

**MONTECITO FIRE
PROTECTION DISTRICT**

**ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT THEREON
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

MONTECITO FIRE PROTECTION DISTRICT

Annual Financial Report
For the Fiscal Year Ended June 30, 2014

Table of Contents

Independent Auditor’s Report..... 1-2

Management’s Discussion and Analysis (Unaudited)3-9

Basic Financial Statements:

 Statement of Net Position and Governmental Funds Balance Sheet..... 10-11

 Statement of Activities and Governmental Fund Revenues, Expenditures,
 and Changes in Fund Balances..... 12-13

Notes to the Financial Statements..... 14-30

Required Supplementary Information (Unaudited):

 Budgetary Comparison Schedule 31

 Notes to the Budgetary Comparison Schedule..... 32

 Other Post-Employment Benefits Plan (OPEB) – Schedule of Funding Progress..... 33

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Montecito Fire Protection District
Santa Barbara, California

We have audited the accompanying financial statements of the governmental activities of each major fund of the Montecito Fire Protection District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
of the Montecito Fire Protection District
Santa Barbara, California

Opinions

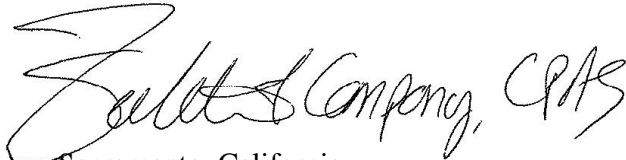
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Montecito Fire Protection District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, post-employment benefits and budgetary comparison information on pages 3-9 and 31-33, respectively, 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.

Fechter & Company,
Certified Public Accountants



Sacramento, California
February 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2014

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, 2014. 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 Position 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 Position 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 position 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.

MONTECITO FIRE PROTECTION DISTRICT

Management’s Discussion and Analysis (Unaudited)
June 30, 2014

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 position and changes in net position.

Table 1 – Montecito Fire Protection District Net Position

	<u>2013</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:				
Current and other assets	\$ 13,729,030	\$ 14,662,925	\$ 933,895	6.8%
Capital assets	<u>10,374,201</u>	<u>10,097,646</u>	<u>(276,555)</u>	-2.7%
Total assets	<u>\$ 24,103,231</u>	<u>\$ 24,760,571</u>	<u>\$ 657,340</u>	2.7%
Liabilities:				
Current and other liabilities	\$ 1,009,575	\$ 1,140,958	\$ (131,383)	-13.0%
Long-term liabilities	<u>3,507,345</u>	<u>2,654,759</u>	<u>852,586</u>	15.0%
Total liabilities	<u>4,516,920</u>	<u>3,795,717</u>	<u>721,203</u>	15.9%
Net Position:				
Invested in capital assets	10,374,201	10,097,646	(276,555)	-2.7%
Unrestricted	<u>9,212,110</u>	<u>10,867,208</u>	<u>1,655,098</u>	17.9%
Total net position	<u>\$ 19,586,311</u>	<u>\$ 20,964,854</u>	<u>\$ 1,378,543</u>	

Total assets increased \$657,340, or 2.7%, when compared to the prior year. This can be attributed to a \$667,574, or 6.8%, increase in current and other assets resulting primarily from an increase in cash and investments of \$933,895.

Long-term liabilities decreased by \$852,586, or 15.0%. This is primarily attributed to a decrease in the pension obligation bonds of \$629,000.

Net position over time is a useful indicator of a government’s financial position. For Montecito Fire Protection District, assets exceed liabilities by \$20,964,854 at the close of the current fiscal year. The increase of \$1,378,543 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 5).

