

MONTECITO FIRE PROTECTION DISTRICT

Annual Financial Report

For the Fiscal Year Ended
June 30, 2010



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

Montecito Fire Protection District

Annual Financial Report
For the Fiscal Year Ended June 30, 2010

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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 the Montecito Fire Protection District:

We have audited the accompanying basic financial statements of the Montecito Fire Protection District (the District) as of June 30, 2010 and for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010, 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 and the State Controller's Minimum Audit Requirements for California Special Districts.

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.

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

Robert W. Geis, CPA
Auditor-Controller
March 14, 2011

BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT
Statement of Net Assets and Governmental Funds Balance Sheet
As of June 30, 2010

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Projects Construction Fund</u>	<u>Memorandum Only Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets:						
Cash and investments	\$ 3,704,327	\$ 796,730	\$ 6,499,268	\$ 11,000,325	\$ -	\$ 11,000,325
Accounts receivable	391,513	-	-	391,513	-	391,513
Interest receivable	11,391	1,387	13,400	26,178	-	26,178
Prepaid items	84,971	-	-	84,971	-	84,971
Insurance deposit	25,974	-	-	25,974	-	25,974
Land	-	-	-	-	2,135,574 (a)	2,135,574
Land easements	-	-	-	-	32,753 (a)	32,753
Other capital assets, net	-	-	-	-	7,668,950 (a)	7,668,950
Total assets	<u>\$ 4,218,176</u>	<u>\$ 798,117</u>	<u>\$ 6,512,668</u>	<u>\$ 11,528,961</u>	<u>9,837,277</u>	<u>21,366,238</u>
Liabilities:						
Accounts payable	\$ 64,281	\$ -	\$ -	\$ 64,281	-	64,281
Salaries and benefits payable	205,288	-	-	205,288	-	205,288
Deferred revenue	350,891	-	-	350,891	(350,891) (b)	-
Long-term liabilities:						
Portion due within one year:						
Compensated absences	-	-	-	-	590,000 (c)	590,000
Portion due in more than one year:						
Compensated absences	-	-	-	-	370,480 (c)	370,480
OPEB obligation	-	-	-	-	55,000 (d)	55,000
Total liabilities	<u>620,460</u>	<u>-</u>	<u>-</u>	<u>620,460</u>	<u>664,589</u>	<u>1,285,049</u>
Fund Balances/Net Assets:						
Fund Balances:						
Reserved for:						
Insurance deposit	25,974	-	-	25,974	(25,974) (e)	-
Designated for contingencies	1,200,000	-	-	1,200,000	(1,200,000) (e)	-
Unreserved, undesignated	2,371,742	798,117	6,512,668	9,682,527	(9,682,527) (e)	-
Total fund balances	<u>3,597,716</u>	<u>798,117</u>	<u>6,512,668</u>	<u>10,908,501</u>	<u>(10,908,501)</u>	<u>-</u>
Total liabilities, fund balances	<u>\$ 4,218,176</u>	<u>\$ 798,117</u>	<u>\$ 6,512,668</u>	<u>\$ 11,528,961</u>		
Net Assets:						
Invested in capital assets					9,837,277	9,837,277
Unrestricted					10,243,912	10,243,912
Total net assets					<u>\$ 20,081,189</u>	<u>\$ 20,081,189</u>

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

- (a) 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.
- (b) Under the modified accrual basis, revenue cannot be recognized until it is available to liquidate liabilities of the current period. Under the accrual basis, revenue is recognized when earned, regardless of the availability. Liabilities for earned but unavailable deferred revenue must be eliminated in the Statement of Net Assets.
- (c) 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 the meets both these criteria.
- (d) 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.
- (e) Required adjustment to eliminate the District's governmental activities' unreserved, designated, and reserved fund balances to the Statement of Net Assets.

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

MONTECITO FIRE PROTECTION DISTRICT
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2010

