MONTECITO FIRE PROTECTION DISTRICT

Annual Financial Report

For the Fiscal Year Ended
June 30, 2012

Issued by the Office of Santa Barbara County Auditor-Controller
Robert W. Geis, CPA, Auditor-Controller

Montecito Fire Protection District

Annual Financial Report
For the Fiscal Year Ended June 30, 2012

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COUNTY OF SANTA BARBARA

OFFICE OF THE AUDITOR-CONTROLLER

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Auditor's Report

To the Board of Directors of the Montecito Fire Protection District:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Montecito Fire Protection District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements for California Special Districts, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

As required by various statutes within the California Government Code, county auditor-controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, impair independence standards. We believe that the following safeguards and division of responsibility exist to retain the audit organization independence. The Santa Barbara County Auditor-Controller is directly elected by the voters of the jurisdiction being audited. Also, the audit staff, having the responsibility to perform audits, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being audited.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the schedule of funding progress for the District's Other Post Employment Benefit (OPEB) Plan 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.

Robert W. Geis, CPA
Auditor-Controller
June 12, 2013

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OFFICE OF THE AUDITOR-CONTROLLER

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 of the Montecito Fire Protection District:

We have audited the accompanying financial statements of the governmental activities of the Montecito Fire Protection District (the District), as of and for the year ended June 30, 2012, which comprise the District's basic financial statements and have issued our report thereon dated June 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements for California Special Districts, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance Over Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robert W. Geis, CPA
Auditor-Controller
June 12, 2013

Management’s Discussion and Analysis (Unaudited)

The purpose of the Management's Discussion and Analysis (MD&A) is to provide an overview of the District's financial condition and to highlight important changes and activities with fiscal implications that occurred during the year ended June 30, 2012. Please read it in conjunction with the District's basic financial statements and required supplementary information, which follow this section.

Discussion of Basic Financial Statements

This discussion and analysis provides an introduction and a brief discussion of the District's basic financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. Special purpose governments engaged in a single government program can combine the fund financial statements and the government-wide statements using a columnar format. This format reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements rather than at the bottom of the statements or in an accompanying schedule.

The District's financial statements include three components:

1. Statement of Net Assets and Governmental Funds Balance Sheet
2. Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances
3. Notes to the Basic Financial Statements

The Statement of Net Assets and Governmental Funds Balance Sheet provides the basis for evaluating the District's capital structure, liquidity, and financial flexibility. The Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances presents information that shows how the District's fund balances and net assets changed during the year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The Notes to the Basic Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements. In addition to the basic financial statements, this report also presents other required supplementary information.

Government-wide Financial Analysis

In accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), the following is an analysis of the District's net assets and changes in net assets.

Table 1 - Montecito Fire Protection District Net Assets

	2011	2012	Dollar Change	Percent Change
Assets:				
Current and other assets	$ 12,256,938	$ 13,218,247	$ 961,309	8%
Capital assets	10,217,135	10,230,528	13,393	0%
Total assets	$ 22,474,073	$ 23,448,775	$ 974,702	4%
Liabilities:				
Current and other liabilities	$ 273,495	$ 296,748	$ 23,253	9%
Long-term liabilities	4,573,451	4,326,369	(247,082)	-5%
Total liabilities	4,846,946	4,623,117	(223,829)	-5%
Net Assets:				
Invested in capital assets	10,217,135	10,230,528	13,393	0%
Unrestricted	7,409,992	8,595,130	1,185,138	16%
Total net assets	$ 17,627,127	$ 18,825,658	$ 1,198,531	7%

Total assets increased $974,702, or 4%, when compared to the prior year. This can be attributed to a $961,309, or 8%, increase in current and other assets resulting primarily from an increase in cash and investments of $403,637, an increase in the Other Post Employee Benefits (OPEB) of $227,318 as well as a deposit on a new fire truck of $365,033.

Long-term liabilities decreased by $247,082 or 5%. This is primarily attributed to a decrease in the pension obligation bonds of $308,000.

Net assets over time is a useful indicator of a government's financial position. For Montecito Fire Protection District, assets exceed liabilities by $18,825,658 at the close of the current fiscal year. The increase of $1,198,531, or 7%, when compared to the prior year, is the amount by which fund revenues exceed expenditures in the current fiscal year (See Table 2 on page 8).

Investment in capital assets (e.g. land, buildings, vehicles and equipment) amounts to $10,230,528 at June 30, 2012, which is an increase of $13,393, or 0%, when compared to the prior year. The District uses capital assets to provide services to citizens; as such, these assets are not available for future spending. The District does not currently have any outstanding debt related to its capital assets.

Unrestricted net assets, in the amount of $8,595,130, are available to meet the District's ongoing obligations to citizens and creditors. Unrestricted net assets increased $1,185,138, or 16%, when compared to prior year due to current year's revenues exceeding expenditures by $1,198,531.

Table 2 - Montecito Fire Protection District Change in Net Assets

	2011	2012	Dollar Change	Percent Change
Revenues:				
Property taxes	$ 12,939,620	$ 13,073,414	$ 133,794	1%
Investment income	56,934	71,622	14,688	26%
Rental income	47,634	48,864	1,230	3%
Intergovernmental	559,181	188,390	(370,791)	-66%
Miscellaneous	232,479	253,136	20,657	9%
Total revenues	13,835,848	13,635,426	(200,422)	-1%
Expenses:				
Salaries and benefits	14,278,003	10,814,400	(3,463,603)	-24%
Services and supplies	1,268,905	1,080,377	(188,528)	-15%
Other expenditures	-	110,949	110,949	100%
Depreciation	447,111	431,169	(15,942)	-4%
Total expenses	15,994,019	12,436,895	(3,557,124)	-22%
Change in net assets	(2,158,171)	1,198,531	3,356,702	156%
Net Assets - Beginning	19,785,298	17,627,127	(2,158,171)	-11%
Net Assets - Ending	$ 17,627,127	$ 18,825,658	$ 1,198,531	7%

The District's total revenues decreased by $200,422, or 1% in the current fiscal year. The total decrease is primarily attributed to the following factors:

- Property tax revenue increased by $133,794, or 1%, primarily due to property value appreciation and increased construction within the District.
- Intergovernmental revenue decreased by $370,791, or 66%, due to less reimbursable fire activity than in the prior year.

