SACRAMENTO METROPOLITAN FIRE DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

SACRAMENTO METROPOLITAN FIRE DISTRICT

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Richardson & Company

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sacramento Metropolitan Fire District
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and General Fund of the Sacramento Metropolitan Fire District (the District), as of and for the year then ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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. We also conducted our audit in accordance with 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 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 as of June 30, 2012 and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012 on our consideration of the District's internal control over financial reporting and 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 the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Sacramento Metropolitan Fire District
Board of Directors

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

Richardson & Company

December 20, 2012

SACRAMENTO METROPOLITAN FIRE DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The discussion and analysis of Sacramento Metropolitan Fire District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements.

DISTRICT OVERVIEW

The Sacramento Metropolitan Fire District (District) is an independent special district created more than 11 years ago as a consolidation of 16 predecessor fire agencies, some founded as early as the 1920s. Upon the establishment of the District, it became the largest fire district in the County of Sacramento (County) and the seventh largest in the State of California (State). The District's service area contains both incorporated cities and unincorporated areas of the County, with only the cities of Sacramento, Folsom, and Elk Grove still providing their own fire protection services. Its service area covers 411 square miles, including Mather and McClellan Fields, former United States Air Force bases, now converted into commercial/business uses.

Fire protection and life safety services are provided to more than 655,000 residents. These services include: fire suppression, fire prevention (inspections, investigations, and building plan review), public education services, emergency medical advanced life support services (EMS), rescue services, and hazardous material response. The District responds to approximately 80,000 emergency calls annually. Because the majority of emergency calls are medical in nature, all firefighters are also certified as paramedics or emergency medical technicians (EMT).

Currently, the District has 629 authorized employees, which is 165 employees fewer than pre-recession staffing levels.

All of these resources are in place to carry out the District's mission of providing professional and compassionate protection, education and service to the community.

GOVERNANCE

A nine-member board of directors (Board) governs the District. The Board is responsible for establishing District policies, adopting the annual budget, and for appointing the fire chief. Board members are elected to four-year staggered terms, by resident voters within nine geographical divisions. In April 2011, the Board promoted Kurt P. Henke to the position of Fire Chief. Chief Henke uses more than 30 years of fire service experience to oversee all aspects of the District's fire protection and life safety services.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements.

The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities which provide broad financial information and present a longer-term view of the District's finances. These statements are reported using the *accrual basis of accounting* which is similar to the accounting used by most private sector companies. All of the District's assets and liabilities are included in these statements, with the difference between the two reported as net assets. Revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of related cash flows. These two statements report the District's net assets and changes in them. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the District is improving or deteriorating.

The governmental fund financial statements are comprised of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances which focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. These statements present a detailed short-term view of the District's operations and services. The *modified accrual basis of accounting* is used to measure cash and all other financial assets that can readily be converted into cash. It helps determine the availability of financial resources that can be spent in the near future to finance the District's programs.

The District adopts an appropriated budget for its governmental fund and actual to budget comparisons are shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual. This required supplementary information demonstrates budget compliance. The remaining statements provide financial information about activities for which the District acts as trustee for the benefit of those outside the District.

Financial statement notes are an important part of the basic financial statements. They provide the readers additional information required by Generally Accepted Accounting Principles (GAAP).

FINANCIAL HIGHLIGHTS

- ❖ During the year, the District had expenses that were $13.3 million more than the $149 million generated in tax and other revenues for governmental programs.
- ❖ Labor agreed to various concessions amounting to more than $7.8 million, most of which came from employees contributing 9% of their pay to fund retirement benefits.
- ❖ The District issued $12.96 million of net lease revenues bonds, the bulk of which was used to cover the costs of purchasing the headquarters building and improvements while the rest will be used to pay for firefighting and computer equipment.

- The District was awarded two major grants: Staffing for Adequate Fire and Emergency Response (SAFER) Grant of $5.5 million, which funds 24 firefighters to staff two fire trucks; and the Simulator Grant for $4 million, which funds the design and implementation of a training facility that will simulate major disasters, such as earthquake, flood and wildfires.