Investment in capital assets (land, buildings, vehicles and equipment) amounts to \$10,097,646 at June 30, 2014, which is a decrease of \$276,555, or 2.7%, 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 position, in the amount of \$10,867,208, is available to meet the District’s ongoing obligations to citizens and creditors. Unrestricted net position increased \$1,655,098, or 17.9%, when compared to prior year.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2014

Table 2 – Montecito Fire Protection District Change in Net Position

	<u>2013</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Property taxes	\$ 13,365,323	\$ 14,112,264	\$ 746,941	5.6%
Investment income	(30,906)	98,161	129,067	-
Rental income	48,864	48,864	-	-
Intergovernmental	478,417	594,284	115,867	24.2%
Miscellaneous	177,180	74,099	(103,081)	-58.2%
Total revenues	<u>\$ 14,038,878</u>	<u>\$ 14,927,672</u>	<u>\$ 888,794</u>	6.3%
Expenses:				
Salaries and benefits	11,523,287	11,684,007	(160,720)	-1.4%
Services and supplies	1,083,099	1,353,086	(269,987)	-24.9%
Other expenditures/Interest	132,759	99,120	33,639	25.3%
Depreciation	472,472	412,916	59,556	12.6%
Total expenses	<u>13,211,617</u>	<u>13,549,129</u>	<u>(377,512)</u>	-2.5%
Change in net position	827,261	1,378,543	551,282	
Net Position – Beginning	<u>18,825,658</u>	<u>19,586,311</u>	<u>760,653</u>	
Prior Period Adjustment	<u>(66,608)</u>	<u>-</u>	<u>66,608</u>	
Net Position – Ending	<u>\$ 19,586,311</u>	<u>\$ 20,964,854</u>	<u>\$ 1,378,543</u>	

The District's total revenues increased by \$888,794, or 6.3%, in the current fiscal year. The total increase is primarily attributed to the following factors:

- Property tax revenue increased by \$746,941, or 5.6%, primarily due to property value appreciation and increased construction within the District.
- Intergovernmental revenue increased by \$115,867, or 24.2%, due to more reimbursable fire activity than in the prior year.
- The increase in investment income is primarily due to fair value adjustments that are recorded by the County of Santa Barbara.

The District's total expenses increased by \$377,512, or 2.5%, in the current fiscal year. The total change is primarily due to the following factors:

- An increase in Salaries and Benefits Expense of \$160,720, or 1.4%, resulting primarily from a contribution of over 2 million dollars towards the District's established OPEB fund.

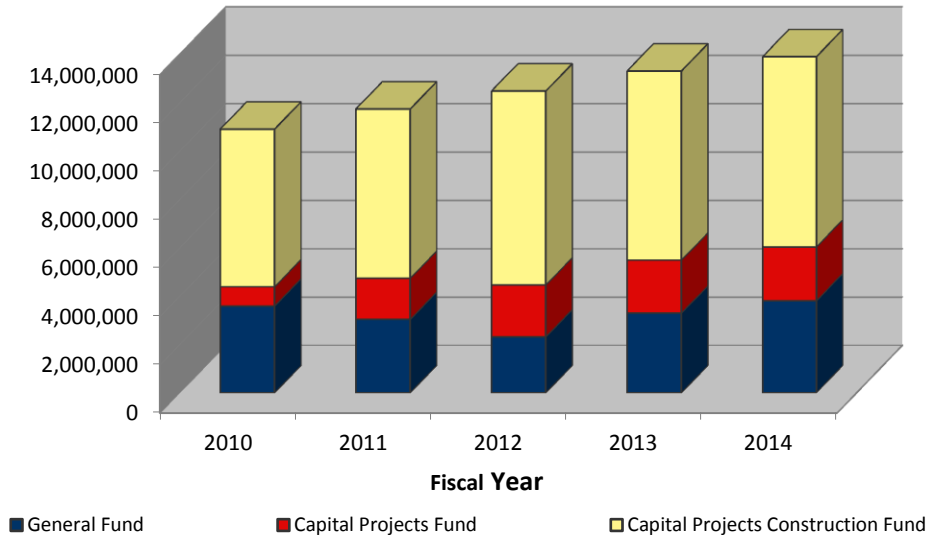
MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2014

Analysis of Fund Balances of Individual Funds

The chart below displays the fiscal year end (2010 to 2014) fund balances for the District's General Fund, Capital Projects Fund, and Capital Projects Construction Fund.