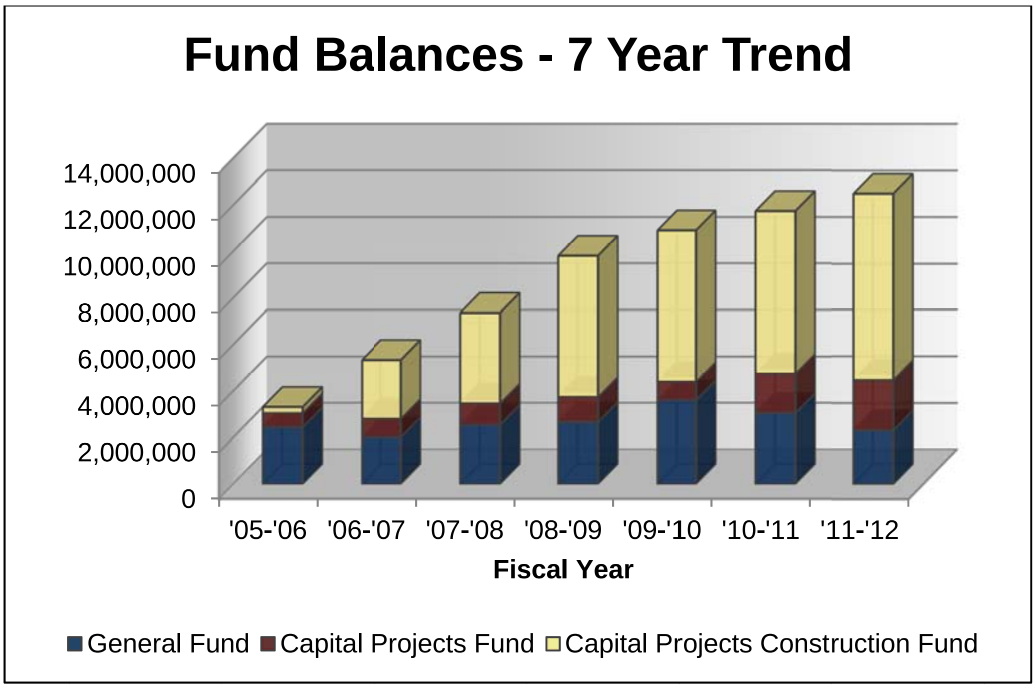
The District's total expenses decreased by $3,557,124, or 22%, in the current fiscal year. The total change is primarily due to the following factors:

- A decrease in salaries and benefits expense of $3,463,603 or 24%, resulting from the payoff of the pension obligation with CalPERS. In May of 2011, the District issued Taxable Pension Obligation Bonds (POB) in order to extinguish an existing pension obligation with CalPERS resulting in a one-time salaries expenditure in 2011. The POB will be completely paid off in FY 2018.

- An increase in other expenditures of $110,949 or 100%. The $110,949 expenditure is made up of interest payments of $99,163 and amortized bond issuance cost of $11,786 related to the POB.
- A decrease in Services and Supplies Expense of $188,528 or 15% due to a decrease of expenditures related to the Upper Hyde Road project.

Analysis of Fund Balances of Individual Funds

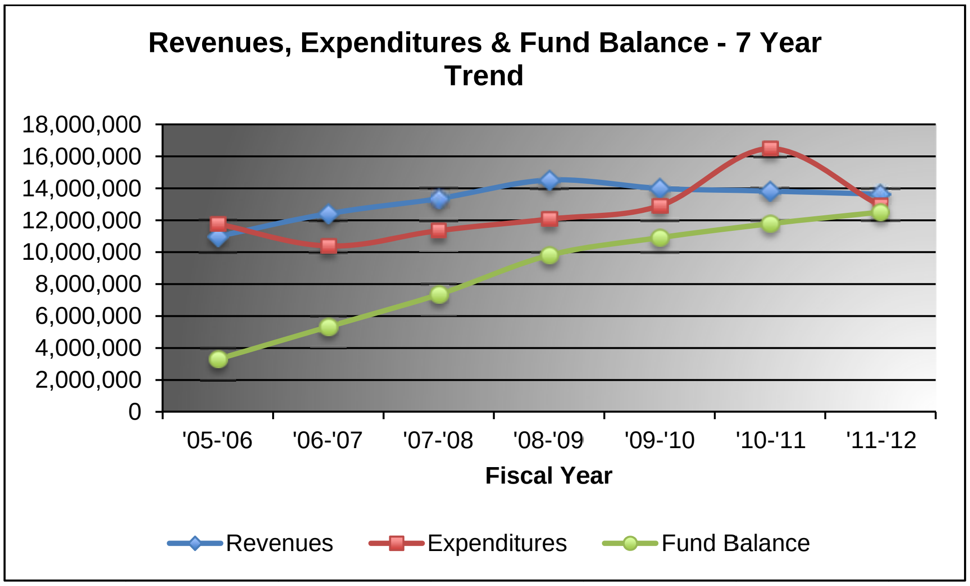
The chart below displays the fiscal year end (‘05-‘06 to ‘11-‘12) fund balances for the District's general fund, capital projects fund, and capital projects construction fund.



Total fund balance has increased each year over the seven years from FY 2006- 2012. There is $1.2M included in the general fund balance committed to contingencies. The District established a Mello-Roos fund in FY ’10-’11. The fund balance was $44,823 and $22,228 at June 30, 2011 and June 30, 2012 respectively. There was a pension fund that was established in FY ’11-’12. The fund balance was $2,496 at June 30, 2012.

Analysis of Revenues, Expenditures, and Fund Balance for Combined Governmental Funds

The chart below displays the District's revenues, expenditures, and ending "memorandum only" fund balance totals for the same seven-year period. With the exception of FY '10-'11 when the district recorded a one-time expenditure related to the issuance of the Pension Obligation Bonds, overall revenue has exceeded overall expenditures for each of the past seven fiscal years and fund balance has increased every year over the past seven fiscal years. Total combined revenues increased between FY '05-'06 and FY '08-'09 and has subsequently decreased slightly over the last three fiscal years from $13.9 million to $13.6 million. Total combined expenditures decreased between FY '05-'06 and '06-'07 and then has increased each fiscal year.