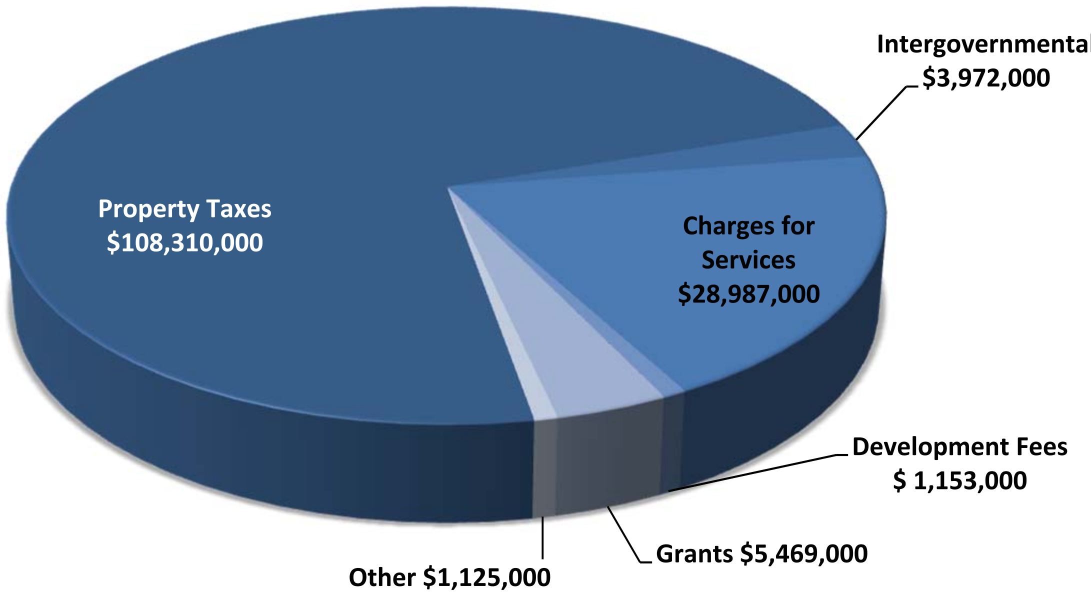
REVENUES

Funding for the services provided by the District primarily comes from property taxes which averaged 77% of total revenues for the last three years. This makes the District vulnerable to economic downturns affecting the real estate market. Other large revenue sources are charges for services and grant revenue. A summary of the District's Revenue Sources is presented below:

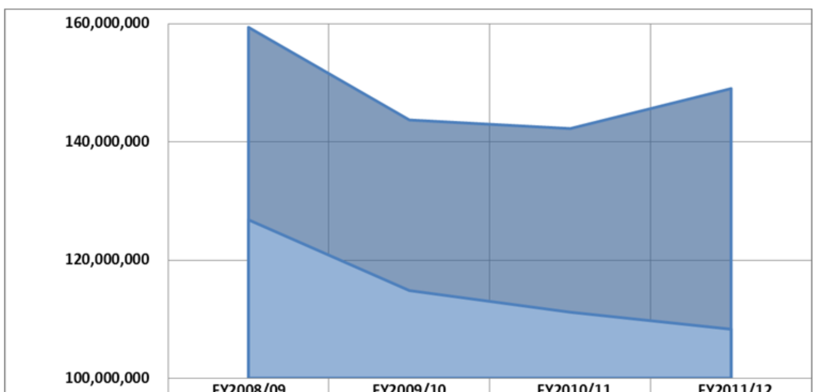
CONDENSED STATEMENT OF REVENUES BY SOURCE
FISCAL YEARS ENDED JUNE 30, 2011 AND 2012
(in thousands)

	2011	2012	Change 2011 to 2012	% of Change
General revenues				
Property taxes & assessments	$ 111,184	$ 108,310	$ (2,873)	(2.6%)
Intergovernmental	3,366	3,972	607	18.0%
Use of money & property	101	718	618	613.9%
Miscellaneous	293	442	149	51.0%
Gain (loss) disposal of assets	(132)	(45)	87	(66.1%)
Total general revenues	114,812	113,398	(1,414)	(1.2%)
Program revenues				
Charges for services	25,852	28,987	3,135	12.1%
Development fees	671	1,153	482	71.8%
Capital grants, operating grants, contributions	903	5,469	4,566	505.6%
Other	8	9	1	6.2%
Total program revenues	27,434	35,618	8,184	29.8%
Total revenues	$ 142,246	$ 149,016	$ 6,770	4.8%

