

ROSS VALLEY FIRE DEPARTMENT
BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

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**ROSS VALLEY FIRE DEPARTMENT
 BASIC FINANCIAL STATEMENTS
 AND REQUIRED SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ross Valley Fire Department
San Anselmo, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General fund, of the Ross Valley Fire Department (Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Department'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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General fund of the Department as of June 30, 2013, 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.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2013 but did not have a material effect on the financial statements:

The following pronouncement became effective, and required a format change in the Statement of Net Assets and certain nomenclature revisions in the footnotes accompanying the financial statements.

Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Mage & Associates

Pleasant Hill, California
August 16, 2013

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

This discussion and analysis of the Ross Valley Fire Department (the "Department") fiscal performance provides an overview of the Department's financial activities for the fiscal year ended June 30, 2013. Please review it in conjunction with the basic financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

From the Statement of Net Position and Statement of Activities - see pages 10 and 11

- Total net assets are \$1,052,136 compared with \$1,153,131 at the end of fiscal year 2012.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, are \$(70,630).

From the Governmental Fund Financial Statements - see pages 14-17

- Total revenues increased from \$6,188,574 in fiscal year 2012 to \$8,283,616 in fiscal year 2013 and expenditures decreased from \$8,827,917 to \$8,127,803. The increase in revenues is the result of the JPA expansion to include the Town of Ross. In Fiscal year 2012, expenses included the payoff of the CalPERS Pension Side Fund in the amount of \$2,595,334.
- The General Fund balance increased by \$155,813 from the prior fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The Department's basic financial statements are comprised of three components: government-wide financial statements, governmental funds financial statements, and notes to the financial statements. Supplementary information in addition to the basic financial statements is also presented.

Government-wide financial statements found on pages 10 and 11

The Government-wide financial statements are designed to provide readers with a broad overview of the Department's finances in a manner similar to a private-sector business. There are two government-wide financial statements - The Statement of Net Position and the Statement of Activities and Changes in Net Position ("Statement of Activities").

The Statement of Net Position presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statement of Activities presents information showing how the Department's net assets changed during the fiscal year. Accruals of revenue and expenses are taken into account regardless of when cash is received or paid.

Like in a private-sector business capital assets are depreciated, the principal portion of the debt service is net an expenditure, and compensated absences are expensed in the period earned.

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Governmental fund financial statements found on pages 14-17

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The major differences between fund financial statements and government-wide financial statements are in the way debt proceeds, capital outlay, and compensated absences are recorded. Reconciliations between the two types of financial statements are found on page 15.

Notes to the financial statements on pages 19-33

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required Supplementary information on page 36

In addition to basic financial statements and accompanying notes, this report also presents budgetary comparison schedules.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net assets for the Department are summarized below and an analysis follows:

	Governmental Activities		Total Percent Change
	2013	2012	
Cash and investments	\$ 1,074,938	\$ 959,024	12%
Capital assets, net	1,289,035	1,402,646	-8%
Pension assets	2,076,267	2,595,334	-20%
Other assets	45,616	60,520	-25%
Total assets	4,485,856	5,017,524	-11%
Long-term debt, net	2,390,803	2,985,707	-20%
Other liabilities	1,042,917	878,686	19%
Total liabilities	3,433,720	3,864,393	-11%
Invested in capital assets, net	1,122,766	1,158,211	-3%
Restricted	-	-	0%
Unrestricted	(70,630)	(5,080)	1290%
Net assets	\$ 1,052,136	\$ 1,153,131	-9%

Net assets serve over time as a useful indicator of the Department's financial position. In the case of the Department, assets exceeded liabilities by \$1,052,136 as of June 30, 2013, as compared to \$1,153,131 on June 30, 2012.

Net capital assets decreased by \$113,611. The Department added \$32,920 in capital assets and showed \$143,781 in depreciation of existing assets.

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Long term debt decreased by \$594,904. Long-term debt includes compensated absences, capital leases for fire apparatus, and the Pension Obligation Bonds.

Other liabilities increased by \$164,231. Other liabilities include; accounts payable, pension obligation, accrued liabilities, and current portion of long-term debt. The increase, for the most part, is the result of anticipated payouts for compensated absences.

Investment in capital assets consists of capital assets less any related debt that is still outstanding.

Unrestricted assets which are used to finance day-to-day operations are \$(70,630).

Analysis of Changes in Net Position

Changes in net assets for the Department are summarized below and an analysis follows:

	Governmental Activities		Total
	2013	2012	Percent Change
Revenues:			
Program revenues:			
Charges for services	\$ 8,276,895	\$ 6,172,642	34%
General revenues:			
Investment earnings	1,757	2,181	-19%
Miscellaneous	4,964	13,750	-64%
Total revenues	8,283,616	6,188,573	34%
Expenses:			
Fire services	8,324,612	6,222,678	34%
Total expenses	8,324,612	6,222,678	34%
Change	\$ (40,996)	\$ (34,105)	20%

Revenues increased by \$2,095,043 and expenses increased by \$2,101,934 from 2012 levels. The increase in revenues and expenses is related to the expansion of the JPA to include the Town of Ross. Net assets decreased by \$40,996.

