

MONTECITO FIRE PROTECTION DISTRICT

Annual Financial Report

For the Fiscal Year Ended
June 30, 2011



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

Montecito Fire Protection District

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COUNTY OF SANTA BARBARA

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OFFICE OF THE AUDITOR-CONTROLLER

Auditor's Report

To the Board of Directors of Montecito Fire Protection District:

We have audited the accompanying financial statements of the governmental activities of Montecito Fire Protection District, as of and for the year ended June 30, 2011, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montecito Fire Protection 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 respective financial position of the District as of June 30, 2011, 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 March 19, 2012, 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 budgetary comparison information 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.

The District has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.



Robert W. Geis, CPA
Auditor-Controller
March 19, 2012

COUNTY OF SANTA BARBARA

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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 Montecito Fire Protection District:

We have audited the accompanying financial statements of the governmental activities of Montecito Fire Protection District, as of and for the year ended June 30, 2011, which comprise the District's basic financial statements and have issued our report thereon dated March 19, 2012. 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

In planning and performing our audit, we considered Montecito Fire Protection 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 Montecito Fire Protection District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montecito Fire Protection 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 Montecito Fire Protection 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.

A handwritten signature in cursive script, appearing to read "Robert W. Geis".

Robert W. Geis, CPA
Auditor-Controller
March 19, 2012

BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT
Statement of Net Assets and Governmental Funds Balance Sheet
As of June 30, 2011

	<u>General Fund</u>	<u>Mello-Roos Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Projects Construction Fund</u>
Assets:				
Cash and investments	\$ 3,180,994	\$ 67,201	\$ 1,702,375	\$ 6,994,476
Accounts receivable	59,483	-	-	-
Interest receivable	11,196	136	2,445	10,210
Insurance deposit	29,850	-	-	-
Deferred bond issuance charge, net	-	-	-	-
OPEB asset, net	-	-	-	-
Land	-	-	-	-
Land easements	-	-	-	-
Construction in progress	-	-	-	-
Other capital assets, net	-	-	-	-
Total assets	<u>\$ 3,281,523</u>	<u>\$ 67,337</u>	<u>\$ 1,704,820</u>	<u>\$ 7,004,686</u>
Liabilities:				
Accounts payable	\$ 21,686	\$ 22,514	\$ -	\$ 12,981
Salaries and benefits payable	216,314	-	-	-
Long-term liabilities:				
Portion due within one year:				
Compensated absences	-	-	-	-
Pension obligation bond	-	-	-	-
Portion due in more than one year:				
Compensated absences	-	-	-	-
Pension obligation bond	-	-	-	-
Total liabilities	<u>238,000</u>	<u>22,514</u>	<u>-</u>	<u>12,981</u>
Fund Balances/Net Assets:				
Fund Balances:				
Nonspendable	25,974	-	-	-
Committed	1,200,000	-	-	-
Unassigned	1,817,549	44,823	1,704,820	6,991,705
Total fund balances	<u>3,043,523</u>	<u>44,823</u>	<u>1,704,820</u>	<u>6,991,705</u>
Total liabilities, fund balances	<u>\$ 3,281,523</u>	<u>\$ 67,337</u>	<u>\$ 1,704,820</u>	<u>\$ 7,004,686</u>
Net Assets:				
Invested in capital assets				
Unrestricted				
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
- (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.

<u>Memorandum Only Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>	
\$ 11,945,046	\$ -	\$ 11,945,046	Assets:
59,483	-	59,483	Cash and investments
23,987	-	23,987	Accounts receivable
29,850	-	29,850	Interest receivable
	88,396 (a)	88,396	Insurance deposit
-	110,176 (b)	110,176	Deferred bond issuance charge
-	2,437,792 (c)	2,437,792	OPEB asset, net
-	122,308 (c)	122,308	Land
-	13,910 (c)	13,910	Land easements
-	7,643,125 (c)	7,643,125	Construction in progress
<u>\$ 12,058,366</u>	<u>10,415,707</u>	<u>22,474,073</u>	Other capital assets, net
			Total assets
\$ 57,181	-	57,181	Liabilities:
216,314	-	216,314	Accounts payable
			Salaries and benefits payable
			Long-term liabilities:
	565,197 (d)	565,197	Portion due within one year:
	308,000 (e)	308,000	Compensated absences
			Pension obligation bond
	488,254 (d)	488,254	Portion due in more than one year:
	3,212,000 (e)	3,212,000	Compensated absences
<u>273,495</u>	<u>4,573,451</u>	<u>4,846,946</u>	Pension obligation bond
			Total liabilities
			Fund Balances/Net Assets:
25,974	(25,974) (f)	-	Fund Balances:
1,200,000	(1,200,000) (f)	-	Nonspendable
10,558,897	(10,558,897) (f)	-	Committed
11,784,871	(11,784,871)	-	Unassigned
<u>\$ 12,058,366</u>			Total fund balances
			Total liabilities, fund balances
	10,217,135	10,217,135	Net Assets:
	7,409,992	7,409,992	Invested in capital assets
<u>\$ 17,627,127</u>	<u>\$ 17,627,127</u>	<u>\$ 17,627,127</u>	Unrestricted
			Total net assets