REVENUE SOURCES FY2011/12



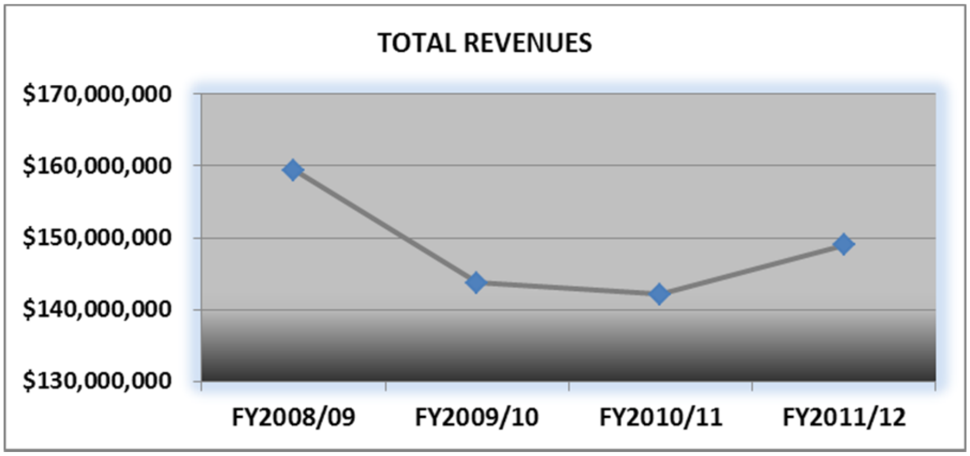
Since 2008, property values in the District's service areas have declined, resulting in reduced property tax revenues and forcing the District to reduce historic service levels. The property tax revenue for fiscal year 2011/12 dropped by $2.9 million for a total annual property tax loss of $21 million since 2008. In response, steps were taken in fiscal year 2009/10, 2010/11 and 2011/12 to address the huge drop in revenue. Cost saving measures was implemented and new revenue sources were pursued.



	FY2008/09	FY2009/10	FY2010/11	FY2011/12
TOTAL REVENUE	159,376,514	143,706,445	142,246,616	149,015,890
PROPERTY TAXES	126,816,416	114,845,031	111,181,890	108,310,445

To mitigate property tax losses, revenue enhancements have been put into place by increasing emergency medical services provided directly by the District and cost-recovery fees. Charges for services was up $3.1 million in fiscal year 2011/12 as a result of reducing the scope of ambulance services provided through a contract with American Medical Response, and instead using internal District resources. Fee increases were also put in place effective July 1, 2011 to better recover the cost of ambulance service. In addition, the District's active grant program garnered awards amounting to $5.5 million in fiscal year 2011/12. The majority of the awards came from a $5.5 million two-year federal grant, "Staffing for Adequate Fire and Emergency Response," awarded to the District in May 2011. This grant provides funding for 24 new firefighters to staff two fire trucks, but funding will expire in May of 2013.

Due primarily to the efforts noted above with respect to ambulance transports and aggressively seeking grant revenues, the District's total revenues in FY2011/12 increased by $6.8 million. However, this is still $15.2 million below pre-recession revenue.



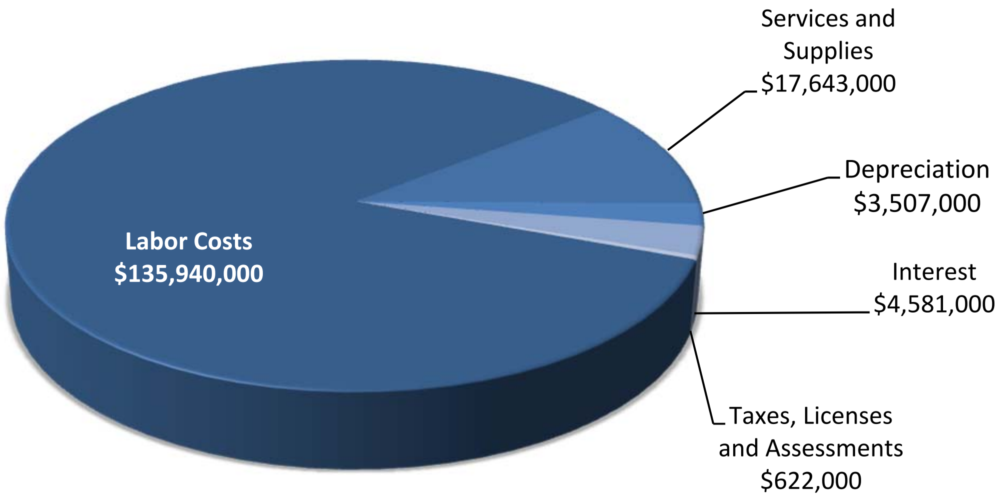
EXPENSES

A majority of the District's expense is from salaries and related benefits which comprise about 84% of total expenses. A summary of the District's expenses is presented below:

CONDENSED STATEMENT OF EXPENSES
FISCAL YEARS ENDED JUNE 30, 2011 AND 2012
(in thousands)

	2011	2012	Change 2011 to 2012	% of Change
Public protection				
Salaries and benefits	$ 129,058	$ 125,519	$ (3,539)	(2.7%)
Other Post Employment Benefits	10,027	10,421	394	3.9%
Services, supplies and materials	13,728	17,643	3,915	28.5%
Other	1,983	622	(1,362)	(68.7%)
Total public protection	154,796	154,205	(592)	0.4%
Interest	4,139	4,581	442	10.7%
Depreciation	3,864	3,507	(357)	(9.2%)
TOTAL EXPENSES	$ 162,799	$ 162,293	$ (508)	(0.3%)

EXPENSES FY2011/12



In order to avoid incurring further deficits, the District was forced to close one station and brown out two engine companies in fiscal year 2011/12. Management is making every effort to minimize the impact to the citizens by putting in place a strategic service delivery model. The model works to shorten dispatch time by strategically changing ambulance locations, leveraging technology, decentralizing training, and implementing dynamic movement of emergency units for maximum coverage. Within months of the station closing and engine brown outs, the District also assigned advance life support services to every fire engine.