Fund Balances – 5 Year Trend



Total fund balance has increased each year over the five years from fiscal year 2010 to 2014. The General Fund balance includes \$1,200,000 committed to contingencies. The District established the Mello-Roos Fund in the fiscal year ended 2011. The fund balance was \$9,525 and \$19,508 at June 30, 2014 and June 30, 2013, respectively. The Pension Obligation Fund was established in the fiscal year ended 2012. The fund balance was \$347 and \$2,522 at June 30, 2014 and June 30, 2013, respectively.

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

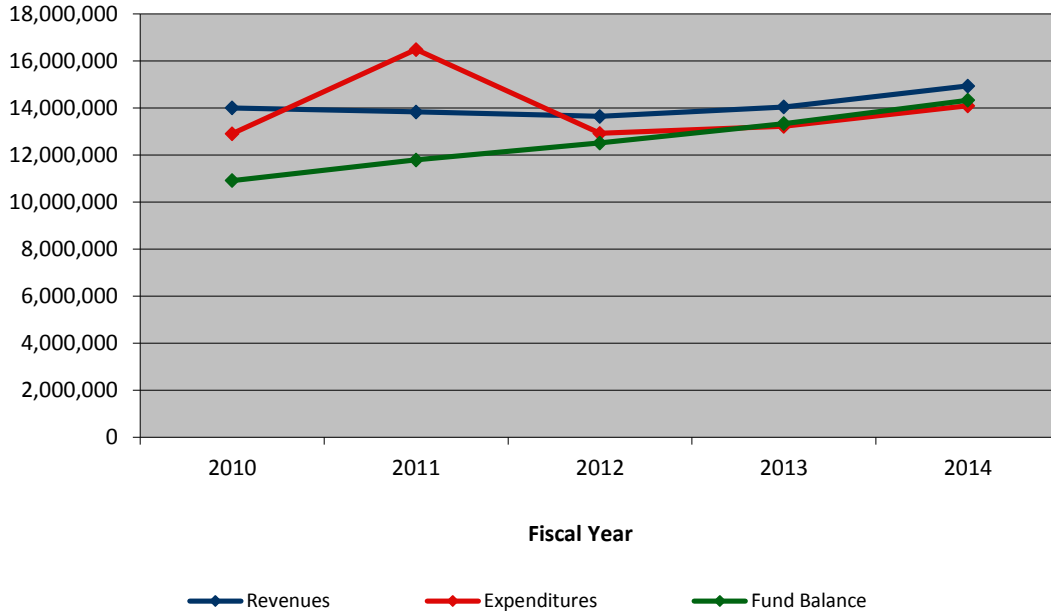
The following chart displays the District's revenues, expenditures, and ending "Memorandum Only" fund balance totals for the same five-year period. With the exception of the fiscal year ended 2012, when the District recorded a one-time expenditure related to the issuance of the Pension Obligation Bonds, revenue has exceeded expenditures and fund balance has steadily increased.

After slight decreases in revenue from \$13.9 million in the fiscal year ended 2010 to \$13.6 million in the fiscal year ended 2012, revenue has steadily increased to \$14.9 million this fiscal year. Total combined expenditures have increased each fiscal year.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2014

Revenues, Expenditures & Fund Balance - 5 Year Trend



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

The Board of Directors adopted the District's 2013-2014 fiscal year operating budget in September of 2013 on a modified accrual basis. As adopted for the General Fund, budgeted revenues totaled \$14,197,817, while projected expenditures totaled \$13,161,160 and operating transfers to the Capital Projects Fund and Pension Obligation Fund totaled \$959,445, resulting in projected balanced spending.