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

GOVERNMENTAL FUNDS ANALYSIS

The following schedule presents a summary of general fund revenues and expenditures for the fiscal years ended June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Revenues:		
Intergovernmental:		
Town of San Anselmo (Contract)	\$ 2,623,650	\$ 3,022,255
Town of Fairfax (Contract)	1,507,925	1,736,796
Sleepy Hollow (Contract)	828,388	954,096
County of Marin (Contract)	127,043	129,003
Town of Ross (Contract)	1,557,507	26,016
Ross Apprentice Program	112,572	-
Prior Authority		
Side fund payment	522,746	-
Compensated absences	50,000	-
Retiree health	162,788	-
MERA Bond	38,194	-
Debt service contribution	88,383	-
Other sources	552,614	216,396
Charges for services	105,085	88,080
Investment earnings	1,757	2,181
Miscellaneous	4,964	13,751
Total revenue	<u>8,283,616</u>	<u>6,188,574</u>
Expenditures:		
Salaries and benefits	6,486,003	7,957,111
Services and supplies	976,843	730,609
Debt service:		
Principal	525,795	75,030
Interest	82,322	17,940
Capital outlay	56,840	47,227
Total expenditures	<u>8,127,803</u>	<u>8,827,917</u>
Excess of expenditures over revenues	<u>155,813</u>	<u>(2,639,343)</u>
Other financing sources and (uses):		
Proceeds of long-term debt	-	2,656,934
Uses pertaining to debt financing -cost of issuance	-	(60,000)
Total other financing sources and uses	<u>-</u>	<u>2,596,934</u>
Excess of revenues and other financing sources over (under) expenditures	155,813	(42,409)
Fund balances, beginning of year	727,472	769,881
Fund balances, end of year	<u>\$ 883,285</u>	<u>\$ 727,472</u>

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

COMMENTS ON BUDGET COMPARISONS –see Required Supplementary information page 36

Revenue: Total revenues were short of the final budget numbers by \$56,749. Plan Check Fees and Re-sale Inspection Fees exceeded budget estimates by \$17,585. Other sources, which include Budget Reserves and OES and Workers Compensation reimbursements, exceed estimates by a total of \$78,706. The Adopted and Revised line item budget included, as part of Member Contributions, the transfer from Prior Authority Reserves totaling \$150,000; these funds should not have been included as revenues.

Expenses: Total expenses were under the final budget by \$220,963. Salaries and Benefits were under budget by \$146,322. Services and Supplies was under budget by \$62,254. Capital Outlay and Debt Service Interest were under budget by \$11,586 and \$801 respectively.

HISTORY AND ECONOMIC FACTORS

Ross Valley Fire Service was formed in 1982 by merging the Fire Departments of the Towns of Fairfax and San Anselmo through a Joint Powers Agreement. In addition to these two entities, the Sleepy Hollow Fire Protection District contracted with the Town of San Anselmo to provide fire protection services, through June 2010.

An Amended and Restated Joint Powers Agreement (JPA) was entered into, effective July 1, 2010, between the Town of Fairfax, Town of San Anselmo, and Sleepy Hollow Fire Protection District to provide fire protection, emergency medical and related services within their respective jurisdictions. As part of the Amended and Restated JPA, the name of the Department was changed from Ross Valley Fire Service to Ross Valley Fire Department. The Board of Directors was expanded to six members, two voting members appointed by and serving at the pleasure of each of the member agencies

The First Amendment to the Amended and Restated Joint Powers Agreement, effective July 1, 2012, expanded the JPA to include the Town of Ross as a member. The Board of Directors was expanded to eight members, two voting members appointed by and serving at the pleasure of each of the member agencies. Personnel from the Town of Ross Fire Department as of June 30, 2012, with the exception of the Fire Chief, became Department employees as of July 1, 2012. Effective July 1, 2012, the cost sharing percentages were set as follows: Town of San Anselmo 40.53%, Town of Fairfax 23.30%, Town of Ross 23.37%, and Sleepy Hollow Fire Protection District 12.80%.

The Department is mainly funded directly by each of the member agencies, so it must compete with Police, Public Works, etc. for General Fund dollars. The Department also provides contract services to the County of Marin, for initial response to the unincorporated areas which border the jurisdiction and the Ross Valley Paramedic Authority, to provide engine company paramedics. The Department also collects fees for service related to fire inspection services.

Staff prepares the draft budget in concert with the Executive Officer. The draft budget normally goes to the Fire Board for discussion in May and then adoption in June. This time frame ensures that the adopted budget can be then folded into the budget of member agencies.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Fire Chief, Ross Valley Fire Department, 777 San Anselmo Avenue, San Anselmo, CA 94960.