The most significant actions taken to balance the District's budget were reducing labor costs:

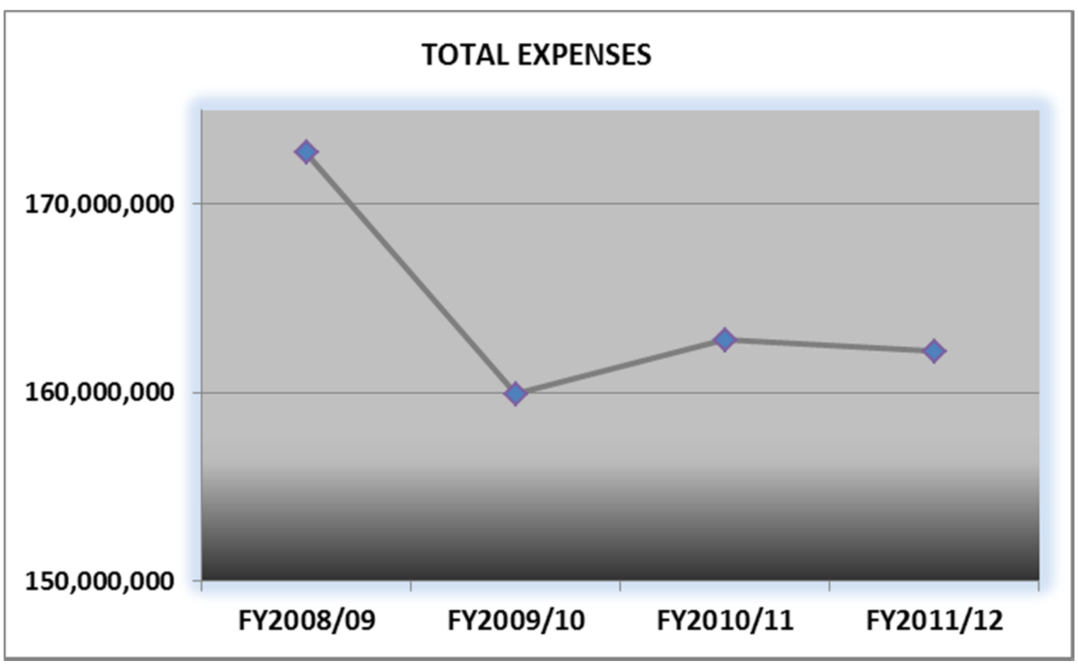
- Existing labor contracts were reopened in fiscal year 2010/11 to seek employee concessions. Management and labor agreed to a package of concessions that will generate a savings of $28 million over a three-year contract period.
    - District employees agreed to provide 12% funding to retirement benefits, which results in a commensurate reduction in take-home pay. The deductions are being phased in with the first change beginning in the last quarter of fiscal year 2010/11, more changes were phased in during fiscal year 2011/12 and the full 12% contribution began in fiscal year 2012/13. Concessions were also made to lower the rate of pay for overtime and callback pay.
    - Cost of living wage increases were eliminated in the current labor contracts.
    - Additionally, a second-tier of lower benefits for vesting in retiree medical has been instituted for new hires. This will lower the long-term other post-retirement benefits (OPEB) costs incurred by the District.
- The pay package for the position of Fire Chief was reduced, with the current contract representing a 21% reduction in total compensation compared to his predecessor's pay package, saving the District $89,000 annually.

No safety positions were cut. In fact, to replace retiring firefighters and to put in federally funded safety positions, 53 firefighters were hired from three different fire academies. By replacing retiring firefighters and closing fire stations, the District lowers overtime expenses.

A significant commitment of the District to its retired employees is the provision of postemployment healthcare benefits. Government Accounting Standards Board (GASB) 45 requires employers to expense in its Statement of Activities the annual cost of OPEB. The District's OPEB costs in the current fiscal year increased by 3.9% to $10.4 million, of which $6.2 million was funded in the current year. During fiscal-year 2011/12, Senior Management began contributing a portion of their pay towards OPEB costs. In addition, management and labor are currently meeting in a cooperative effort to make further labor concessions with the savings directed to prefund OPEB costs. As of June 30, 2012, the District had set aside $1.8 million for payment of future post-employment medical benefits. Shortly after fiscal-year end management set up an OPEB trust depositing the $1.8 million in the trust. This will allow trust investment earnings to contribute toward lowering OPEB costs.