MONTECITO FIRE PROTECTION DISTRICT
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>Mello-Roos Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Projects Construction Fund</u>
Revenues:				
Property taxes	\$ 12,939,620	\$ -	\$ -	\$ -
Investment income	29,798	275	6,585	20,276
Rental income	47,634	-	-	-
Intergovernmental	559,181	-	-	-
Miscellaneous	201,398	20,000	-	-
Total revenues	<u>13,777,631</u>	<u>20,275</u>	<u>6,585</u>	<u>20,276</u>
Expenditures / expenses:				
Salaries and benefits	14,295,208	-	-	-
Services and supplies	1,313,821	43,480	-	-
Depreciation	-	-	-	-
Capital outlay	346,585	-	52,092	428,292
Total expenditures / expenses	<u>15,955,614</u>	<u>43,480</u>	<u>52,092</u>	<u>428,292</u>
Deficiency of revenues under expenditures	(2,177,983)	(23,205)	(45,507)	(408,016)
Other financing sources/uses:				
Sale of capital assets	331	-	10,750	-
Transfers in	7,972	76,000	941,460	887,053
Transfers out	(1,904,513)	(7,972)	-	-
Long term debt proceeds	3,520,000	-	-	-
Total other financing sources/uses	<u>1,623,790</u>	<u>68,028</u>	<u>952,210</u>	<u>887,053</u>
Net change in fund balances	<u>(554,193)</u>	<u>44,823</u>	<u>906,703</u>	<u>479,037</u>
Change in net assets				
Fund Balances/Net Assets - Beginning	<u>3,597,716</u>	<u>-</u>	<u>798,117</u>	<u>6,512,668</u>
Fund Balances/Net Assets - Ending	<u>\$ 3,043,523</u>	<u>\$ 44,823</u>	<u>\$ 1,704,820</u>	<u>\$ 6,991,705</u>

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

- (g) Gains or losses from the sale of capital assets are reported as miscellaneous revenue in the Statement of Activities.
- (h) 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.
- (i) 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.
- (j) Required adjustment to eliminate the governmental funds other financing sources/uses from the Statement of Activities.
- (k) Required adjustment to eliminate the governmental funds results of operations (revenues less expenditures) from the Statement of Activities.
- (l) 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.

Memorandum Only Total	Adjustments	Statement of Activities	
\$ 12,939,620	\$ -	\$ 12,939,620	Revenues:
56,934	-	56,934	Property taxes
47,634	-	47,634	Investment income
559,181	-	559,181	Rental income
221,398	11,081 (g)	232,479	Intergovernmental
<u>13,824,767</u>	<u>11,081</u>	<u>13,835,848</u>	Miscellaneous
			Total revenues
14,295,208	(17,205) (h)	14,278,003	Expenditures / expenses:
1,357,301	(88,396) (h)	1,268,905	Salaries and benefits
-	447,111 (h)	447,111	Services and supplies
826,969	(826,969) (i)	-	Depreciation
<u>16,479,478</u>	<u>(485,459)</u>	<u>15,994,019</u>	Capital outlay
			Total expenditures / expenses
(2,654,711)			Deficiency of revenues under expenditures
11,081	(11,081) (j)	-	Other financing sources/uses:
1,912,485	(1,912,485) (j)	-	Sale of capital assets
(1,912,485)	1,912,485 (j)	-	Transfers in
3,520,000	(3,520,000) (j)	-	Transfers out
<u>3,531,081</u>	<u>(3,531,081)</u>	<u>-</u>	Long term debt proceeds
			Total other financing sources/uses
<u>876,370</u>	<u>(876,370) (k)</u>	<u>-</u>	Net change in fund balances
	(2,158,171) (l)	(2,158,171)	Change in net assets
<u>10,908,501</u>	<u>8,876,797</u>	<u>19,785,298</u>	Fund Balances/Net Assets - Beginning
<u>\$ 11,784,871</u>	<u>\$ 5,842,256</u>	<u>\$ 17,627,127</u>	Fund Balances/Net Assets - Ending

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Montecito Fire Protection 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 generally accepted accounting principles (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.

New Accounting Pronouncements

Government Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the District implemented Government Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity section of this footnote.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

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

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB34)* 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 and remitted to the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 **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.

