 154% | (\$293,569) |
| 2014 | 193,718 | 283,245 | 146% | (383,096) |
| 2015 | 192,635 | 285,776 | 148% | (476,246) |

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.

| | |
|-----------------------------|---|
| Valuation Date: | July 1, 2013 |
| Funding Method: | Entry Age Normal Cost, level percent of pay |
| Asset Valuation Method: | Market value of assets |
| Long Term Return on Assets: | 7.06% |
| Discount Rate: | 7.06% |
| Salary Increase: | 3.25% per year |
| Assumed Increase for | 3.25% per year where determined on a |
| Amortization Payments: | percent of pay basis |
| General Inflation Rate: | 3.0% per year |

Amortization payments are determined as a level percent of pay over a closed, 30 year period; the remaining amortization period used in developing the ARC for the fiscal year ending June 30, 2015 is 25 years.

The caps on medical premiums covered by the District are assumed to increase each July 1st, ranging from 4.50% to 8.50% per year.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 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 and Automotive and Property Damage 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. The following coverage limits and deductibles are listed as follows:

| <u>Coverage</u> | <u>Limit</u> | <u>Deductible</u> |
|--------------------|------------------|-------------------|
| General Liability | \$1,000,000 | \$0 |
| Management | 1,000,000 | 5,000 |
| Automobile | 1,000,000 | 0 |
| Crime | 1,000,000 | 5,000 |
| Portable Equipment | Replacement Cost | 1,000 |
| Umbrella | 10,000,000 | 0 |

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.

KENTFIELD FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 – 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 Authority's website:
<http://www.meraonline.org>.

NOTE 11 – 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.

| | |
|--|------------------|
| Appropriations Limit | \$4,701,816 |
| Annual subject appropriations | <u>4,701,816</u> |
| Amount (over) under the Appropriations limit | <u><u>-</u></u> |

NOTE 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.

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REQUIRED SUPPLEMENTARY INFORMATION

**KENTFIELD FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

| | Original Budget | Final Budget | Actual | Variance Over (Under) |
|-----------------------------------|--------------------|------------------|--------------------|-----------------------------|
| REVENUES | | | | |
| Property taxes | \$4,361,600 | \$4,361,600 | \$4,544,841 | \$183,241 |
| Intergovernmental revenue | 183,000 | 183,000 | 154,053 | (28,947) |
| Use of money and property | 83,600 | 83,600 | 141,888 | 58,288 |
| Charges for services | 93,800 | 93,800 | 101,024 | 7,224 |
| Other governmental aid | | 4,962 | 4,962 | |
| | <u>4,722,000</u> | <u>4,726,962</u> | <u>4,946,768</u> | <u>219,806</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Salaries and employees benefits | 3,659,500 | 3,659,500 | 4,194,951 | (535,451) |
| Service and supplies | 493,595 | 493,595 | 441,510 | 52,085 |
| | <u>4,153,095</u> | <u>4,153,095</u> | <u>4,636,461</u> | <u>(483,366)</u> |
| Capital outlay | 111,500 | 171,500 | 100,083 | 71,417 |
| Debt service - principal | 233,129 | 233,129 | 233,128 | 1 |
| Debt service - interest | 82,901 | 82,901 | 82,901 | |
| | <u>4,580,625</u> | <u>4,640,625</u> | <u>5,052,573</u> | <u>(411,948)</u> |
| Net change in fund balance | <u>\$141,375</u> | <u>\$86,337</u> | <u>(105,805)</u> | <u>(\$192,142)</u> |
| Fund balance at beginning of year | | | <u>3,242,633</u> | |
| Fund balance at end of year | | | <u>\$3,136,828</u> | |

Notes to Budgetary Comparison Schedule for General Fund

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.

REQUIRED SUPPLEMENTARY INFORMATION

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Miscellaneous and Safety Plans

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date Last 10 Years*

| | 2015 | | | |
|---|---------------------|---------------------|---------------------|--------------------|
| | Miscellaneous | | Safety | |
| | Tier 1 6/30/2014 | Tier 2 6/30/2014 | Tier 1 6/30/2014 | PEPRA 6/30/2014 |
| Measurement date: | | | | |
| Plan's proportion of the Net Pension Liability (Asset) | 0.00378% | 0.00007% | 0.12593% | 0.00000% |
| Plan's proportion share of the Net Pension Liability (Asset) | \$235,064 | \$4,481 | \$7,835,901 | \$28 |
| Plan's Covered Employee Payroll | N/A | \$67,748 | \$8,425,970 | \$82,103 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | NA | 6.61% | 93.00% | 0.03% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 70.66% | 83.03% | 83.03% | 81.58% |

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION

Cost-Sharing Multiple Employer Defined Benefit Pension Plan Miscellaneous and Safety Plans

Schedule of Contributions Last 10 Years*

| | 2015 | | | |
|---|---------------|------------|-------------|------------|
| | Miscellaneous | | Safety | |
| | Tier 1 | Tier 2 | Tier 1 | PEPRA |
| Actuarially determined contribution | \$32,016 | \$0 | \$631,094 | \$0 |
| Contributions in relation to the actuarially determined contributions | (32,016) | 0 | (631,094) | 0 |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Covered-employee payroll | \$0 | \$0 | \$1,593,532 | \$0 |
| Contributions as a percentage of covered-employee payroll | | | 39.60% | |

Notes to Schedule

| | | | | |
|-----------------|-----------|-----------|-----------|-----------|
| Valuation date: | 6/30/2013 | 6/30/2013 | 6/30/2013 | 6/30/2013 |
|-----------------|-----------|-----------|-----------|-----------|

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| | Miscellaneous Tier 1 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | Varies by Entry Age and Service |
| Investment rate of return | Pension Plan Investment and Administrative Expenses; |
| Retirement age | 50 - 57 |
| Mortality | Derived using CalPERS Membership Data for all Funds |

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST EMPLOYMENT BENEFITS (OPEB) SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio | Covered Payroll | UAAL as a percentage of Covered Payroll (c)/(e) |
|--------------------------------|--|---------------------------------|-----------------------------------|-----------------|--------------------|--|
| 7/1/2010 | \$1,984,568 | \$169,093 | \$1,815,475 | 8.5% | \$1,293,127 | 140.4% |
| 7/1/2011 | 2,392,071 | 387,297 | 2,004,774 | 16.2% | 1,280,984 | 156.5% |
| 7/1/2013 | 2,102,193 | 789,594 | 1,312,599 | 37.6% | 1,291,131 | 101.7% |

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Kentfield Fire Protection District
Kentfield, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Kentfield Fire Protection District (District), California, as of and for the year ended June 30, 2015, and have issued our report thereon dated December 2, 2015. Our report includes an emphasis paragraph describing the implementation of new accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 2, 2015 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Klare & Associates

Pleasant Hill, California
December 2, 2015