Many of the aforementioned budget-saving efforts reduced operating costs. In FY2011/12, labor costs decreased by $3.1 million (or 2.3%) when compared to the prior fiscal year. In current negotiations, Management is seeking additional labor concessions from its employees.

The cost reduction efforts noted above kept the cost of public protection services in check, decreasing $592,000 (or 0.4%). The District did not cover this year's costs and had to draw on its reserves to fully balance the budget.



Economic analyses show the Sacramento region still faces serious economic woes. The District is anticipating further reductions in property tax revenue in fiscal year 2012/13. While recent improvement in the real estate market is encouraging, any property tax revenue recovery will not materialize sooner than fiscal year 2013/14.

In the meantime, the District is making tough decisions in challenging economic times. Management is working with employees to reduce costs and replace lost revenue by using fees to recover costs, where appropriate. The current results show financial progress in the short-term, while long-term projections are showing serious financial issues. To address those issues and their impacts on public safety services, the District recently formed a Citizens Advisory Committee consisting of leaders from throughout the community to advise the Fire Chief and his management team on strategies toward financial sustainability. In addition, the Board of Directors, Management, Labor and employees are working collaboratively on this issue as well, all in an effort to continue serving the public's interests.

NET ASSETS

The condensed Statement of Net Assets below show the District continues to face financial challenges as indicated by a significant decline in net assets in fiscal years 2011/12.

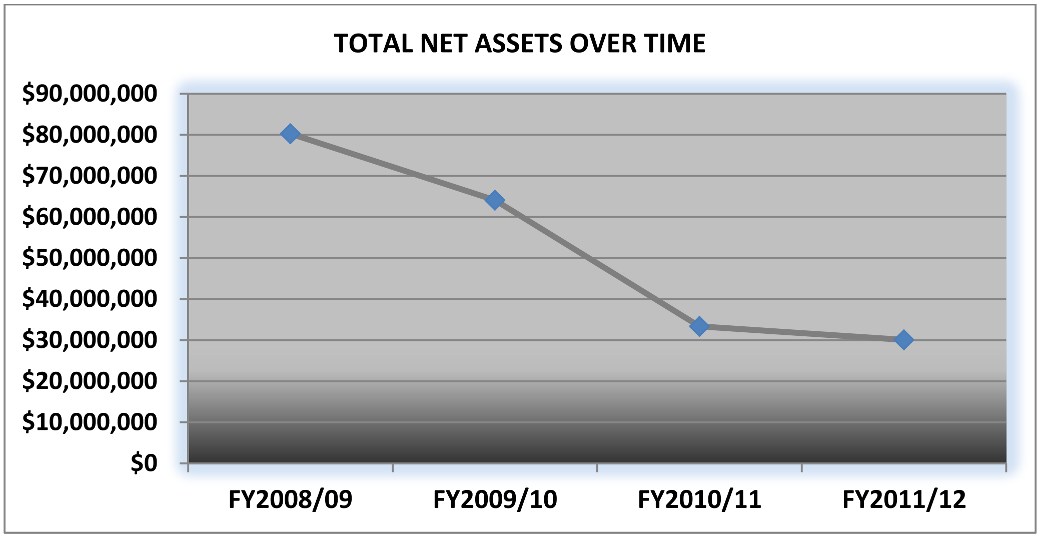
CONDENSED STATEMENT OF NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2011 AND 2012
(in thousands)

	2011	2012	Change 2011 to 2012	% of Change
Assets:				
Current and other	$ 40,311	$ 59,198	$ 18,887	46.9%
Pension asset	72,408	72,712	304	0.4%
Capital assets	91,374	90,152	(1,223)	(1.3%)
Total Assets	204,093	222,062	17,969	8.8%
Liabilities:				
Current	19,393	33,191	13,798	71.1%
Long-Term	141,330	158,779	17,449	12.3%
Total Liabilities	160,723	191,970	31,247	19.4%
Net Assets:				
Investment in capital net of related debt	80,148	69,132	(11,016)	(13.7%)
Restricted	2,901	9,507	6,605	227.7%
Unrestricted	(39,679)	(48,547)	(8,868)	22.3%
TOTAL NET ASSETS	$ 43,370	$ 30,092	$ (13,277)	(30.6%)

Unrestricted net assets, which can be used to finance day-to-day operations without constraints, decreased $8.9 million resulting in a $48.5 million deficit. This deficit is caused by declining property tax revenue and the inclusion of post-retirement medical costs in the operating expenses. Restricted net assets, on the other hand, increased by $6.6 million resulting in a surplus of $9.5 million, the bulk of which can only be used for capital outlay expenses and debt service. As a whole, the District's total net assets decreased by $13.3 million which indicates a deterioration of the District's overall financial condition.