Analysis of Significant Variations Between Original and Final Budget and Actual Results for the General Fund

The Board of Directors adopted the District's fiscal year 2011/12 operating budget in September of 2011 on a modified accrual basis. As adopted for the general fund, budgeted revenues totaled $13,380,876 while projected expenditures totaled $12,843,923 and operating transfers to the capital projects fund, pension obligation fund and capital projects construction fund totaled $2,243,280. Expenditures and operating transfers were projected to exceed fiscal year revenues by $1,706,327; however, this planned excess spending was fully funded by available funds from the previous fiscal year.

The District formally amended its originally adopted budget in April of 2012. As amended for the general fund, revised budgeted revenues increased to $13,521,717 while projected expenditures increased to $12,987,252, and operating transfers remained unchanged at $2,243,280. The revised budget had no net effect on fund balance due to the increase in budgeted revenues matching the increase in budgeted expenditures. Actual revenues for the year were $70,753 higher and actual expenditures were $916,725 lower than the final amended budget on a modified accrual basis. Refer to the required supplementary information on page 31 for the Budgetary Comparison Schedule.

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to $10,230,528 (net of accumulated depreciation). This investment in capital assets includes land, land easements, construction in progress, structures, improvements, and equipment.

Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

Table 3 - Montecito Fire Protection District Capital Assets

	2011	2012	Dollar Change	Percent Change
Land	$ 2,437,792	$ 2,577,530	$ 139,738	6%
Land easments	122,308	122,308	-	0%
Construction in progress	13,910	286,661	272,751	1961%
Structures & improvements	7,408,662	7,408,662	-	0%
Equipment	3,797,828	3,827,144	29,316	1%
Total Cost	13,780,500	14,222,305	441,805	3%
Less: accumulated depreciation	(3,563,365)	(3,991,777)	(428,412)	12%
Total capital assets, net	$ 10,217,135	$ 10,230,528	$ 13,393	0%

Significant capital asset activity during FY '11-'12 including the following:

- Station three capital outlays of $139,738 to land and $272,751 to Construction in Progress. The total invested in the station three project as of June 30, 2012 is $738,048. The District was a defendant in a lawsuit filed by the Montecito Agricultural Foundation (MAF). The lawsuit challenged the adequacy of the Environmental Impact Report (EIR) filed by the District pursuant to the California Environmental Quality Act (CEQA) in connection with the District's approval of the Station 3 Project. On April 16, 2013, a Santa Barbara Superior Court judge ruled in favor of MAF, stating that the District's final EIR failed to proceed in a manner required by CEQA. The District now must vacate approval of the project and the final EIR, and prepare and circulate a legally adequate EIR before moving forward with the Station 3 project. Any actions or decisions on how the District proceeds with the Station 3 Project will be determined by the District's Board of Directors.

- The District recognized $431,169 in depreciation expense for the year.

- There was a deposit of $365,033 for a fire engine made during FY '11-'12 that was placed in service in FY '12-'13 so it is excluded from capital assets as of June 30, 2012.

Long-term debt

In May of 2011, the District authorized the issuance and sale of Taxable Pension Obligation Bonds (POB) with a principal amount of $3,520,000. Proceeds of the sale were used to extinguish an existing "side fund" pension obligation with California Public Employees Retirement System (CalPERS). The bonds were issued at a 4.52% interest rate on the basis of a 360-day year over a seven year period terminating on May 26, 2018. The District made bond principal payments totaling $308,000 and interest payments totaling $99,163 during the year ended June 30, 2012. The total outstanding debt at June 30, 2012 was $3,212,000.

The deferred bond issuance charges are being amortized over the life of the debt. There were no charges recorded in the prior year. The current year amortization of bond issuance cost was $11,786.

Economic Factors and Next Year's Budget

The following factors were considered in preparing the District's budgets for fiscal year 2012/13:

- The fiscal year 2012/13 budget for the general fund contains an increase in revenues of 1% over 2011/12 budgeted revenues. This increase is primarily due to expected increases in federal reimbursements for fire assignments.

- The fiscal year 2012/13 budget for the general fund contains a decrease in expenditures of 3.5% under 2011/12 budgeted expenditures. This decrease is primarily due to the fact that the district did not appropriate the current year beginning fund balance.
- The fiscal year 2012/13 budget for the general fund contains a decrease in other financing uses of 50% under 2011/12 budgeted expenditures. This decrease is primarily due to a combination of anticipated decreases in transfers to the capital projects construction funds of $1,401,231 and an increase in transfers to the pension obligation fund of $308,406.

Contacting the District Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District at 595 San Ysidro Road, Montecito, California 93108.

BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT
Statement of Net Assets and Governmental Funds Balance Sheet
As of June 30, 2012

	General Fund	Pension Obligation Fund	Mello-Roos Fund	Capital Projects Fund
Assets:				
Cash and investments	$ 2,533,317	$ 2,492	$ 23,071	$ 1,780,274
Accounts receivable	21,765	-	-	-
Interest receivable	8,764	4	42	2,852
Insurance deposit	45,764	-	-	-
Deposit for fire truck	-	-	-	365,033
Deferred bond issuance charge, net	-	-	-	-
OPEB asset, net	-	-	-	-
Land	-	-	-	-
Land easements	-	-	-	-
Construction in progress	-	-	-	-
Other capital assets, net	-	-	-	-
Total assets	$ 2,609,610	$ 2,496	$ 23,113	$ 2,148,159
Liabilities:				
Accounts payable	$ 50,462	$ -	$ 885	$ -
Salaries and benefits payable	236,962	-	-	-
Long-term liabilities:				
Portion due within one year:				
Compensated absences	-	-	-	-
Pension obligation bonds	-	-	-	-
Portion due in more than one year:				
Compensated absences	-	-	-	-
Pension obligation bonds	-	-	-	-
Total liabilities	287,424	-	885	-
Fund Balances/Net Assets:				
Fund Balances:				
Nonspendable	45,764	-	-	365,033
Committed	1,200,000	-	-	-
Assigned	-	2,496	22,228	1,783,126
Unassigned	1,076,422	-	-	-
Total fund balances	2,322,186	2,496	22,228	2,148,159
Total liabilities, fund balances	$ 2,609,610	$ 2,496	$ 23,113	$ 2,148,159
Net Assets:				
Invested in capital assets				
Unrestricted				
Total net assets				