Investments

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

State statutes and the County of Santa Barbara's (the "County") 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

All receivables are deemed to be collectible at June 30, 2011, and as such, the District has no allowance for uncollectible accounts for these receivables.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 |

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*, 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Statement No. 45 on a prospective basis.

GASB Statement No. 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 County is bound to honor constraints on how specific amounts can be spent. 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.
- *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.
- *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 net assets are available, restricted resources are depleted first before the unrestricted resources are used.

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 generally accepted accounting principles 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.

2. CASH AND INVESTMENTS

Investment in the Santa Barbara County Investment Pool

The District is an involuntary 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 Santa Barbara County Treasurer. As of June 30, 2011, the District had cash on deposit with the Santa Barbara County Treasurer in the amount of \$11,940,318.

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 445 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 currently holds an AAf/S1 credit rating by Standard and Poor's.

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, 2011 is as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Capital Assets, not being depreciated:				
Land	\$ 2,135,574	\$302,218	\$ -	\$ 2,437,792
Land Easements	32,753	89,555	-	122,308
Construction in progress	-	13,910	-	13,910
Total capital assets, not being depreciated	<u>2,168,327</u>	<u>405,683</u>	<u>-</u>	<u>2,574,010</u>
Capital Assets, being depreciated:				
Structures and improvements	7,386,054	22,608	-	7,408,662
Equipment	3,918,702	398,678	(519,552)	3,797,828
Total capital assets, being depreciated	<u>11,304,756</u>	<u>421,286</u>	<u>(519,552)</u>	<u>11,206,490</u>
Less accumulated depreciation for:				
Structures and improvements	(1,644,845)	(157,602)	-	(1,802,447)
Equipment	(1,990,961)	(289,509)	519,552	(1,760,918)
Total accumulated depreciation	<u>(3,635,806)</u>	<u>(447,111)</u>	<u>519,552</u>	<u>(3,563,365)</u>
Total capital assets, being depreciated, net	<u>7,668,950</u>	<u>(25,825)</u>	<u>-</u>	<u>7,643,125</u>
Total capital assets, net	<u>\$ 9,837,277</u>	<u>\$379,858</u>	<u>\$ -</u>	<u>\$ 10,217,135</u>

Depreciation expense amounted to \$447,111 or the fiscal year ended June 30, 2011.

4. LONG-TERM LIABILITIES

The following is a summary of changes to the District's long-term liabilities for the year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>	<u>Due in One Year</u>
Compensated Absences	\$ 960,480	\$ 658,168	\$565,197	\$ 1,053,451	\$ 565,197
Pension Obligation Bonds	-	3,520,000	-	3,520,000	308,000
	<u>\$ 960,480</u>	<u>\$ 4,178,168</u>	<u>\$565,197</u>	<u>\$ 4,573,451</u>	<u>\$ 873,197</u>

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 did not make any bond principal or interest payments during the year ended June 30, 2011.

5. PENSION OBLIGATION BONDS (Continued)

The following is a schedule of total POB debt service requirements to maturity as of June 30, 2011:

Year Ending June 30,	Pension Obligation Bonds	
	Principal	Interest
2012	\$ 308,000	\$ 100,440
2013	578,000	138,854
2014	629,000	112,163
2015	684,000	83,123
2016	741,000	51,574
2017-2018	580,000	22,916
Totals	\$ 3,520,000	\$ 509,070

During the year, the District made a \$3,431,604 side fund payment to pay an unfunded liability for past employees of the District. The cost was previously being amortized over ten years. Side funds were created by CalPERS to ensure that plans with varying funded status could participate in the same risk pool.

6. INTERFUND TRANSFERS

The following is a summary of interfund transfers in the District's fund financial statements:

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 7,972	\$ 1,904,513
Capital Projects	941,460	-
Capital Projects Construction	887,053	-
Mello-Roos	76,000	7,972
Total	\$ 1,912,485	\$ 1,912,485

During the fiscal year ended June 30, 2011, the District made the following transfers:

A transfer of \$941,460 from the General Fund to the Capital Projects Fund to finance the acquisition of District vehicles in accordance with annual funding amounts established as part of the District's Board adopted Vehicle Use and Replacement Schedule.

A transfer of \$887,053 from the General Fund to the Capital Projects Construction Fund was initiated to finance a prospective Station 3 land purchase.

6. INTERFUND TRANSFERS (Continued)

A transfer of \$76,000 from the General Fund to the Mello-Roos Fund was initiated to assist with the upfront costs of the pending Mello-Roos District.

A transfer of \$ 7,972 from the Mello-Roos Projects Fund to the General Fund was initiated to account for an expenditure, related to the pending Mello-Roos District, that occurred in the General Fund during the 2009-2010 fiscal year.

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 \$33,529 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, 2011, there were no outstanding unpaid claims.