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ROSS VALLEY FIRE DEPARTMENT

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

ROSS VALLEY FIRE DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments (Note 2)	\$1,074,938
Accounts receivable	45,261
Interest receivable	355
Capital assets, net of accumulated depreciation (Note 3)	1,289,035
Other assets:	
Pension asset (Note 9)	2,076,267
Total Assets	4,485,856
 LIABILITIES	
Current Liabilities:	
Accounts payable	78,120
Pension obligation	83,246
Accrued liabilities	75,903
Compensated absences (Note 5)	
Due in one year	235,618
Due in more than one year	585,259
Long-term debt (Note 6)	
Due in one year	570,030
Due in more than one year	1,805,544
Total Liabilities	3,433,720
 NET POSITION (Note 8)	
Net investment in capital assets	1,122,766
Unrestricted	(70,630)
Total Net Position	\$1,052,136

See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Expenses:	
Public safety - fire protection:	
Personnel services	\$7,094,996
Services and supplies	1,003,513
Depreciation	143,781
Interest	82,322
	<u>8,324,612</u>
Total Program Expenses	8,324,612
Program revenues:	
Charges for services	<u>8,276,895</u>
Total Program Revenues	8,276,895
Net program revenue under expenses	<u>(47,717)</u>
General revenues:	
Investment earnings	1,757
Miscellaneous	4,964
	<u>6,721</u>
Total General Revenues	6,721
Decrease in net assets	(40,996)
Net Position - beginning of year	<u>1,093,132</u>
Net Position - end of year	<u><u>\$1,052,136</u></u>

See accompanying notes to basic financial statements

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ROSS VALLEY FIRE DEPARTMENT

FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS

ROSS VALLEY FIRE DEPARTMENT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General	Total Governmental Funds
ASSETS		
Cash and investments (Note 2)	\$1,074,938	\$1,074,938
Accounts receivable	45,261	45,261
Interest receivable	355	355
	Total Assets	Total Assets
	\$1,120,554	\$1,120,554
LIABILITIES		
Accounts payable	\$78,120	\$78,120
Pension obligation	83,246	83,246
Accrued liabilities	75,903	75,903
	Total Liabilities	Total Liabilities
	237,269	237,269
FUND BALANCES (Note 8)		
Restricted		
Pension obligation bonds	1,600	1,600
Committed:		
San Anselmo	150,094	150,094
Fairfax	86,255	86,255
Sleepy Hollow	47,383	47,383
Prior Authority Apparatus Replacement Fund	73,844	73,844
Assigned:		
Compensated absences	254,149	254,149
Equipment	23,886	23,886
Unassigned	246,074	246,074
	Total Fund Balances	Total Fund Balances
	883,285	883,285
	Total Liabilities and Fund Balances	Total Liabilities and Fund Balances
	\$1,120,554	\$1,120,554

See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
 Reconciliation of the
 GOVERNMENTAL FUNDS - BALANCE SHEET
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2013

Total Fund Balances - Total Government Funds **\$883,285**

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

Capital assets used in governmental activities are not financial resources. Therefore, they are not reported in the Governmental Funds Balance Sheet

Capital assets	3,156,445
Less: Accumulated depreciation	(1,867,410)

Certain other assets used in governmental activities are not financial resources. Therefore, they are not reported in the Governmental Funds Balance Sheet

Pension asset	2,076,267
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Long-term liabilities are not due and payable in the current period and therefore were not reported in the Governmental funds Balance Sheet. The long-term liabilities were adjusted as follows:

Pension obligation bonds and Capital Leases	(2,375,574)
Compensated absences	<u>(820,877)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$1,052,136</u></u>
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See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Total Governmental Funds</u>
REVENUES:		
Intergovernmental:		
Town of San Anselmo (Contract)	\$2,623,650	\$2,623,650
Town of Fairfax (Contract)	1,507,925	1,507,925
Sleepy Hollow (Contract)	828,388	828,388
County of Marin (Contract)	127,043	127,043
Town of Ross (Contract)	1,557,507	1,557,507
Ross Apprentice Program	112,572	112,572
Prior Authority:		
Side fund payment	522,746	522,746
Compensated absences	50,000	50,000
Retiree health	162,788	162,788
MERA Bond	38,194	38,194
Debt service contributions	88,383	88,383
Other sources	552,614	552,614
Charges for services	105,085	105,085
Investment earnings	1,757	1,757
Miscellaneous	4,964	4,964
	<u>8,283,616</u>	<u>8,283,616</u>
Total Revenues		
EXPENDITURES:		
Current:		
Salaries and benefits	6,486,003	6,486,003
Services and supplies	976,843	976,843
Debt service:		
Principal	525,795	525,795
Interest	82,322	82,322
Capital Outlay	56,840	56,840
	<u>8,127,803</u>	<u>8,127,803</u>
Total Expenditures		
Excess of expenditures over revenues	155,813	155,813
Fund balances - beginning of year	<u>727,472</u>	<u>727,472</u>
Fund balances - end of year	<u><u>\$883,285</u></u>	<u><u>\$883,285</u></u>

See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds **\$155,813**

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

Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense

Capital outlay	56,840
Non-capitalized outlay expenditures	(23,920)
Depreciation expense	(143,781)
Loss on disposal	(2,750)

Governmental funds report the contribution to the pension system in excess of the required contribution as an expenditure when paid, but the amount is amortized in the Statement of Activities

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

Net Pension Asset	(519,067)
Change in compensated absences	(89,926)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position

Principal repayments on long-term debt	525,795
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Change in Net Position of Governmental Activities	(\$40,996)
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See accompanying notes to basic financial statements

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**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES

A. Description of the Ross Valley Fire Department

The Ross Valley Fire Department (the "Department") was created in 1982. An Amended and Restated Joint Powers Agreement was entered into effective July 1, 2010, between the Town of Fairfax, Town of San Anselmo and the Sleepy Hollow Fire Protection District ("Sleepy Hollow"), to provide fire protection, emergency medical and related services within their respective jurisdictions. On July 1, 2012, the Department entered into a First Amendment to the Amended and Restated Joint Powers Agreement to admit the Town of Ross as a member. The Department is governed by an eight voting member Board of Directors, consisting of, two from the Fairfax Town Council, two from the San Anselmo Town Council, two from Sleepy Hollow Fire Protection District, and two from Ross Town Council. The Department is administered by the Town Manager (Executive Officer) and shall rotate among Fairfax, San Anselmo, and Ross for two year terms, or such other terms as may be determined by the Board.