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

Capital Projects Construction Fund	Memorandum Only Total	Adjustments		Statement of Net Assets	
					Assets:
$ 8,009,529	$ 12,348,683	$ -		$ 12,348,683	Cash and investments
-	21,765	-		21,765	Accounts receivable
11,236	22,898	-		22,898	Interest receivable
-	45,764	-		45,764	Insurance deposit
-	365,033	-		365,033	Deposit for fire truck
-	-	76,610	(a)	76,610	Deferred bond issuance charge, net
-	-	337,494	(b)	337,494	OPEB asset, net
-	-	2,577,530	(c)	2,577,530	Land
-	-	122,308	(c)	122,308	Land easements
-	-	286,661	(c)	286,661	Construction in progress
-	-	7,244,029	(c)	7,244,029	Other capital assets, net
$ 8,020,765	$ 12,804,143	10,644,632		23,448,775	**Total assets**
					Liabilities:
$ 8,439	$ 59,786	-		59,786	Accounts payable
-	236,962	-		236,962	Salaries and benefits payable
					Long-term liabilities:
					Portion due within one year:
-	-	733,403	(d)	733,403	Compensated absences
-	-	578,000	(e)	578,000	Pension obligation bonds
					Portion due in more than one year:
-	-	380,966	(d)	380,966	Compensated absences
-	-	2,634,000	(e)	2,634,000	Pension obligation bonds
8,439	296,748	4,326,369		4,623,117	**Total liabilities**
					Fund Balances/Net Assets:
					Fund Balances:
-	410,797	(410,797)	(f)	-	Nonspendable
-	1,200,000	(1,200,000)	(f)	-	Committed
8,012,326	9,820,176	(9,820,176)	(f)	-	Assigned
-	1,076,422	(1,076,422)	(f)	-	Unassigned
8,012,326	12,507,395	(12,507,395)		-	**Total fund balances**
$ 8,020,765	$ 12,804,143				**Total liabilities, fund balances**
					Net Assets:
		10,230,528		10,230,528	Invested in capital assets
		8,595,130		8,595,130	Unrestricted
		$ 18,825,658		$ 18,825,658	**Total net assets**

Amounts reported for governmental balances are different from the Statement of Net Assets because:

(a) Bond issuance costs are capitalized and amortized over the life of the related debt issuance.

(b) Governmental Accounting Standards Board Statement No. 45 requires an employer to record a net Other Postemployment Benefits (OPEB) obligation (asset) for the difference between the annual required contribution and the amounts actually contributed to the OPEB plan.

(c) When capital assets (land, buildings, easements, equipment) that are used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the District as a whole.

(d) Compensated absences refer to paid time off made available to employees in connection with vacation leave. Compensated absences are limited to leave that is attributable to services already rendered and is not contingent on a specific event that is outside the control of the employer and employee. A liability must be reported for compensated absences that meet both these criteria.

(e) Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds. However, a long-term liability is recorded in the Statement of Net Assets.

(f) Required adjustment to eliminate the District's governmental activities' fund balances from the Statement of Net Assets.

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

MONTECITO FIRE PROTECTION DISTRICT
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2012

	General Fund	Pension Obligation Fund	Mello-Roos Fund	Capital Projects Fund
Revenues:				
Property taxes	$ 13,073,414	$ -	$ -	$ -
Investment income	28,666	1,209	128	9,740
Rental income	48,864	-	-	-
Intergovernmental	188,390	-	-	-
Miscellaneous	253,136	-	-	-
Total revenues	13,592,470	1,209	128	9,740
Expenditures / expenses:				
Salaries and benefits	10,980,800	-	-	-
Services and supplies	1,057,654	-	22,723	-
Debt service:				
Principal	-	308,000	-	-
Interest	-	99,163	-	-
Bond issuance cost amortization	-	-	-	-
Depreciation	-	-	-	-
Capital outlay	32,073	-	-	-
Total expenditures / expenses	12,070,527	407,163	22,723	-
Excess (deficiency) of revenues over (under) expenditures	1,521,943	(405,954)	(22,595)	9,740
Other financing sources (uses):				
Transfers in	-	408,450	-	433,599
Transfers out	(2,243,280)	-	-	-
Long term debt proceeds	-	-	-	-
Total other financing sources (uses)	(2,243,280)	408,450	-	433,599
Net change in fund balances	(721,337)	2,496	(22,595)	443,339
Change in net assets	-	-	-	-
Fund Balances/Net Assets - Beginning	3,043,523	-	44,823	1,704,820
Fund Balances/Net Assets - Ending	$ 2,322,186	$ 2,496	$ 22,228	$ 2,148,159

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

Capital Projects Construction Fund	Memorandum Only Total	Adjustments		Statement of Activities	
					Revenues:
$ -	$ 13,073,414	$ -		$ 13,073,414	Property taxes
31,879	71,622	-		71,622	Investment income
-	48,864	-		48,864	Rental income
-	188,390	-		188,390	Intergovernmental
-	253,136	-		253,136	Miscellaneous
31,879	13,635,426	-		13,635,426	**Total revenues**
					Expenditures / expenses:
-	10,980,800	(166,400)	(g)	10,814,400	Salaries and benefits
-	1,080,377	-		1,080,377	Services and supplies
					Debt service:
-	308,000	(308,000)	(h)	-	Principal
-	99,163	-		99,163	Interest
-	-	11,786	(i)	11,786	Bond issuance cost amortization
-	-	431,169	(g)	431,169	Depreciation
412,489	444,562	(444,562)	(j)	-	Capital outlay
412,489	12,912,902	(476,007)		12,436,895	**Total expenditures / expenses**
(380,610)	722,524				Excess (deficiency) of revenues over (under) expenditures
					Other financing sources (uses):
1,401,231	2,243,280	(2,243,280)	(k)	-	Transfers in
-	(2,243,280)	2,243,280	(k)	-	Transfers out
-	-	-	(k)	-	Long term debt proceeds
1,401,231	-	-		-	**Total other financing sources (uses)**
1,020,621	722,524	(722,524)	(l)	-	Net change in fund balances
-	-	1,198,531	(m)	1,198,531	Change in net assets
6,991,705	11,784,871	5,842,256		17,627,127	**Fund Balances/Net Assets - Beginning**
$ 8,012,326	$ 12,507,395	$ 6,318,263		$ 18,825,658	**Fund Balances/Net Assets - Ending**

Amounts reported for governmental activities are different from the Statement of Activities because:

(g) Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(h) The repayment of the principal of long-term debt consumes the current financial resources of governmental funds but does not have any effect on net assets.