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

8. RETIREMENT PLAN (Continued)

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 the PERS annual financial report may be obtained from the PERS webpage www.calpers.ca.gov.

Funding Policy

The employee contribution level for District miscellaneous members is 8% of annual salary. The employee contribution level for District safety members is 9% 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 year end, the employer rate is 15.20% for non-safety employees and 18.175% for safety employees, 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, 2008 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 3.25% 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, 2008 was sixteen years for miscellaneous members and safety members.

Three Year Trend Information

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$2,257,606	100%	\$0
June 30, 2010	\$2,257,717	100%	\$0
June 30, 2011	\$2,154,387	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 2011, and 100% of the premiums for retiree dental and vision coverage. PERS issues a separate comprehensive annual financial report. Copies of the PERS annual financial report 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

In fiscal year ended June 30, 2010, the District entered into an OPEB prefunding plan with the Public Agency Retirement System (PARS). The District’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District contracted with Demsey, Filiger & Associates, an outside actuarial consultant, for the GASB Statement No. 45 compliant actuarial report.

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2011, the District’s annual OPEB contribution of \$1,143,683 was 117% of the District’s annual OPEB cost. The District’s annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB asset (obligation), for June 30, 2011 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset (Obligation)</u>
6/30/2010	\$ 1,114,000	95%	\$ (55,000)
6/30/2011	978,507	117	110,176

9. OTHER POST EMPLOYMENT BENEFITS (Continued)

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	<u>633,471</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,819,514</u>
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%

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. The Schedule of Funding Progress is presented as required supplementary information following the Notes to the Financial Statements. This schedule will, in subsequent fiscal years, present 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 are based on the types of benefits provided under the substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the 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 three 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 frontline employees of the District. 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

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.

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, 2011 was a result of disciplinary action that occurred in May, 2009. The District expects its insurance carrier to cover any loss that may result from the claim. The District's insurance deductible is not expected to have a material effect on the District's financial position, should a loss occur.

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.

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Property taxes	\$ 12,717,497	\$ 12,805,429	\$ 12,939,620	\$ 134,191
Investment income	30,000	15,501	29,798	14,297
Rental income	45,186	45,186	47,634	2,448
Intergovernmental	163,282	162,912	559,181	396,269
Miscellaneous	76,424	171,760	201,398	29,638
Total revenues	<u>13,032,389</u>	<u>13,200,788</u>	<u>13,777,631</u>	<u>576,843</u>
Expenditures:				
Salaries and benefits	11,448,187	14,945,077	14,295,208	649,869
Services and supplies	1,579,711	1,717,691	1,314,123	403,568
Capital outlay	407,600	407,600	346,283	61,317
Total expenditures	<u>13,435,498</u>	<u>17,070,368</u>	<u>15,955,614</u>	<u>1,114,754</u>
Deficiencies of revenues under expenditures	(403,109)	(3,869,580)	(2,177,983)	1,691,597
Other Financing Sources / (Uses):				
Sale of capital assets	-	-	331	331
Transfers in	-	7,972	7,972	-
Transfers out	(1,828,513)	(1,904,513)	(1,904,513)	-
Long term debt proceeds	-	3,520,000	3,520,000	-
Total other financing sources / (uses)	<u>(1,828,513)</u>	<u>1,623,459</u>	<u>1,623,790</u>	<u>331</u>
Net change in fund balances	<u>(2,231,622)</u>	<u>(2,246,121)</u>	<u>(554,193)</u>	<u>1,691,928</u>
Fund Balances - Beginning	<u>3,597,716</u>	<u>3,597,716</u>	<u>3,597,716</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,366,094</u>	<u>\$ 1,351,595</u>	<u>\$ 3,043,523</u>	<u>\$ 1,691,928</u>

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, 2011

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment income	\$ -	\$ 275	\$ 275
Miscellaneous	18,862	20,000	1,138
Total revenues	<u>18,862</u>	<u>20,275</u>	<u>1,413</u>
Expenditures:			
Services and supplies	86,890	43,480	(43,410)
Total expenditures	<u>86,890</u>	<u>43,480</u>	<u>(43,410)</u>
Excess (deficiencies) of revenues over (under) expenditures	(68,028)	(23,205)	(41,997)
Other Financing Sources / (Uses):			
Transfers in	76,000	76,000	-
Transfers out	(7,972)	(7,972)	-
Total other financing sources / (uses)	<u>68,028</u>	<u>68,028</u>	<u>-</u>
Net change in fund balances	-	44,823	(41,997)
Fund Balances - Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 44,823</u>	<u>\$ (41,997)</u>

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.

MONTECITO FIRE PROTECTION DISTRICT
Required Supplementary Information
Other Post Employment Benefits (OPEB) Plan - Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
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%