Effective July 1, 2012, the cost sharing percentages are as follows:

Town of San Anselmo	40.53%
Town of Fairfax	23.30%
Town of Ross	23.37%
Sleepy Hollow Fire Protection District	12.80%
	100.00%

B. Basis of Presentation

The accounting policies of the Department conform with accounting principles generally accepted in the United States of America and are applicable to governments. The following is a summary of the significant policies.

The accounts of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues and expenses or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In fiscal 2013, the Department had one fund.

Government - Wide Financial Statements

The Department's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Department accompanied by a total column. These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Department's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

The Government-Wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Department. In fiscal 2013, the Department operated one government program.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds. Fund financial statements report detailed information about the Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds are reported as separate columns in the governmental fund financial statements. Non-major funds are aggregated and presented in a single column. The Department had no non-major funds in the fiscal year ended June 30, 2013.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenses and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Accompanying schedules are presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-Wide financial statements.

Revenues susceptible to accrual are interest revenue and charges for services. Licenses and permits are not susceptible to accrual because, generally, they are not measurable until received in cash.

Expenses are generally recognized when incurred under the modified accrual basis of accounting. Principal and interest on general long-term debt is recognized when due. All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenses and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenses and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenses of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Department, are intergovernmental revenues and interest. Expenses are recorded in the accounting period in which the related fund liability is incurred.

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

The Department's General Fund was the only major fund in the fiscal year ended June 30, 2013. The General Fund is the operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

C. *Budgets and budgetary accounting*

The Department follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the June Board meeting, the Chief and Executive Officer submit to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenses and the means of financing them.
2. The budget is legally enacted through the passage of a resolution.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

D. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expense of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. All appropriations lapse at fiscal year-end.

E. *Statement calculations and use of estimates*

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 2 – CASH AND INVESTMENTS

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Department’s cash on deposit or first trust deed mortgage notes with a value of 150% of the Conservancy’s cash on deposit as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Conservancy’s name and places the Conservancy ahead of general creditors of the institution.

Investments are stated at cost, which approximates fair value at June 30, 2013.

B. Classification

The Department’s cash and investments consist of the following at June 30, 2013:

LAIF	\$584,921
Cash in checking accounts	488,816
Cash with Fiscal Agent	1,201
Total cash and investments	\$1,074,938

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity is of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The Department is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Department reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2013, these investments matured in an average of 278 days.

All of the Department’s investments are held in LAIF and mature in less than twelve months.

D. Credit Risk

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 organization. None of the Department’s investments are subject to credit ratings.

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 3 –CAPITAL ASSETS

The Department's capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities by function.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The Department has assigned the useful lives listed below to capital assets:

Building improvements	5-40 years
Fire Trucks	15-20 years
Furniture and fixtures	3-5 years
Non-emergency vehicles	10 years
Machinery and equipment	3-10 years

A summary of changes in capital assets for the fiscal year ended June 30, 2013 is as follows:

	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013
Capital assets being depreciated:				
Vehicles	\$2,227,624	\$3,461	(\$200,000)	\$2,031,085
Machinery and equipment	929,289	26,592	(27,536)	928,345
Furniture and fixtures	36,425	2,867		39,292
Building Improvements	157,723			157,723
Total capital assets being depreciated	<u>3,351,061</u>	<u>32,920</u>	<u>(227,536)</u>	<u>3,156,445</u>
Less accumulated depreciation for:				
Vehicles	1,239,086	78,755	(200,000)	1,117,841
Machinery and equipment	654,192	54,531	(24,786)	683,937
Furniture and fixtures	24,594	4,587		29,181
Building Improvements	30,543	5,908		36,451
Total accumulated depreciation	<u>1,948,415</u>	<u>143,781</u>	<u>(224,786)</u>	<u>1,867,410</u>
Net capital assets being depreciated	<u>\$1,402,646</u>	<u>(\$110,861)</u>	<u>(\$2,750)</u>	<u>\$1,289,035</u>

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 4 – DEFERRED COMPENSATION ARRANGEMENT

The Department provides a deferred compensation plan (the "Plan") according to Internal Revenue Code Section 457. The Plan is available to all employees and permits the deferral of a portion of the participating employees' salaries. Deferred amounts may not be withdrawn until termination, retirement, death or unforeseeable emergency. Prior to August 20, 1996, the assets of the Plan were owned by the Department and were subject to claims from general creditors. On August 20, 1996, President Clinton signed into law changes affecting Internal Revenue Code Section 457. New plan agreements, which have been amended to comply with the amended provisions, require plans to hold assets in trust for the exclusive benefit of the participants and their beneficiaries. The Department has an obligation to ensure that the Plan's funds are prudently managed and invested. Participating employees may direct Plan investments to several categories of investment mutual funds provided by the Plan's trustee. Since the assets of the Plan are no longer available to general creditors, the respective assets and liabilities of the Plan are not included on the accompanying financial statements.