The District formally amended its originally adopted budget in May of 2014. As amended for the General Fund, revised budgeted revenues increased by \$389,316 to \$14,587,133 while projected expenditures increased by \$389,316 to \$13,550,476, and operating transfers remained unchanged at \$959,445. 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 \$432,260 higher and actual expenditures were \$820 lower than the final amended budget on a modified accrual basis. Refer to the required supplementary information on page 31 for the Budget Comparison Schedule.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2014

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, amounted to \$10,097,646 (net of accumulated depreciation). This investment in capital assets includes land, a land easement, 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

	2013	2014	Dollar Change	Percent Change
Land	\$ 2,577,530	\$ 2,577,530	\$ -	-
Land easement	122,308	122,308	-	-
Construction in progress	462,185	462,185	-	-
Structures & improvements	7,408,662	7,408,662	-	-
Equipment	4,267,765	3,962,025	(305,740)	-7.2%
Total Cost	14,838,450	14,532,710	(305,740)	-2.1%
Less: accumulated depreciation	(4,464,249)	(4,435,064)	29,185	0.6%
Total capital assets, net	<u>\$ 10,374,201</u>	<u>\$ 10,097,646</u>	<u>\$ (276,555)</u>	-2.7%

Significant capital asset activity during FY 2014 includes the following:

- The District placed in service a Fire Chief vehicle purchased for \$48,000 and a medical rescue vehicle purchased for \$151,000.
- The District placed in service additional operational equipment totaling approximately \$92,000.
- The District recognized \$412,916 in depreciation expense.
- In August of 2013, the Board of Directors approved a new capital assets policy that increased the capitalization threshold to \$5,000. All capital assets with a purchase price less than \$5,000 were removed.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2014

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 \$629,000 and interest payments totaling \$112,164 during the year ended June 30, 2014. The total outstanding debt at June 30, 2014 was \$2,005,000.

The deferred bond issuance charges are being amortized over the life of the debt. There were no charges recorded in the prior year.

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 revenue received. If you have any questions regarding this report or need additional financial information, please contact the District at 595 San Ysidro Road, Santa Barbara, California 93108.

BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2014

	General Fund	Pension Obligation Fund	Mello-Roos Fund	Capital Project Fund
Assets:				
Cash and investments	\$ 4,037,521	\$ 347	\$ 9,515	\$ 2,069,941
Accounts receivable	115,848	-	-	-
Interest receivable	7,744	-	10	1,981
Deposits	67,620	-	-	154,933
OPEB asset	-	-	-	-
Deferred bond issuance charge, net	-	-	-	-
Land	-	-	-	-
Land easement	-	-	-	-
Construction in progress	-	-	-	-
Other capital assets, net	-	-	-	-
Total Assets	<u>\$ 4,228,733</u>	<u>\$ 347</u>	<u>\$ 9,525</u>	<u>\$ 2,226,855</u>

Liabilities:				
Accounts payable	\$ 158,630	\$ -	\$ -	\$ -
Salaries and benefits payable	256,750	-	-	-
Long-term liabilities:				
Portion due within one year:				
Accrued interest	-	-	-	-
Pension obligation bonds	-	-	-	-
Portion due in more than one year:				
Compensated absences	-	-	-	-
Pension obligation bonds	-	-	-	-
Total Liabilities	<u>\$ 415,380</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fund Balances/Net Position:

Fund Balances:

Nonspendable	67,620	-	-	154,933
Committed	-	-	-	-
Assigned	1,200,000	-	-	-
Unassigned	2,545,733	347	9,525	2,071,922
Total Fund Balances	<u>3,813,353</u>	<u>347</u>	<u>9,525</u>	<u>2,226,855</u>
Total Liabilities, Fund Balances	<u>\$ 4,228,733</u>	<u>\$ 347</u>	<u>\$ 9,525</u>	<u>\$ 2,226,855</u>

Net Position:

Invested in capital assets
Unrestricted
Total Net Position

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (continued)
JUNE 30, 2014

Capital Projects Construction Fund	Total Memorandum Only	Adjustments	Statement of Net Position	
				Assets:
\$ 7,854,739	\$ 13,972,063	\$ -	\$ 13,972,063	Cash and investments
-	115,848	-	115,848	Accounts receivable
5,688	15,423	-	15,423	Interest receivable
-	222,553	-	222,553	Deposits
-	-	266,321	266,321	OPEB asset
-	-	70,717	70,717	Deferred bond issuance charge, net
-	-	2,577,530	2,577,530	Land
-	-	122,308	122,308	Land easement
-	-	462,185	462,185	Construction in progress
-	-	6,935,623	6,935,623	Other capital assets, net
<u>\$ 7,860,427</u>	<u>\$ 14,325,887</u>	<u>\$ 10,434,684</u>	<u>\$ 24,760,571</u>	Total Assets
				Liabilities:
\$ -	\$ 158,630	\$ -	\$ 158,630	Accounts payable
-	256,750	-	256,750	Salaries and benefits payable
				Long-term liabilities:
				Portion due within one year:
-	-	41,578	41,578	Accrued interest
-	-	684,000	684,000	Pension obligation bonds
				Portion due in more than one year:
-	-	1,333,755	1,333,755	Compensated absences
-	-	1,321,004	1,321,004	Pension obligation bonds
<u>\$ -</u>	<u>\$ 415,380</u>	<u>\$ 3,380,337</u>	<u>\$ 3,795,717</u>	Total Liabilities
				Fund Balances/Net Position:
				Fund Balances:
-	222,553	(222,553)	-	Nonspendable
-	-	-	-	Committed
-	1,200,000	(1,200,000)	-	Assigned
7,860,427	12,487,954	(12,487,954)	-	Unassigned
<u>7,860,427</u>	<u>13,910,507</u>	<u>(13,910,507)</u>	<u>-</u>	Total Fund Balances
<u>\$ 7,860,427</u>	<u>\$ 14,325,887</u>			Total Liabilities, Fund Balances
				Net Position:
		10,097,646	10,097,646	Invested in capital assets
		10,867,208	10,867,208	Unrestricted
		<u>\$ 20,964,854</u>	<u>\$ 20,964,854</u>	Total Net Position

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Pension Obligation Fund</u>	<u>Mello-Roos Fund</u>	<u>Capital Project Fund</u>
Revenues:				
Property taxes	\$ 14,112,264	\$ -	\$ -	\$ -
Investment income	34,442	15	130	15,438
Rental income	48,864	-	-	-
Intergovernmental	594,284	-	-	-
Miscellaneous	229,539	-	-	-
Total Revenues	<u>15,019,393</u>	<u>15</u>	<u>130</u>	<u>15,438</u>
Expenditures:				
Salaries and benefits	12,118,918	-	-	-
Services and supplies	1,340,311	2,190	10,113	-
Debt service:				
Principal	-	628,996	-	-
Interest	-	112,164	-	-
Bond issuance cost amortization	-	-	-	-
Depreciation	-	-	-	-
Capital outlay	92,067	-	-	199,587
Total Expenditures/Expenses	<u>13,551,296</u>	<u>743,350</u>	<u>10,113</u>	<u>199,587</u>
Excess (deficiency) of revenues over (under) expenditures	1,468,097	(743,335)	(9,983)	(184,149)
Other Financing Sources (Uses):				
Transfers in	-	741,160	-	218,281
Transfers out	(959,441)	-	-	-
Total other financing sources (uses)	<u>(959,441)</u>	<u>741,160</u>	<u>-</u>	<u>218,281</u>
Net change in fund balances	508,656	(2,175)	(9,983)	34,132
Change in net position				
Fund Balances/Net Position - Beginning	<u>3,304,697</u>	<u>2,522</u>	<u>19,508</u>	<u>2,192,723</u>
Fund Balances/Net Position - Ending	<u>\$ 3,813,353</u>	<u>\$ 347</u>	<u>\$ 9,525</u>	<u>\$2,226,855</u>