(i) Governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

(j) From an accrual perspective, the acquisition or construction of a capital asset does not affect net assets. Accordingly, expenditures to acquire or construct capital assets are not expenses, and are not included in the government-wide Statement of Activities.

(k) Required adjustment to eliminate the governmental funds other financing sources/uses from the Statement of Activities.

(l) Required adjustment to eliminate the governmental funds results of operations (revenues less expenditures) from the Statement of Activities.

(m) Required adjustment to include the government-wide results of operations (revenues less expenses) in the Statement of Activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Montecito Fire Protection District (the District) is an independent division of local government, authorized by California Health and Safety Code Sections 13800-13970. The District is governed by a three member Board of Directors elected to serve four year terms. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. There are no component units included in this report that meet the criteria of a blended or discretely presented component unit as set forth by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Government-Wide - Basis of Presentation, Measurement Focus and Basis of Accounting

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) was issued to improve governmental financial reporting for citizens, district representatives, and creditors involved in the lending process. GASB 34 requires that a government entity present in its basic external financial statements both government-wide financial statements and fund financial statements, excluding fiduciary funds. Governments engaged in a single government program may combine their fund financial statement with their government-wide statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

GAAP requires that the government-wide financial statements be reported using the economic resources measurement focus and the accrual basis of accounting. In comparison, governmental funds employ the current financial resources measurement focus and the modified accrual basis of accounting. The economic resources measurement focus aims to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred for activities related to exchange and exchange-like activities. In addition, long-lived assets (such as buildings and equipment) are capitalized and depreciated over their estimated economic lives.

Funds - Basis of Presentation, Measurement Focus and Basis of Accounting

The accounts of the District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The District uses the governmental fund category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds are used to account for the District's general government activities. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal year. Other receipts and taxes are determined to be both measurable and available when cash is received by the District and are recognized as revenue at that time.

Secured property taxes are levied in September of each year based upon the assessed valuation as of the previous January 1 (lien date). They are payable in two equal installments due on November 1 and February 1 and are considered delinquent with penalties after December 10 and April 10, respectively.

Unsecured property taxes are due on the January 1 lien date and become delinquent with penalties after August 31. All property taxes are billed and collected by the County of Santa Barbara (the County) and remitted to the District.

The District maintains the following governmental fund types:

The **General Fund** is the District’s operating fund. It accounts for all the financial resources and the legally authorized activities of the District except those required to be accounted for in another fund.

The **Pension Obligation Fund** accounts for the accumulation of resources that are committed for the payment of principal and interest on the District’s pension obligation bonds (Note 5).

The **Mello-Roos Fund** accounts for the monies collected and paid on behalf of the pending formation of a Mello-Roos District located in the area served by the District.

The **Capital Projects Fund** accounts for the acquisition of capital assets not being financed by the General Fund.

The **Capital Projects Construction Fund** accounts for the construction of major capital projects not being financed by the General Fund, such as the acquisition of land for and the development of a new fire station.

Investments

The District maintains substantially all its cash in the Santa Barbara County Treasurer’s cash management investment pool (the “pool”).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State statutes and the County's investment policy authorize the County Treasurer to invest in U.S. Treasury and U.S. Government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; State of California Local Agency Investment Fund (LAIF); and the investment pools managed by a Joint Powers Authority. Interest earned on pooled investments is apportioned quarterly into participating funds based upon each fund's average daily deposit balance. Any investment gains or losses are proportionately shared by all funds in the pool.

Investments held by the County Treasurer are stated at fair value. The fair value of pooled investments is determined quarterly and is based on current market prices received from the securities custodian. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal.

The pool's disclosures related to cash and investments including those disclosures regarding custodial credit risk are included in the County's Comprehensive Annual Financial Report. A copy may be obtained online from the Auditor-Controller section of the County's website.

Receivables

Receivables are recorded in the District's Statement of Net Assets and Governmental Funds Balance Sheet net of any allowance for uncollectibles. All receivables are deemed to be collectible at June 30, 2012, and as such, the District has no allowance for uncollectible accounts for these receivables.

Capital Assets

Capital assets are recorded in the District's Statement of Net Assets and Governmental Funds Balance Sheet in the Statement of Net Assets column at cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. The costs of normal maintenance that do not add to the value of the asset or materially extend assets' lives are expensed as incurred. The District's capitalization threshold is $1,000. Capital assets are depreciated at cost using the straight-line method over the following estimated useful lives:

- Small equipment, medium equipment, and computers — 5 years
- Vehicles, trucks, and large equipment — 10 years
- Fire trucks, building and land improvements — 20 years
- Buildings — 50 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The District's policy permits employees to accumulate earned but unused holiday and vacation leave benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay and holiday pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements prior to year-end and paid by the District subsequent to year-end.

Deferred Compensation Plan

The District offers a deferred compensation plan to its employees. The District has adopted provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 32), which establishes financial accounting and reporting standards based on current amendments to the provisions of Internal Revenue Code (IRC) Section 457. Under IRC 457, plan assets are not owned by the governmental entity, and as a result, governmental entities are required to remove plan assets and plan liabilities from their financial statements.

The District has no administrative involvement, does not perform the investing function, and has no fiduciary accountability for the plan. Thus, in accordance with GASB 32, the plan assets and any related liability to plan participants have been excluded from the District's financial statements.

Other Post Employment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), addresses how governmental entities should account for and report their costs and obligations related to postemployment benefits, or OPEB. The District offers postretirement medical, dental, and vision benefits. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The District has implemented the requirements of GASB 45 on a prospective basis.

GASB 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Montecito Fire Protection District currently has the following fund balances:

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. The District has a $45,764 insurance deposit in the General Fund and a $365,033 deposit for a fire truck in the Capital Projects Fund that are considered nonspendable.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period. The committed fund balance in the General Fund of $1,200,000 represents funds committed for contingencies.
- *Assigned fund balance* – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's debt service, special revenue, and capital projects funds.
- *Unassigned fund balance* – the residual classification for the District's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The District's Board establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted fund balance resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, the District considers committed amounts to be used first, then assigned amounts, and then unassigned amounts.