NOTE 5 – COMPENSATED ABSENCES

Employees of the Department accumulate vacation compensation based on years of service. Each employee may accumulate and carry forward a maximum of 1-1/2 years' vacation entitlement. Employees may also accumulate sick pay up to a maximum number of hours as set out in the current memorandum of understanding. At retirement, an employee may elect to convert unused sick pay to cash at one-half of the accumulated value.

Additionally, employees may earn 1-1/2 compensatory hours for each hour of off-duty attendance of qualified educational programs. Compensatory hours of those employees who earn an educational incentive are assessed annually to ensure that they have met their statutory 30 hours per year of education. These required hours may not be used for any other purpose and are deducted from each qualifying employee's total compensatory hours. Employees with balances of less than 30 hours at the time of the annual assessment forfeit their right to educational incentive until the statutory 30 hours is achieved. Any remaining balance after applying the deduction is accumulated to a maximum of 240 hours.

Compensatory absences as shown on the Statement of Net Position include the value of accumulated vacation, the portion of sick pay benefits expected to be paid at retirement and the value of compensatory time accumulated.

The following is a schedule of changes in compensated absences for the fiscal year ended June 30, 2013:

	Governmental Activities
Beginning Balance	\$730,951
Additions	180,519
Payments	(90,593)
Ending Balance	<u>\$820,877</u>
Current Portion	<u>\$235,618</u>

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 6 –LONG TERM DEBT

The following is a schedule of changes in long-term debt for the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Retirements	Balance June 30, 2013	Current Portion
2010 Capital Lease - Fire Engine	\$244,435	\$78,166	\$166,269	\$81,433
Pension Obligation Bonds	2,656,934	447,629	2,209,305	488,597
Total	\$2,901,369	\$525,795	\$2,375,574	\$570,030

The Department's total lease obligation for fiscal 2013 is \$88,383, consisting of \$78,166 in principal and \$10,217 in interest all for the 2010 Fire Engine.

2010 Capital lease - Fire Engine: In March 2010, the Department entered into a lease purchase agreement to finance a Pierce Type I Fire Engine for a total purchase price of \$498,092, consisting of a \$100,000 down payment and \$398,092 capital lease. The 2010 capital lease provides for five annual payments of \$88,383, including principal and interest, commencing October 26, 2010 and ending October 26, 2014. The Department took advantage of a 100% prepay discount for the construction of the fire apparatus. Delivery and acceptance of the engine occurred in October 2010.

The minimum annual payments on the above lease are as follows:

Ending June 30	Principal	Interest	Total
2014	\$81,433	\$6,950	\$88,383
2015	84,836	3,547	88,383
Total	\$166,269	\$10,497	\$176,766

Pension Obligation Bonds: On May 31, 2012, the Department issued \$2,656,934 in taxable pension obligation bonds to refund the Department's outstanding Safety Plan Side Fund obligation to the California Public Employees' Retirement System. As of June 30, 2013, the outstanding balance was \$2,209,305. Principal and interest payments are due monthly commencing July 15, 2012. Monthly payments escalate from \$44,464 per month to \$50,451. The bonds are fully amortized on July 15, 2017. Interest rate is fixed during the entire term at 3.030%.

The minimum annual payments on the above bond are as follows:

Ending June 30	Principal	Interest	Total
2014	\$488,597	\$60,213	548,810
2015	521,616	44,954	566,570
2016	556,254	28,671	584,925
2017	592,514	11,316	603,830
2018	50,324	127	50,451
Total	\$2,209,305	\$145,281	\$2,354,586

**ROSS VALLEY FIRE DEPARTMENT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2013**

NOTE 7 – OPERATING LEASE

In August 2009, the Department entered into a contract to lease a digital copy system. The lease is for 48 months and requires a monthly payment of \$206. Rent expense under this lease during the year was \$2,472.

The minimum future obligation under this operating lease is as follows:

<u>Ending June 30</u>	<u>Amount</u>
2014	<u>\$412</u>
Total	<u><u>\$412</u></u>

NOTE 8 – NET POSITION AND FUND BALANCES

Net Position is on the full accrual basis while Fund Balances are measured on the modified accrual basis

A. Net Position

Net Position is the excess of all the Department's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position are divided into three captions. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the Department's capital assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include debt service and acquisition and construction of facilities and equipment.

Unrestricted describes the portion of Net Position which is not restricted to use.

When both restricted and unrestricted resources are available, the Department's policy is to first apply restricted resources and then unrestricted resources as necessary.

B. Fund Balances

The Department has adopted the provisions of GASB Statement No. 54, "Fund Balance and Governmental Fund Type Definitions". GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. GASB 54 establishes the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent:

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

Nonspendable: Nonspendable fund balances includes amounts that cannot be spent because they are not in spendable form, such as prepaid items or items that are legally or contractually required to be maintained intact, such as principal of an endowment fund. As of June 30, 2013, the Department did not have any nonspendable fund balances.

Restricted: Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation. As of June 30, 2013, the Department has restricted fund balance totaling \$1,600.