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

Capital Projects Construction Fund	Total Memorandum Only	Adjustments	Statement of Activities	
				Revenues:
\$ -	\$ 14,112,264	\$ -	\$14,112,264	Property taxes
48,136	98,161	-	98,161	Investment income
-	48,864	-	48,864	Rental income
-	594,284	-	594,284	Intergovernmental
-	229,539	(155,440)	74,099	Miscellaneous
<u>48,136</u>	<u>15,083,112</u>	<u>(155,440)</u>	<u>14,927,672</u>	Total Revenues
				Expenditures:
-	12,118,918	(434,911)	11,684,007	Salaries and benefits
472	1,353,086	-	1,353,086	Services and supplies
				Debt service:
-	628,996	(628,996)	-	Principal
-	112,164	(13,044)	99,120	Interest
-	-	-	-	Bond issuance cost amortization
-	-	412,916	412,916	Depreciation
147	291,801	(291,801)	-	Capital outlay
<u>619</u>	<u>14,504,965</u>	<u>(955,836)</u>	<u>13,549,129</u>	Total Expenditures/Expenses
47,517	578,147	800,396	1,378,543	Excess (deficiency) of revenues over (under) expenditures
				Other Financing Sources (Uses):
-	959,441	(959,441)	-	Transfers in
-	(959,441)	959,441	-	Transfers out
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	Total other financing sources (uses)
47,517	578,147	(578,147)	-	Net change in fund balances
		1,378,543	1,378,543	Change in net position
<u>7,812,910</u>	<u>13,332,360</u>	<u>6,253,951</u>	<u>19,586,311</u>	Fund Balances/Net Position - Beginning
<u>\$ 7,860,427</u>	<u>\$ 13,910,507</u>	<u>\$ 7,632,494</u>	<u>\$20,964,854</u>	Fund Balances/Net Position - Ending

NOTES TO THE BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 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 five 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 position. 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.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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).

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 Position and Governmental Funds Balance Sheet net of any allowance for uncollectibles. All receivables are deemed to be collectible at June 30, 2014, and as such, the District has no allowance for uncollectible accounts for these receivables.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets

Capital assets are recorded in the District's Statement of Net Position and Governmental Funds Balance Sheet in the Statement of Net Position 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 \$5,000. 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.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes accounting and financial reporting standards for all governments that report governmental funds.

Under GASB 54, fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are now broken out in five categories:

- *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 deposits of \$67,620 insurance deposit in the General Fund that is considered nonspendable and a truck purchase deposit of \$154,933 in the Capital project fund that is 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.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity - continued

- *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 Position 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.

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.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Implementation of New Accounting Principles

The District adopted the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. As implied above, GASB 63 changes the previous classification of net assets to net position, and consequently, the statement of net assets to the statement of net position. The District had no deferred inflows or outflows of resources as of June 30, 2014.

NOTE 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, 2014, the District had cash on deposit with the County Treasurer in the amount of \$13,972,063.

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.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 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).

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 is as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 2,577,530	\$ -	\$ -	\$ 2,577,530
Land easements	122,308	-	-	122,308
Construction in progress	462,185	-	-	462,185
Total capital assets, not being depreciated	<u>3,162,023</u>	<u>-</u>	<u>-</u>	<u>3,162,023</u>
Capital assets, being depreciated:				
Structures and improvements	7,408,662	-	-	7,408,662
Equipment	4,267,765	268,215	(573,955)	3,962,025
Total capital assets, being depreciated	<u>11,676,427</u>	<u>268,215</u>	<u>(573,955)</u>	<u>11,370,687</u>
Less accumulated depreciation for:				
Structures and improvements	(2,117,651)	(157,460)	-	(2,275,111)
Equipment	(2,346,598)	(255,167)	441,812	(2,159,953)
Total accumulated depreciation	<u>(4,464,249)</u>	<u>(412,627)</u>	<u>441,812</u>	<u>(4,435,064)</u>
Total capital assets, being depreciated, net	<u>7,212,178</u>	<u>(144,412)</u>	<u>(132,143)</u>	<u>6,935,623</u>
Total capital assets, net	<u>\$ 10,374,201</u>	<u>\$ (144,412)</u>	<u>\$ (132,143)</u>	<u>\$ 10,097,646</u>

Depreciation expense amounted to \$412,916 for the fiscal year ended June 30, 2014.