CHANGES IN NET ASSETS
(in thousands)

	2011	2012
Total revenues	$ 142,246	$ 149,015
Total expenses	(162,947)	(162,293)
Deficiency/Change in net assets	(20,701)	(13,278)
Beginning net assets	64,071	43,370
Ending Net Assets	$ 43,370	$ 30,092



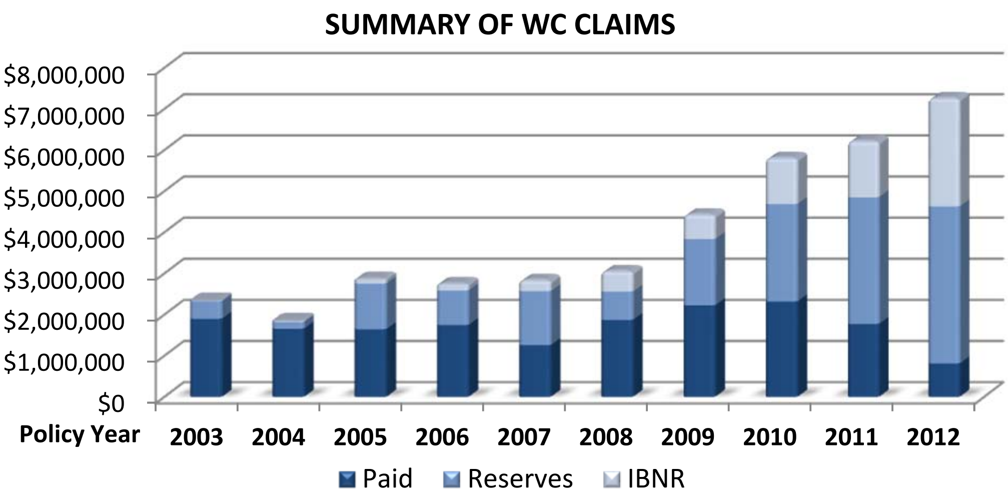
ASSETS

Current and Other Assets increased by $18.9 million in fiscal year 2011/12 due to remaining unspent bond proceeds and payment deferral of retirement contributions. Pension and capital assets remained virtually unchanged. Capital assets are more thoroughly discussed in a later section.

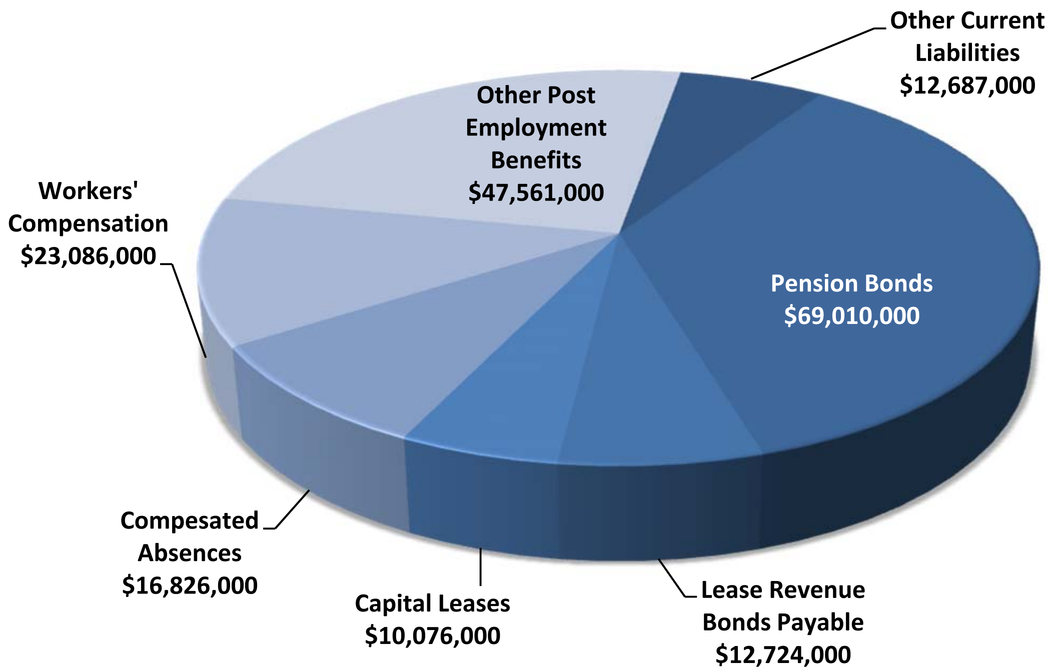
LIABILITIES

Current liabilities include amounts for trade payables, salaries and benefits payable, deferred and unearned revenue, accrued interest payable and debt principal due within one year. Those amounts increased by a total of $13.8 million in fiscal year 2011/12 mainly due to the deferral of retirement contributions and large accruals. Long-term liabilities include the capital leases, bonds, compensated absences, OPEB liability and workers' compensation liability. The District is currently funding retiree benefits on a "pay as you go basis." In fiscal year 2011/12, $6.2 million was spent on retiree benefits. The difference between the annual required contribution (ARC) and the "pay as you go" payments was added to the OPEB liability which is at $47.6 million as of June 30, 2012.