Committed: Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Board of Directors is considered the highest authority for the Department. As of June 30, 2013, the Department has committed fund balances totaling \$357,576.

Assigned: Assigned fund balances include amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. As of June 30, 2013, the Department has assigned fund balances totaling \$278,035.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. As of June 30, 2013, the Department has unassigned fund balance totaling \$246,074.

The Department's policy is that committed and assigned fund balances are considered to have been spent first before unassigned fund balances are spent.

NOTE 9 – PENSION PLAN

A. Plan description

The Department contributes to the California Public Employees' Retirement System (PERS), an agent 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. Benefit provisions and all other requirements are established by state statute and board resolution.

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 9 – PENSION PLAN (Continued)

The Department's employees participate in the separate Safety and Miscellaneous Employee Plans. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by PERS; the Department must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2013, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	8%
Required employer contribution rates	22.744%	9.924%
Actuarially required contributions	\$1,334,610	\$17,982

For June 30, 2013, the Department's annual pension cost of \$1,352,592 for PERS was equal to the Department's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included 7.5% investment rate of return (net of administrative expenses) and an inflation rate of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

On May 31, 2012, the Department issued taxable pension obligation bonds to refund the Department's Side Fund with PERS in the amount of \$2,595,334. The Side Fund payment plus the annual pension cost of \$1,313,278 brings the total retirement cost for 2012 to \$3,908,612. As a result of the \$2,595,334 Side Fund payment, the Safety employer contribution rate decreased from 40.799% to 23.006%. This has an amortization period of 4 years.

Annual Pension Costs and Net Pension Asset, representing the payment of all contributions required by PERS, for the last three fiscal years were as follows:

<u>Fiscal year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Contributions</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Asset</u>
June 30, 2011	\$1,377,392	\$1,377,392	100%	
June 30, 2012	1,313,278	3,908,612	298%	\$2,595,334
June 30, 2013	1,352,592	1,352,592	100%	2,076,267

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 9 – PENSION PLAN (Continued)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation of June 30:

Safety - 3.0% at 55 Risk Pool

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.3%	\$221,600,192	127.6%
2010	1,915,095,826	1,628,915,283	286,180,543	85.1%	224,562,008	127.4%
2011	2,061,923,933	1,759,286,797	302,637,136	85.3%	225,026,216	134.5%

Miscellaneous - 2.7% at 55 Risk Pool

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$2,140,438,884	\$1,674,260,302	\$466,178,582	78.2%	\$440,071,499	105.9%
2010	2,297,871,345	1,815,671,616	482,199,729	79.0%	434,023,381	111.1%
2011	2,486,708,579	1,981,073,089	505,635,490	79.7%	427,300,410	118.3%

Audited annual financial statements and ten-year trend information are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709. PERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

B. Public Employees' Pension Reform Act (PEPRA)

Assembly Bill 340 (AB 340) created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member under PEPRA.

The table below provides the details of the new provisions.

Benefit formula	Safety 2.7% at age 57	Miscellaneous 2% at age 62
Final compensation period	3 year final compensation	3 year final compensation
Employer contribution rate as a percentage of payroll	12.25% of reportable compensation	6.25% of reportable compensation
Member contribution rate as a percentage of payroll	12.25% of reportable compensation	6.25% of reportable compensation

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described previously, the Department provides the following:

A. *Retiree Medical Benefits:*

The Department provides postretirement health care benefits to employees who retire from the Department. As of June 30, 2013 there were 31 participants receiving these health care benefits.

Plan Description

The Department provides medical insurance benefits under the CalPERS health plan to eligible retirees and dependents in accordance with a labor agreement. Employees are eligible for retiree health benefits if they retire from the Department and are eligible for a PERS pension.

Funding Policy and Annual Pension Cost

The Department's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount which was determined as part of a July 1, 2011 actuarial evaluation in accordance with the parameters of GASB Statement No. 45, "Accounting and Financial Reporting of Postretirement Benefits Other than Pensions by State and Local Government Employers". The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the Department over a period not to exceed thirty years. The ARC is subject to change with each actuarial evaluation date performed every two years.

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
June 30, 2011	\$310,141	\$310,141	100%	
June 30, 2012	358,844	358,844	100%	
June 30, 2013	448,792	448,792	100%	

Annual OPEB Cost and Net OPEB Obligation

The Department has calculated the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as follows:

Annual required contribution	\$448,792
Adjustment to annual required contribution	_____
Annual OPEB cost	448,792
Contributions made	(448,792)
(Decrease) increase in net OPEB obligations	
Net OPEB obligation (asset) June 30, 2012	_____
Net OPEB obligation (asset) June 30, 2013	_____

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B - A)/C]
6/30/2009		\$3,880,724	\$3,880,724		\$2,260,873	171.65%
6/30/2010	\$275,120	4,625,866	4,350,746	5.95%	2,812,455	154.70%
6/30/2011	501,941	5,419,061	4,917,120	9.26%	3,264,416	150.63%

In the January 1, 2011 actuarial evaluation, the entry age actuarial cost method was used. The actuarial assumptions include 7.50% investment rate of return and payroll increases of 3.25% per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

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, presented as required supplementary information, presents three-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for plan benefits.