	General Fund	Capital Projects Fund	Capital Projects Construction Fund	Memorandum Only Total	Adjustments	Statement of Activities
Revenues:						
Property taxes	\$ 12,796,442	\$ -	\$ -	\$ 12,796,442	\$ -	\$ 12,796,442
Investment income	53,237	1,724	44,210	99,171	-	99,171
Rental income	45,190	-	-	45,190	-	45,190
Intergovernmental	865,243	-	-	865,243	(133,911) (f)	731,332
Miscellaneous	190,639	-	-	190,639	13,647 (g)	204,286
Total revenues	<u>13,950,751</u>	<u>1,724</u>	<u>44,210</u>	<u>13,996,685</u>	<u>(120,264)</u>	<u>13,876,421</u>
Expenditures / expenses:						
Salaries and benefits	10,834,691	-	-	10,834,691	56,736 (h)	10,891,427
Services and supplies	1,191,816	-	-	1,191,816	-	1,191,816
Depreciation	-	-	-	-	396,950 (h)	396,950
Capital outlay	128,897	709,640	36,382	874,919	(874,919) (i)	-
Total expenditures / expenses	<u>12,155,404</u>	<u>709,640</u>	<u>36,382</u>	<u>12,901,426</u>	<u>(421,233)</u>	<u>12,480,193</u>
Excess (deficiency) of revenues over (under) expenditures	1,795,347	(707,916)	7,828	1,095,259		
Other financing sources/uses:						
Sale of capital assets	7,000	-	-	7,000	(7,000) (j)	-
Transfers in	-	424,370	438,540	862,910	(862,910) (j)	-
Transfers out	(862,910)	-	-	(862,910)	862,910 (j)	-
Total other financing sources/uses	<u>(855,910)</u>	<u>424,370</u>	<u>438,540</u>	<u>7,000</u>	<u>(7,000)</u>	<u>-</u>
Net change in fund balances	<u>939,437</u>	<u>(283,546)</u>	<u>446,368</u>	<u>1,102,259</u>	<u>(1,102,259) (k)</u>	<u>-</u>
Change in net assets					1,396,228 (l)	1,396,228
Fund Balances/Net Assets - Beginning	<u>2,658,279</u>	<u>1,081,663</u>	<u>6,066,300</u>	<u>9,806,242</u>	<u>8,878,719</u>	<u>18,684,961</u>
Fund Balances/Net Assets - Ending	<u>\$ 3,597,716</u>	<u>\$ 798,117</u>	<u>\$ 6,512,668</u>	<u>\$ 10,908,501</u>	<u>\$ 9,172,688</u>	<u>\$ 20,081,189</u>

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

- (f) Revenue earned in the current period but unavailable for revenue recognition purposes under the modified accrual basis must be reported as revenues on the Statement of Net Assets.
- (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.

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.

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.

GAAP requires that the government-wide financial statements be reported using the economic resources measurement focus and the accrual basis of accounting. In comparison, government 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 are maintained consistent with legal and managerial requirements. The District uses the governmental fund category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds are used to account for the District's general government activities. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after 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.

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 **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;

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Trust of California (CalTRUST). 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, 2010, and as such, the District has no allowance for uncollectible accounts for these receivables.

Capital Assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 and Net Assets

Reservations of fund balance represent amounts that are not appropriable or are legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The government-wide financial statements utilize a net assets presentation. Net assets are categorized as Invested in Capital Assets, Restricted, and Unrestricted Net Assets. Invested in Capital Assets represents the government's equity interest in its capital assets. Restricted Net Assets are reported when constraints placed on net assets are either externally imposed or imposed by law through

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

constitutional provisions or enabling legislation. Unrestricted Net Assets represents net assets of the district that are not restricted for any project or other purpose. 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.

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, 2010, the District had cash on deposit with the Santa Barbara County Treasurer in the amount of \$10,995,545.

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.

2. CASH AND INVESTMENTS (Continued)

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 AAAf/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, 2010 is as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Capital Assets, not being depreciated:				
Land	\$ 2,135,574	\$ -	\$ -	\$ 2,135,574
Land Easements	-	32,753	-	32,753
Total capital assets, not being depreciated	<u>2,135,574</u>	<u>32,753</u>	<u>-</u>	<u>2,168,327</u>
Capital Assets, being depreciated:				
Structures and improvements	7,382,425	3,629	-	7,386,054
Equipment	3,103,684	845,184	(30,166)	3,918,702
Total capital assets, being depreciated	<u>10,486,109</u>	<u>848,813</u>	<u>(30,166)</u>	<u>11,304,756</u>
Less accumulated depreciation for:				
Structures and improvements	(1,488,554)	(156,291)	-	(1,644,845)
Equipment	(1,780,468)	(240,659)	30,166	(1,990,961)
Total accumulated depreciation	<u>(3,269,022)</u>	<u>(396,950)</u>	<u>30,166</u>	<u>(3,635,806)</u>
Total capital assets, being depreciated, net	<u>7,217,087</u>	<u>451,863</u>	<u>-</u>	<u>7,668,950</u>
Total capital assets, net	<u>\$ 9,352,661</u>	<u>\$ 484,616</u>	<u>\$ -</u>	<u>\$ 9,837,277</u>

Depreciation expense amounted to \$396,950 for the fiscal year ended June 30, 2010.

4. COMPENSATED ABSENCES

The following is a summary of changes to the District's liabilities related to compensated absences due within one year and due after one year:

	July 1, 2009	Additions	Deletions	June 30, 2010	Due in One Year
Compensated Absences	\$ 958,744	\$ 592,007	\$ 590,271	\$ 960,480	\$ 590,000

5. 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	\$ -	\$ 862,910
Capital Projects	424,370	-
Capital Projects Construction	438,540	-
Total	\$ 862,910	\$ 862,910

During the fiscal year ended June 30, 2010, the District made the following transfers:

A transfer of \$424,370 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 \$438,540 from the General Fund to the Capital Projects Construction Fund was initiated to finance a prospective Station 3 land purchase.