The District is self-insured for workers' compensation claims and its liability is actuarially determined. Claim liabilities and related expenditures are reported when it is probable that a loss has occurred and the loss amount can be reasonably estimated. The liability for workers' compensation claims on June 30, 2012 was $23.1 million. Due to the nature of workers' compensation claims, which can take years to develop, the liability arose from claims in various policy years. Below is a graphical presentation of the District's claim losses by policy year since 2003, which reflects how much is still outstanding for each year.



The breakdown of the District's liabilities is as follows:



GENERAL FUND BALANCE AND BUDGETARY HIGHLIGHTS

The District's budget is prepared using *modified accrual basis* used in governmental fund accounting which focuses on near-term inflows and outflows of spendable resources. As such, the budget to actual is significantly more favorable than the *full accrual* government-wide financial statements discussed earlier in the Management's Discussion and Analysis. For example, the governmental fund reflects only post-retirement medical costs paid out during the fiscal year, which is $10.4 million less than costs recognized in the *full accrual basis* financial statements.

Budgetary fund variances are monitored by the Board of Directors at each monthly Finance Committee meeting. During the year, the District Board revises its budget when necessary, as new information is available. The District governmental fund final budget forecasted for a $4.8 million (*modified accrual basis,* see page 4*)* surplus due to receiving lease revenue bond proceeds. Actual results had a more favorable $13.7 million surplus. Actual revenues were $3.5 million over the revised final budget, while overall expenditures were $5.4 million below budget for a favorable variance of $8.9 million. This variance is due to better than expected property tax revenues and medic cost recoveries. In addition, successful implementation of various cost cutting programs along with certain debt service costs reclassified to restricted cash and investments, kept expenditures well under budget. As the District completed the year, its governmental fund balance is $40.6 million including the $13.7 million increase from fiscal year 2011/12 actual results. A comparison of the District's original and final budget as well as the actual governmental fund results appears on page 18 of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2011/12, the District had $90.2 million invested in a broad range of capital assets, including buildings, fire stations, and various pieces of equipment. This amount represents a net decrease of about $1.2 million, or 1.3%, from last year.

CAPITAL ASSETS AT YEAR-END
NET OF DEPRECIATION
(in thousands)

	2011	2012
Land	$ 21,952	$ 23,131
Construction in progress	20,382	2,797
Building and improvements	33,043	39,272
Equipment	15,997	24,952
Totals	$ 91,374	$ 90,152

The District owns 42 fire stations: 37 fire stations for fire suppression/EMS responses, one station for air operations, and four stations closed for cost savings. The District also owns its headquarters building, a fire prevention/supply warehouse building, a training facility, a fleet maintenance shop, and two surplus office buildings.

District resources include more than 330 vehicles and units of equipment consisting of fire engines, fire trucks, ambulances, a hazardous materials truck, aerial ladder trucks, an aerial platform truck, rescue boats, one heavy rescue unit, two firefighting rescue helicopters, a bulldozer, a decontamination unit and multiple support staff vehicles.

Funding for infrastructure historically has come from development fees. With the virtual halt of construction in the area, the District was unable to fund infrastructure improvements and replacements in its usual way. To begin funding the District's aging infrastructure and fire service apparatus needs, $11.2 million in debt was incurred in fiscal year 2010/11, and another $13 million was incurred in fiscal year 2011/12. A large portion of the fiscal year 2011/12 debt proceeds repaid the District's reserves which had been advanced to purchase the headquarters building. Offsetting the fiscal year 2011/12 debt service payments is lease revenue from the District's new tenant sharing space in the District's headquarters building located on the former Mather Air Force Base in Rancho Cordova.

District operations were relocated to the headquarters building at the end of calendar year 2011. The move allowed a consolidation of all Administrative Staff to one location for maximum efficiency and staff coordination. When fully executed, the leasing of the two office buildings formerly occupied by the District will generate positive cash flow for further reinvestment in infrastructure replacement. Despite these efforts, the District is still unable to fully meet its infrastructure needs and is continuing to defer other needed facilities projects and equipment replacement. Additional detail regarding capital assets is located in Note C of the financial statements.