Following is a schedule of funding progress:

Fiscal year ended June 30	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$448,792	\$448,792	100%	\$0
2012	258,844	358,844	100%	0
2011	310,141	310,141	100%	0

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 11 –PUBLIC ENTITY RISK POOLS

Fire Agencies Self Insurance System

Effective September 1993, the Department was self-insured for workers' compensation coverage as a member of the Fire Agencies Self-Insurance System (the "System"). The System is a public Authority risk pool created pursuant to a joint powers agreement between the approximately 200 member fire agencies. The System manages one pool for all member agencies. Each member pays an annual premium to the System based on the number of personnel, and estimated dollar amount of payroll and an experience factor. At fiscal year-end, when actual payroll expenses are available, an adjustment to the year's annual premium is made. The System reinsures through a commercial carrier for claims in excess of \$500,000 for each insured event. The System is not a component entity of the Authority for purposes of Government Standards Board Statement No. 14. The most recent condensed financial information (unaudited) for the System is as of June 30, 2012:

Total assets	\$50,264,911
Total liabilities	<u>30,742,424</u>
Fund equity	<u>\$19,522,487</u>
Total operating revenues	\$8,402,469
Total operating expenses	<u>9,891,253</u>
Operating income (loss)	(1,578,784)
Non-operating revenue	<u>(510,437)</u>
Net income (loss)	<u>(\$1,068,347)</u>

The basis for estimating the accrued liability for future claims and claims incurred but not reported (IBNR) is based on actuarial review of the workers' compensation program. Estimated outstanding losses, including allocated loss adjusting expenses (ALAE) as of June 30, 2012, are the cost of unpaid claims. The estimated outstanding losses include case reserves and a provision that includes development of known claims and late reported claims, collectively referred to as IBNR. All other ALAE are the direct settlement expenses for specific claims, primarily legal expenses. The actuarial consultants estimated the outstanding liability for future claims, ALAE, and IBNR to be \$30,645,495 at the expected level discounted for present value. Components of the liability represent:

Unpaid claims and claim adjustment expenses at June 30, 2011	<u>\$28,066,933</u>
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	6,422,388
Increases in provisions for insured events of prior fiscal years	<u>1,387,261</u>
Total incurred claims and claim adjustment expenses	7,809,649
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	1,011,218
Claims and claim adjustment expenses attributable to insured events of the prior fiscal years	<u>4,219,869</u>
Total payments	<u>5,231,087</u>
Unpaid claims and claim adjustment expenses at June 30, 2012	<u>\$30,645,495</u>

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 11 –PUBLIC ENTITY RISK POOLS (Continued)

Fire Agencies Insurance Risk Authority

Effective July 1, 1989 Ross Valley Fire Department was self-insured for property damages and general liability coverage as a member of the Fire Agencies Insurance Risk Authority (the "Risk Authority"). The Risk Authority is a public Authority risk pool created pursuant to a joint powers agreement between approximately 100 member fire agencies. The Risk Authority manages one pool for all member agencies. Each member pays an annual premium to the Risk Authority based on an actuarial calculation. The Risk Authority purchases first dollar coverage for general liability, auto liability, auto physical damage and property, from the American Alternative Insurance Company, a subsidiary of the Glatfelter Insurance Group. The Risk Authority's current policy through American Alternative Insurance Company is in force through June 30, 2012. Currently the Risk Authority continues to be fully insured for all lines of coverage including: General Liability, Auto Liability, Property, Director and Officers Errors and Omissions, and Medical Malpractice. The Risk Authority is not a component entity of Ross Valley Fire Department for purposes of Government Accounting Standards Board Statement No. 14.

The most recent condensed financial information (unaudited) for the System is as of June 30, 2012:

Total assets	\$3,000,813
Total liabilities	65,742
Fund equity	<u>\$2,935,071</u>
Total operating revenues	\$2,746,215
Total operating expenses	2,714,166
Operating income	<u>32,049</u>
Non-operating revenue	92,744
Net income	<u>\$124,793</u>

NOTE 12 – CONTINGENCIES

On February 4, 1991, the Department was awarded a judgment of \$464,000, plus interest, relating to embezzlements committed by a former employee over several years. On July 18, 2006 the judgment was renewed to extend the period of enforceability through to July 17, 2016 and the total renewed judgment was \$277,567. As of June 30, 2013, the balance owed is \$467,550 which includes interest of \$191,984 at 10% per annum. This receivable is not recorded in the accompanying Statement of Net Assets.

The Department is involved in various other claims and litigation arising in the ordinary course of business. Department management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters will not have a materially adverse effect on the Department's financial position or results of operations.