Memorandum Only - Total Columns

Total columns in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances are captioned as "Memorandum Only" as they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects the financial position or results of operations of the District in conformity with GAAP. Such data is not comparable to a consolidation, as interfund eliminations have not been made in the aggregation of this data.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Future GASB Statements

In June of 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* (GASB 68). GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources, and expense/expenditures for pensions. GASB 68 will be effective for financial statements for fiscal year beginning after June 15, 2014. The implementation of GASB 68 is expected to have a material impact on the District's financial statements.

2. CASH AND INVESTMENTS

Investment in the Santa Barbara County Investment Pool

The District is a voluntary participant in the Santa Barbara County Treasurer's investment pool that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer. As of June 30, 2012, the District had cash on deposit with the County Treasurer in the amount of $12,326,475.

Investments Authorized by District Policy

The District has not formally adopted a deposit and investment policy that limits the government's allowable deposits or investment and addresses the specific types of risk to which the government is exposed.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. At fiscal year end, the weighted average days to maturity of the investments contained in the County investment pool was approximately 705 days.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating firm. The Santa Barbara County Treasurer's investment pool is not rated.

2. CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk does not apply to a local government's indirect investment in deposits and securities through the use of government investment pools (such as the Santa Barbara County Treasurer's investment pool).

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 is as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
Capital Assets, not being depreciated:				
Land	$ 2,437,792	$ 139,738	$ -	$ 2,577,530
Land easements	122,308	-	-	122,308
Construction in progress	13,910	272,751	-	286,661
Total capital assets, not being depreciated	2,574,010	412,489	-	2,986,499
Capital Assets, being depreciated:				
Structures and improvements	7,408,662	-	-	7,408,662
Equipment	3,797,828	32,073	(2,757)	3,827,144
Total capital assets, being depreciated	11,206,490	32,073	(2,757)	11,235,806
Less accumulated depreciation for:				
Structures and improvements	(1,802,447)	(157,602)	-	(1,960,049)
Equipment	(1,760,918)	(273,567)	2,757	(2,031,728)
Total accumulated depreciation	(3,563,365)	(431,169)	2,757	(3,991,777)
Total capital assets, being depreciated, net	7,643,125	(399,096)	-	7,244,029
Total capital assets, net	$ 10,217,135	$ 13,393	$ -	$ 10,230,528

Depreciation expense amounted to $431,169 for the fiscal year ended June 30, 2012.

4. LONG-TERM LIABILITIES

Changes to the District's long-term liabilities for the year ended June 30, 2012 are as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012	Due in One Year
Compensated absences	$ 1,053,451	$ 794,320	$ 733,402	$ 1,114,369	$ 733,403
Pension obligation bonds	3,520,000	-	308,000	3,212,000	578,000
	$ 4,573,451	$ 794,320	$ 1,041,402	$ 4,326,369	$ 1,311,403

The liability for employee compensated absences is liquidated by the general fund.

5. PENSION OBLIGATION BONDS

In May of 2011, the District authorized the issuance and sale of Taxable Pension Obligation Bonds (POB) with a principal amount of $3,520,000. Proceeds of the sale were used to extinguish an existing "side fund" pension obligation with California Public Employees Retirement System (CalPERS). The bonds were issued at a 4.52% interest rate on the basis of a 360-day year over a seven year period terminating on May 26, 2018. The District made bond principal payments totaling $308,000 and interest payments totaling $99,163 during the year ended June 30, 2012.

Total POB debt service requirements to maturity as of June 30, 2012, are as follows:

	Pension Obligation Bonds	
Year Ending June 30,	Principal	Interest
2013	$ 578,000	$ 138,854
2014	629,000	112,163
2015	684,000	83,123
2016	741,000	51,574
2017	435,000	17,402
2018	145,000	5,514
Totals	$ 3,212,000	$ 408,630

6. INTERFUND TRANSFERS

Interfund transfers in the District's fund financial statements made during the year ended June 30, 2012, are as follows:

Funds	Interfund	
Major Funds:	Transfers In	Transfers out
General	$ -	$ 2,243,280
Pension Obligation	408,450	-
Capital Projects	433,599	-
Capital Projects Construction	1,401,231	-
Mello-Roos	-	-
Total	$ 2,243,280	$ 2,243,280

During the fiscal year ended June 30, 2012, the District made the following transfers:

A transfer of $408,450 from the General Fund to the Pension Obligation Fund to finance the principal and interest payments for the District's Pension Obligation Bonds.

A transfer of $433,599 from the General Fund to the Capital Projects Fund to finance the acquisition of a new fire truck.

A transfer of $1,401,231 from the General Fund to the Capital Projects Construction Fund to finance the Station 3 land acquisition and construction project.

7. RISK MANAGEMENT

The District is a participant in a public entity risk pool with the *Fire Agencies Insurance Risk Authority* (FAIRA). FAIRA is organized pursuant to the provisions of the California Government Code Section 6500 et seq. for the purpose of providing an effective risk management program to local governments by reducing the amount and frequency of losses, pooling self-insured losses, and jointly purchasing excess insurance and administrative services in connection with a joint protection program.

The District pays an annual premium to the pool for its excess general liability insurance coverage. The agreement for information of FAIRA provides that the pool will be self-sustaining through member premiums.

FAIRA provides the District with insurance-like benefits for general liability and excess liability coverage, automobile claims, management liability coverage, and property coverage for buildings, contents, and crime. During the fiscal year, the District contributed an annual premium of $33,312 with limits ranging from $1,000,000 to $2,000,000 for each liability, and excess liability coverage of $10,000,000. The insurance coverage in excess of the $1,000,000, up to $10,000,000, is provided by the American Alternative Insurance Corporation.

The basis for estimating the liability for unpaid claims is based on a detailed analysis of reported claims outstanding. In conjunction with its insurance consultants, management estimates the probable total future cost of each reported claim outstanding. As of June 30, 2012, there was one outstanding unpaid claim, totaling $145,000, which was related to a disciplinary action that occurred in May 2009 (Note 11).