6. 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

6. RISK MANAGEMENT (Continued)

crime. During the fiscal year, the District contributed an annual premium of \$31,549 with limits ranging from \$1,000,000 to \$2,000,000 for each liability, and excess liability coverage of \$10,000,000.

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, 2010, there were no outstanding unpaid claims.

7. RETIREMENT PLAN

Plan Description

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

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

PERS issues a separate comprehensive annual financial report. Copies of 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; currently the employer rate is 26.66% for non-safety employees and 31.584% for safety employees, of annual covered payroll. The contribution requirements

7. RETIREMENT PLAN (Continued)

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, 2007 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, 2007 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, 2008	\$2,087,847	100%	\$0
June 30, 2009	\$2,257,606	100%	\$0
June 30, 2010	\$2,257,717	100%	\$0

8. OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District provides retiree healthcare benefits for employees who retire with PERS pension benefits immediately upon termination of employment from the District. Medical benefits are provided through the District's contract with PERS healthcare benefits. The District pays for medical, dental, and vision premiums for the lifetime of the retiree and their eligible spouse. The District pays 100% of the retiree medical premiums, up to a maximum of \$1,124 per month, and 100% of the premiums for retiree dental and vision coverage. The prefunding plan is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple employer plan as defined in the Governmental Accounting Standards Board (GASB) Statement No. 45 consisting of an aggregation of single-employer plans, with pooled administrative and investment functions. The Fire Chief or designee is the District's Plan Administrator.

8. OTHER POST EMPLOYMENT BENEFITS (Continued)

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

In fiscal year ended June 30, 2010, the District adopted GASB Statement No. 45 by entering into a prefunding plan for its OPEB 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 AON, an outside actuarial consultant, for the GASB Statement No. 45 compliant actuarial report.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation, for June 30, 2010 are as follows:

Annual required contribution	\$ 1,114,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (AOC)	<u>1,114,000</u>
Contribution made	<u>(1,059,000)</u>
Increase in net OPEB obligation	55,000
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 55,000</u>
Percentage of AOC contributed	95%

Funding Status and Funding Progress:

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 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.

8. OTHER POST EMPLOYMENT BENEFITS (Continued)

The following is a schedule of funding progress, as of June 30, 2010:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
07/01/2009	\$0	\$14,752,000	\$14,752,000	0%	\$5,398,000	273.3%

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, 2009 actuarial valuation, the entry-age actuarial 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 11% and declines to 5% over a period of seven years. The vision and dental trend rates are flat at 3% and 5%, respectively. The OPEB Plan's AAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2009 was 30 years.

9. 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.

10. COMMITMENTS AND CONTINGENCIES

Litigation

The District is subject to litigation related to employee matters that are incidental to the ordinary course of the District's operations. One outstanding claim at June 30, 2010 was a result of disciplinary action that occurred in May 2009. The amount, if any, of liability the District could be subject to is anticipated to be immaterial.

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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Property taxes	\$ 11,675,677	\$ 12,671,742	\$ 12,796,442	\$ 124,700
Investment income	50,000	50,000	53,237	3,237
Rental income	48,864	48,864	45,190	(3,674)
Intergovernmental	81,716	558,532	865,243	306,711
Miscellaneous	113,162	153,344	190,639	37,295
Total revenues	<u>11,969,419</u>	<u>13,482,482</u>	<u>13,950,751</u>	<u>468,269</u>
Expenditures:				
Salaries and benefits	10,912,320	11,280,036	10,834,691	445,345
Services and supplies	1,320,440	1,406,572	1,191,816	214,756
Capital outlay	199,400	262,550	128,897	133,653
Total expenditures	<u>12,432,160</u>	<u>12,949,158</u>	<u>12,155,404</u>	<u>793,754</u>
Excess of revenues over expenditures	(462,741)	533,324	1,795,347	1,262,023
Other Financing Sources / Uses:				
Sale of capital assets	-	-	7,000	7,000
Transfers out	(862,910)	(862,910)	(862,910)	-
Total other financing sources / uses	<u>(862,910)</u>	<u>(862,910)</u>	<u>(855,910)</u>	<u>7,000</u>
Net change in fund balances	<u>(1,325,651)</u>	<u>(329,586)</u>	<u>939,437</u>	<u>1,269,023</u>
Fund Balances - Beginning	<u>2,658,279</u>	<u>2,658,279</u>	<u>2,658,279</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,332,628</u>	<u>\$ 2,328,693</u>	<u>\$ 3,597,716</u>	<u>\$ 1,269,023</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.