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REQUIRED SUPPLEMENTARY INFORMATION

ROSS VALLEY FIRE DEPARTMENT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental :				
Town of San Anselmo (Contract)	\$2,703,000	\$2,703,000	\$2,623,650	\$79,350
Town of Fairfax (Contract)	1,553,525	1,553,525	1,507,925	45,600
Sleepy Hollow (Contract)	853,438	853,438	828,388	25,050
County of Marin (Contract)	127,043	127,043	127,043	
Town of Ross (Contract)	1,557,525	1,557,525	1,557,507	18
Ross Apprentice Program	207,880	112,572	112,572	
Prior Authority:				
Side fund payment	534,768	522,746	522,746	
Compensated absences	50,000	50,000	50,000	
Retiree health	150,768	163,031	162,788	243
MERA Bond	38,194	38,194	38,194	
Debt service contributions	88,383	88,383	88,383	
Other sources	266,387	473,908	552,614	(78,706)
Charges for services	75,700	87,500	105,085	(17,585)
Investment earnings	2,000	2,000	1,757	243
Miscellaneous	7,500	7,500	4,964	2,536
Total Revenues	8,216,111	8,340,365	8,283,616	56,749
EXPENDITURES:				
Current:				
Salaries and benefits	6,521,337	6,632,325	6,486,003	146,322
Services and supplies	1,092,408	1,039,097	976,843	62,254
Debt service:				
Principal	538,382	525,795	525,795	
Interest	82,558	83,123	82,322	801
Capital Outlay	68,426	68,426	56,840	11,586
Total Expenditures	8,303,111	8,348,766	8,127,803	220,963
Excess of expenditures over revenues	(\$87,000)	(\$8,401)	155,813	(\$164,214)
Fund balances - beginning of year			727,472	
Fund balances - end of year			\$883,285	

**ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2013**

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**ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2013

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MEMORANDUM ON INTERNAL CONTROL

To Board of Directors of
the Ross Valley Fire Department
San Anselmo, California

We have audited the basic financial statements of the Ross Valley Fire Department for the year ended June 30, 2013, and have issued our report thereon dated August 16, 2013. In planning and performing our audit of the basic financial statements of the Ross Valley Fire Department, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify certain deficiencies in internal control that we consider to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the Department.

Management responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
August 16, 2013

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2013 - 1: Evidence Of Bank Reconciliation Preparer And Reviewer

Criteria: Bank reconciliations should have a documentary trail indicating the initials or signature of the preparer and reviewer and date of completion from both employees. This is to ensure that there are two separate employees preparing and reviewing the bank reconciliations in a timely manner.

Condition: We understand that the Department's procedure is to reconcile the bank account within 30 days from receipt of the bank statement, however, the June 2013 bank reconciliation did not indicate who prepared, reviewed or documented the completion dates .

Effect: Segregation of duties is an effective internal control because it reduces the risk of mistakes and errors. Without documentation from the preparer and reviewer we were unable to determine if the bank reconciliation was completed by separate employees in a timely manner.

Cause: The Department appears to have been preparing and reviewing timely, however, was not aware that documenting their initials or signatures and dates were needed.

Recommendation: We recommend that the Department implement procedures to ensure that each preparer and reviewer of the bank reconciliation documents their initials or signature and date of completion.

Management response: Procedures have been implemented to ensure that each preparer and reviewer of the bank reconciliation documents initial and date the documents upon completion.

2013 - 2: Cash Receipt Location

Criteria: Customer payments including checks and cash should be stored in a lock box or drawer at all times. Only authorized employees should have access to the key.

Condition: The Department receives cash and check payments over the counter at the Administration office and places the receipts in an un-locked drawer.

Cause: The Department has not established a location to properly place the cash receipts.

Effect: Interception of cash can go undetected.

Recommendation: We recommend that the Department implement a lock box or drawer when receiving customer payments. In addition, only authorized employees should have access to the key and the key should be in a secured location.

Management response: A secured drop box has been purchased and will be installed. All payments upon receiving will be placed in the drop box. The policy for receiving payments will be updated to include authorized employees which have access to the key and procedures for the placement of the key in a secured location.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you abreast of developments:

EFFECTIVE FISCAL 2014:

GASB Statement 65 – *Items Previously Reported as Assets and Liabilities*

This Statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and certain items that were previously reported as assets and liabilities recognizes as outflows of resources or inflows of resources.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Statement No. 63 established the financial statement presentation for deferred inflows and deferred outflows, and Statement No. 65 makes other changes and defines certain transactions subject to this new presentation.

GASB Statement 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement removes the GASB Statement No. 10 provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 67 – Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25

This statement is applicable when a Trust arrangement is established to hold the employer contributions prior to payment to the retirees (i.e. funding changes to prefunding rather than the current pay-as-you-go funding).

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

EFFECTIVE FISCAL 2015:

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have material impact on the Department's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) **(Continued)**

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).
- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

GASB 69 – Government Combinations and Disposals of Government Operations

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees (Continued)

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods **beginning after June 15, 2013**. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

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REQUIRED COMMUNICATIONS

August 16, 2013

To the Board of Directors of
the Ross Valley Fire Department
San Anselmo, California

We have audited the basic financial statements of the Ross Valley Fire Department (Department) for the year ended June 30, 2013. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Department are described in Note 1 to the financial statements. The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 60 – *Accounting and Financial Reporting for Service Concession Arrangements*

GASB 61 – *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*

GASB 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

The following pronouncement became effective, and required a format change in the Statement of Net Assets and certain nomenclature revisions in the footnotes accompanying the financial statements.

GASB 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. *Concepts Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Department’s financial statements was:

- *Estimated Fair Value of Investments:* As of June 30, 2013, the primary government of the Department, held approximately \$1 million of cash and investments, as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2013. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2013.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity’s financial reporting process.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated August 16, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Department’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the required supplementary information accompanying the financial statements, we 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 did not express an opinion nor 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.

This information is intended solely for the use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Mage & Associates

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