8. RETIREMENT PLAN

Plan Description

The District contributes to the Public Agency portion of the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time and less than full time District employees that meet the PERS membership eligibility requirements can participate in PERS. Retirement benefits vest after five (5) years of service with District. Vested District safety members who retire at, or after, age 50 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to years of credited service multiplied by their highest twelve month period of earnings multiplied by a percentage factor ranging from 2.4% to 3.0%, depending upon age at retirement. Vested District miscellaneous members who retire at, or after, age 50 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to years of credited service multiplied by their highest twelve month period earnings multiplied by a percentage factor ranging from 2.0% to 3.0%, depending upon age at retirement. PERS also provides death and disability benefits.

PERS issues a separate comprehensive annual financial report, copies of which may be obtained from the PERS webpage www.*calpers.ca.gov*.

8. RETIREMENT PLAN (Continued)

Funding Policy

The employee contribution level for District miscellaneous members and District safety members is 8% and 9%, respectively, of annual salary. The District makes contributions for the entire amounts required of the employees on their behalf. The District is required to contribute an actuarially determined employer rate. At fiscal year end, the employer rate for non-safety employees and safety employees was 17.22% and 23.006%, respectively, of annual covered payroll. The contribution requirements of plan members are based upon the benefit level adopted by the District's Board. The employer contribution rate is established annually and may be amended by PERS.

Annual Pension Cost

The annual required contribution for the current year was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) an investment return of 7.75%, (b) projected salary increases that vary from 3.55% to 14.45% depending on type of service, age, and an assumed inflation rate of 3.00%, (c) a payroll growth of 3.25%, and (d) merit that also varies by duration of service with an assumed annual inflation of 3.00% and production growth of 0.25%. The actuarial method of the District's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a 15 year period. The District's unfunded actuarial accrued liability is being amortized as a level percent of payroll. The average remaining amortization period at June 30, 2009 was eighteen years for miscellaneous members and seventeen years for safety members.

Three Year Trend Information

The District's required contributions and the percentage contributed for the current fiscal year and each of the two preceding fiscal years are as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$2,257,717	100%	$0
June 30, 2011	$2,154,387	100%	$0
June 30, 2012	$1,912,656	100%	$0

9. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The District provides retiree healthcare benefits for employees who retire with PERS pension benefits immediately upon termination of employment from the District. The District contracts with PERS for this insured-benefit plan, an agent multiple-employer post employment healthcare plan, established under the State of California's Public Employees' Medical and Hospital Care Act (PEMHCA). The plan's medical benefits and premium rates are established by PERS and the insurance providers. The District pays for medical, dental, and vision premiums for the lifetime of the retiree and their eligible dependents. The District pays 100% of the retiree medical premiums, up to a maximum of $1,184 per month for 2012, and 100% of the premiums for retiree dental and vision coverage. PERS issues a separate comprehensive annual financial report, copies of which may be obtained from the PERS webpage www.*calpers.ca.gov*.

The District participates in the Public Agency Retirement System (PARS) Public Agencies Post Retirement Health Care Plan Trust Program (PARS Trust), a single employer irrevocable trust established to fund other postemployment benefits. The PARS Trust is approved by the Internal Revenue Code Section 115 and invests funds in equity, bond, and money market mutual funds. The Fire Chief or designee is the District's Plan Administrator. Copies of PARS Trust annual financial report may be obtained from PARS at 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660.

Funding Policy

The contributions to the OPEB plan are based on pay-as-you-go financing requirements, with an additional amount contributed to the PARS Trust to prefund benefits from time to time at the sole discretion of the Board. Retiree health benefits may be paid out of the PARS trust, set up for this purpose, to the extent funded. The purpose of this funding policy is to manage the District's OPEB obligations while at the same time maintaining as much flexibility as possible to adjust for changing budgetary considerations. For the fiscal year ended June 30, 2012, the District contributed $1,207,738 to the plan, including $357,839 for current premiums and an additional $849,899 to the PARS Trust to prefund benefits. GASB 45 requires recognition of the current expense of OPEB based on the annual required contribution (ARC), but does not require funding of the related liability.

Annual OPEB Cost and Net OPEB Obligation (Asset)

The District's annual OPEB cost is calculated based on the ARC of the District, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed thirty years.

For the fiscal year ended June 30, 2012, the OPEB ARC was $979,144, or 14.79% of the District's estimated annual covered payroll. This includes the normal cost of $303,768 for the year for current active employees, and $675,376 for UAAL amortization. The District's OPEB contribution for the fiscal year ended June 30, 2012 was $1,207,738.

9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The following are the components of the District's OPEB cost for the fiscal year ended June 30, 2012:

Annual required contribution (ARC)	$ 979,144
Interest adjustment to ARC	(7,161)
Amortization adjustment to ARC	8,437
Annual OPEB cost	980,420
Contribution made	(1,207,738)
Increase in net OPEB asset	(227,318)
Net OPEB asset - beginning of year	(110,176)
Net OPEB asset - end of year	$ (337,494)

The District's annual OPEB cost, the percentage of annual OPEB cost contribution to the OPEB plan, and the net OPEB obligation (asset), for the current year and two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2010	$ 1,114,000	95%	$ 55,000
6/30/2011	$ 978,507	117%	$ (110,176)
6/30/2012	$ 980,420	123%	$ (337,494)

Funding Status and Funding Progress

Using the most recent actuarial valuation dated July 1, 2010, the following is the funded status of the OPEB plan:

Actuarial accrued liability (AAL)	$ 9,452,985
Actuarial value of plan assets	633,471
Unfunded actuarial accrued liability (UAAL)	$ 8,819,514
Funded ratio (actuarial value of plan assets/AAL)	6.7%
Covered payroll (active plan members)	$ 6,621,966
UAAL as percentage of covered payroll	133.2%

Activity in the District's PARS Trust account since the most recent valuation, which will be reflected in the actuarial value of plan assets as of the next, July 1, 2013 valuation date, is as follows:

Fiscal Year Ended	Beginning Balance	Contributions	Net Earnings	Distributions	Ending Balance
6/30/2011	$ 633,471	$ 796,000	$ 129,885	$ -	$ 1,559,356
6/30/2012	$ 1,559,356	$ 849,899	$ 34,433	$ -	$ 2,443,688

9. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial valuations of an ongoing OPEB 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 OPEB plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented as required supplementary information following the Notes to the Financial Statements. This schedule 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation as well as the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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 Projected Unit Credit Cost method was used. The actuarial assumptions included a 6.5% investment rate of return and separate annual healthcare cost trend rates for medical, dental and vision. The medical cost trend rate starts at 8% and declines to 5% over a period of four years. The vision and dental trend rates are both a flat 4%. The OPEB Plan's UAAL is being amortized as a level dollar amount on an open period basis. The remaining amortization period at July 1, 2010 was 30 years.