NOTE 4: LONG-TERM LIABILITIES

Changes to the District's long-term liabilities for the year ended June 30, 2014 are as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>Due in One Year</u>
Compensated absences	\$ 1,230,027	\$ 103,728	\$ -	\$ 1,333,755	\$ -
Pension obligation bonds	2,634,000	-	629,000	2,005,000	684,000
	<u>\$ 3,864,027</u>	<u>\$ 103,728</u>	<u>\$ 629,000</u>	<u>\$ 3,338,755</u>	<u>\$ 684,000</u>

The liability for employee compensated absences is liquidated by the General Fund.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 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 \$629,000 and interest payments totaling \$112,163 during the year ended June 30, 2014.

Total POB debt service requirements to maturity as of June 30, 2014, are as follows:

Year Ending June 30,	Pension Obligation Bonds	
	Principal	Interest
2015	\$ 684,000	\$ 83,123
2016	741,000	51,574
2017	435,000	17,402
2018	145,000	6,337
Totals	<u>\$ 2,005,000</u>	<u>\$ 158,436</u>

NOTE 6: INTERFUND TRANSFERS

Interfund transfers in the District’s fund financial statements made during the year ended June 30, 2014, are as follows:

Funds	Inter-fund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ -	\$ 959,441
Pension Obligation	741,160	-
Capital Projects	218,281	-
Total	<u>\$ 959,441</u>	<u>\$ 959,441</u>

During the fiscal year ended June 30, 2014, the District made the following transfers:

A transfer of \$741,160 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 \$218,281 from the General Fund to the Capital Projects Fund to finance future apparatus and vehicle purchases.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 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 \$29,867 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.

NOTE 8: RETIREMENT PLAN

Plan Description

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

All full-time and less than full time District employees that meet the CalPERS membership eligibility requirements can participate in CalPERS. Retirement benefits vest after five (5) years of service with the 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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 8: RETIREMENT PLAN - continued

Plan Description - continued

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. CalPERS also provides death and disability benefits.

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

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 18.148% and 23.397%, 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 CalPERS.

Annual Pension Cost

The annual required contribution for the current year was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) an investment return of 7.50%, (b) projected salary increases that vary from 3.30% to 14.20% depending on type of service, age, and an assumed inflation rate of 2.75%, (c) a payroll growth of 3.00%, 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, 2011 was eighteen years for miscellaneous members and seventeen years for safety members.

Regulatory Change

Assembly Bill 340 created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013. This act changes the safety plan from its current 3% at age 50 attributes to a 2.7% at age 57 plan. This will only impact employees hired after January 1, 2013. The initial contribution rate for this plan is 20.742% of reportable compensation.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 8: RETIREMENT PLAN - continued

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:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 1,912,656	100%	\$ 0
June 30, 2013	\$ 1,679,002	100%	0
June 30, 2014	\$ 1,729,446	100%	0

NOTE 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 \$1,458 per month for 2014, 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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Funding Policy - continued

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, 2014, the District contributed \$1,517,146 to the plan, including \$357,839 for current premiums and an additional \$1,175,856 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, 2014, the OPEB ARC was \$978,507. This includes the normal cost of \$341,290 for the year for current active employees, and \$637,217 for UAAL amortization. The District's OPEB contribution for the fiscal year ended June 30, 2014 was \$1,517,146.

The following are the components of the District's OPEB cost for the fiscal year ended June 30, 2014:

Annual required contribution (ARC)	\$ 978,507
Contributions made	<u>(1,517,146)</u>
Increase in net OPEB asset	(538,639)
Net OPEB liability (asset) - beginning of year	<u>272,318</u>
Net OPEB liability (asset) - end of year	<u><u>\$ (266,321)</u></u>

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Annual OPEB Cost and Net OPEB Obligation (Asset) - continued

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:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2012	980,420	123%	(337,494)
June 30, 2013	978,507	38%	272,318
June 30, 2014	978,507	155%	(266,321)

Funding Status and Funding Progress

Using the most recent actuarial valuation dated July 1, 2013, the following is the funded status of the OPEB plan:

Annual accrued liability (AAL)	\$ 9,452,985
Actuarial value of plan assets	633,471
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%

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, 2014 valuation date, is as follows:

<u>Fiscal Year Ended</u>	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Net Earnings</u>	<u>Distributions</u>	<u>Ending Balance</u>
6/30/2012	\$ 1,559,356	\$ 849,899	\$ 34,433	\$ -	\$ 2,443,688
6/30/2013	\$ 2,443,688	\$ -	\$ 247,224	\$ -	\$ 2,690,912
6/30/2014	\$ 2,690,912	\$ 1,175,856	\$ 350,288	\$ -	\$ 4,217,056

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Funding Status and Funding Progress - continued

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.

NOTE 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 two employees of the District and a retired captain 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.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 11: EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEETS AND STATEMENT OF NET POSITION

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds	\$ 10,168,363
Certain long-term assets, such as the over-funding of the Other Post-Employment Benefits liability, create long-term assets	266,321
Long-term liabilities, including loans and notes payable not due and payable in the current period and therefore are not reported in the funds	(2,046,582)
Other long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore not reported in the funds	<u>(1,333,755)</u>
Combined Adjustment	<u>\$ 7,054,347</u>

Amounts reported for governmental activities in the Statement of Net Position are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference is the amount by which depreciation exceeded capital outlays in the current period.	\$ (121,115)
Repayments of long-term debt are recorded as an expense in the fund financial statements and are adjusted against debt in the statement of net position as an offset to the liability	642,040
Changes in the compensated absences and OPEB liabilities are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>279,471</u>
Combined Adjustment	<u>\$ 800,396</u>

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2014

NOTE 12: 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. There is presently no outstanding litigation.

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, 2012, 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. This District was dissolved subsequent to the balance sheet date in October of 2014.

NOTE 13: SUBSEQUENT EVENTS

Subsequent events have been reviewed through December 31, 2014, the date the financial statements were available to be issued. The only significant event that was found to have happened that materially affected the District's financial position is as of December 31, 2014 Community Facilities District No. 2011 Fund 3654 Montecito Fire Upper Hyde Road (UHR) Mello-Roos was dissolved and officially closed on December 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTECITO FIRE PROTECTION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Unaudited)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property taxes	\$13,874,770	\$ 13,874,770	\$ 14,112,264	\$ 237,494
Investment income	14,345	14,345	34,442	20,097
Rental income	48,864	48,864	48,864	-
Intergovernmental	77,800	467,116	594,284	127,168
Miscellaneous	182,038	182,038	229,539	47,501
Total revenues	<u>14,197,817</u>	<u>14,587,133</u>	<u>15,019,393</u>	<u>432,260</u>
Expenditures				
Salaries and benefits	11,877,328	12,266,644	12,118,918	147,726
Services and supplies	1,254,142	1,254,142	1,340,311	(86,169)
Capital outlay	29,690	29,690	92,067	(62,377)
Total expenditures	<u>13,161,160</u>	<u>13,550,476</u>	<u>13,551,296</u>	<u>(820)</u>
Excess of revenues over expenditures				
Other Financing Uses:				
Transfers out	<u>(959,445)</u>	<u>(959,445)</u>	<u>(959,441)</u>	-
Total other financing uses	<u>(959,445)</u>	<u>(959,445)</u>	<u>(959,441)</u>	-
Net changes in fund balances	<u>\$ 77,212</u>	<u>\$ 77,212</u>	<u>508,656</u>	
Fund balances - Beginning			<u>3,304,697</u>	
Fund balances - Ending			<u>\$ 3,813,353</u>	

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Budgetary Comparison Schedules
Required Supplementary Information (Unaudited)
June 30, 2014

NOTE 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 May of 2014.

MONTECITO FIRE PROTECTION DISTRICT

Required Supplementary Information
 Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress
 For the Fiscal Year Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/1/2007	\$ 0	\$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%
7/1/2013	\$2,746,320	\$10,082,480	\$ 7,336,160	27.22%		