10. WORKFORCE HOUSING

The District has a Housing Committee that researches methods which allow employees to live closer to the District in order to facilitate responses to emergencies. The District approved a plan in the fiscal year ended June 30, 2006 to purchase Workforce Housing and completed the purchase of a parcel consisting of three residences of varying sizes at East Valley Road. The three residences are currently leased and occupied by a frontline employee of the District, a retired captain of the District, and a Santa Barbara City Fire employee. The District has contracted with a property management company to manage the operational activity of the residences. The Housing Committee developed a policy to govern all matters related to the Workforce Housing Program that was adopted by the Board.

11. COMMITMENTS AND CONTINGENCIES

Litigation

The District is subject to litigation related to employee matters that are incidental to the ordinary course of the District's operations. One outstanding claim at June 30, 2012 was a result of a disciplinary action that occurred in May, 2009. The District's insurance covered the loss resulting from the claim (Note 7); however the District was responsible for a $5,000 deductible that was paid in March 2013.

Grant Revenues

The District recognizes as revenues grant monies earned for costs incurred in certain Federal and State programs the District participates in. The program may be subject to financial and compliance audits by the reimbursing agency. The amount, if any, of the expenditures which may be disallowed by the granting agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Mello-Roos Community Facilities District

In a special election held on June 17, 2011, property owners in the Upper Hyde Road area approved the formation of a Mello-Roos Community Facilities District (Mello-Roos District) for the purpose of financing street and related improvements for the reconstruction of Upper Hyde Road. Acting as an agent for the property owners, the District is overseeing the formation of the Mello-Roos District in accordance with the Mello-Roos Community Facilities Act of 1982 (the Act). Pending completion of the Act's requirements, the District would have the authority to issue up to $5,000,000 in special tax bonds and levy a special tax to pay annual debt service on the bonds, annual maintenance costs for the improvements, and administrative costs.

12. SUBSEQUENT EVENTS

In the general election held on November 6, 2012, voters in the Montecito Fire Protection District approved a measure to increase the number of members on the District's Board of Directors from three to five members. This change in governance may have an impact on the strategic direction of the District, including directives concerning proceeding with the Station 3 Project. As of June 30, 2012, the District had capitalized $451,387 and $286,661 of costs incurred for the Station 3 Project to land and construction in progress, respectively.

The District was a defendant in a lawsuit filed by the Montecito Agricultural Foundation (MAF). The lawsuit challenged the adequacy of the Environmental Impact Report (EIR) filed by the District pursuant to the California Environmental Quality Act (CEQA) in connection with the District's approval of the Station 3 Project. On April 16, 2013, a Santa Barbara Superior Court judge ruled in favor of MAF, stating that the District's final EIR failed to proceed in a manner required by CEQA. The District now must vacate approval of the project and the final EIR, and prepare and circulate a legally adequate EIR before moving forward with the Station 3 project. Any actions or decisions on how the District proceeds with the Station 3 Project will be determined by the District's Board of Directors.

REQUIRED SUPPLEMENTARY INFORMATION

MONTECITO FIRE PROTECTION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule - General Fund (Unaudited)
(Modified-Accrual Basis of Accounting)
For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Property taxes	$ 13,040,387	$ 13,040,387	$ 13,073,414	$ 33,027
Investment income	40,000	37,512	28,666	(8,846)
Rental income	48,864	48,864	48,864	-
Intergovernmental	80,294	173,423	188,390	14,967
Miscellaneous	171,331	221,531	253,136	31,605
Total revenues	13,380,876	13,521,717	13,592,470	70,753
Expenditures:				
Salaries and benefits	11,524,215	11,610,408	10,980,800	629,608
Services and supplies	1,276,586	1,333,722	1,057,654	276,068
Capital outlay	43,122	43,122	32,073	11,049
Total expenditures	12,843,923	12,987,252	12,070,527	916,725
Excess of revenues over expenditures	536,953	534,465	1,521,943	987,478
Other Financing Uses:				
Transfers out	(2,243,280)	(2,243,280)	(2,243,280)	-
Total other financing uses	(2,243,280)	(2,243,280)	(2,243,280)	-
Net change in fund balances	(1,706,327)	(1,708,815)	(721,337)	987,478
Fund Balances - Beginning	3,043,523	3,043,523	3,043,523	-
Fund Balances - Ending	$ 1,337,196	$ 1,334,708	$ 2,322,186	$ 987,478

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

MONTECITO FIRE PROTECTION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule - Mello Roos Fund (Unaudited)
(Modified-Accrual Basis of Accounting)
For the Fiscal Year Ended June 30, 2012

	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues:			
Investment income	$ -	$ 128	$ 128
Total revenues	-	128	128
Expenditures:			
Services and supplies	61,357	22,723	38,634
Total expenditures	61,357	22,723	38,634
Deficiency of revenues under expenditures	(61,357)	(22,595)	38,762
Fund Balances - Beginning	44,823	44,823	-
Fund Balances - Ending	$ (16,534)	$ 22,228	$ 38,762

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

1. BUDGETARY AND LEGAL COMPLIANCE

In accordance with California Health and Safety Code Section 13895, on or before October 1, the District must submit a board approved budget to the County Auditor. Annual budgets are adopted for the District's general, capital projects and capital projects construction funds. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Annually the Board of Directors conducts a public hearing for the discussion of proposed budgets. At the conclusion of the hearing, the Board adopts the final budgets. All appropriations lapse at fiscal year end and are subject to re-appropriation as part of the following year's budget. The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the object level. Any changes in the annual budget must be changed by a vote of the Board. The Board amended the originally adopted General Fund budget in April of 2012.

MONTECITO FIRE PROTECTION DISTRICT

Required Supplementary Information

Other Post Employment Benefits (OPEB) Plan - Schedule of Funding Progress

For the Fiscal Year Ended June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
7/1/2007	$ -	$ 14,752,000	$ 14,752,000	0.0%	$ 5,398,000	273.3%
7/1/2010	$ 633,471	$ 9,452,985	$ 8,819,514	6.7%	$ 6,621,966	133.2%