DEBT ADMINISTRATION

The following table summarizes the long-term debt for the last two years:

OUTSTANDING DEBT AT YEAR-END
(in thousands)

	2011		2012	
Pension bonds payable	$	69,483	$	69,010
Lease revenue bonds payable		-		12,724
Note payable		75		-
Capital leases		11,226		10,076
Totals	$	80,784	$	91,810

New debt resulted mainly from issuing lease revenue bonds for covering the costs of the District's new headquarters, as well as the purchase of various pieces of equipment. In conjunction with the December 2011 debt issuance, Standard and Poor's rated the District's credit as a favorable AA-.

The District budget includes bi-annual principal and interest payments. In addition, the District has a policy that requires setting aside of an annual deposit payment for the eventual extinguishment of the Pension Bond Series B and C, in 2018 and 2025, respectively. Additional detail regarding long-term debt is located in Note E of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected and appointed officials considered many factors in setting a fiscally conservative budget while ensuring that mission critical expenditures are maintained. Principal among these factors is property tax revenue. As property values in the District's service areas have plummeted, so has the related property tax revenues. The upcoming fiscal year assumes $26 million less in property tax revenues than the District's budget five years ago. To counteract this decline, efforts have been made to recover medic costs and inspection fees. Cost containment efforts also include salary and benefit concessions by all staff members, amounting to $9.6 million to help fund current service levels.

The District is also establishing the Single Role Paramedic Program (SRPP), which will end a contract with an outside ambulance service and replace it with ambulances staffed with District's EMT/Paramedic personnel. SRPP is leveraging existing resources to recover at least $2.6 million in costs per year over and above the needed SRPP labor and other costs.

The District is carefully monitoring various factors and is taking proactive steps to further address the current budget challenges.

OBTAINING ADDITIONAL INFORMATION

These financial reports are intended to provide the District's elected officials, citizens, investors, and creditors with a general overview of the District's financial condition and an accounting of the public's money. If you have questions about this report or need more financial information, contact the District's Chief Financial Officer at 10565 Armstrong Avenue, Mather, CA 95655. More information on the District's operations can also be found at www.metrofire.ca.gov.

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2012

	General Fund	Adjustments (Note L)	Statement of Net Assets
ASSETS			
Cash and investments	$ 35,138,730		$ 35,138,730
Receivables, net of allowance for uncollectibles:			
Medic fees receivable	5,932,473		5,932,473
Interest receivable	25,991		25,991
Taxes receivable	2,590,709		2,590,709
Other receivables	231,466		231,466
Due from other governments	2,827,744		2,827,744
Inventory	2,658,064		2,658,064
Prepaid costs and other assets	180,447	$ 261,171	441,618
Restricted cash and investments	9,351,034		9,351,034
Pension asset		72,712,222	72,712,222
Capital assets:			
Not being depreciated		25,928,103	25,928,103
Being depreciated, net		64,223,751	64,223,751
TOTAL ASSETS	$ 58,936,658	163,125,247	222,061,905
LIABILITIES			
Accounts payable and accrued expenses	4,623,251		4,623,251
Salaries and benefits payable	7,296,546		7,296,546
Deferred and unearned revenue	6,000,462	(6,000,462)	
Accrued interest payable	29,427	737,336	766,763
Long-term liabilities:			
Due within one year	406,453	20,098,022	20,504,475
Due in more than one year		158,778,743	158,778,743
TOTAL LIABILITIES	18,356,139	173,613,639	191,969,778
FUND BALANCES/NET ASSETS			
Fund balance:			
Nonspendable	2,839,011	(2,839,011)	
Restricted	9,506,509		
Committed	17,050,211	(17,050,211)	
Unassigned	11,184,788	(11,184,788)	
Total fund balances	40,580,519	(31,074,010)	
TOTAL LIABILITIES AND FUND BALANCES	$ 58,936,658		
Net assets:			
Invested in capital assets, net of related debt		69,132,217	69,132,217
Restricted			9,506,509
Unrestricted		(48,546,599)	(48,546,599)
TOTAL NET ASSETS		$(10,488,392)	$ 30,092,127

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

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2012

	General Fund	Adjustments (Note L)	Statement of Activities
PROGRAM REVENUES			
Charges for services	$ 28,645,724	$ 341,301	$ 28,987,025
Development fees	1,152,633		1,152,633
Operating grants and contributions	4,749,327	719,351	5,468,678
Fines, forfeitures, and penalties	9,675		9,675
TOTAL PROGRAM REVENUES	34,557,359	1,060,652	35,618,011
EXPENDITURES/EXPENSES			
Current:			
Public protection	137,989,415	16,216,377	154,205,792
Capital outlay	2,735,359	(2,735,359)	-
Debt service:			
Principal	2,964,698	(2,964,698)	-
Interest and financing costs	3,586,802	993,420	4,580,222
Depreciation		3,507,341	3,507,341
TOTAL EXPENDITURES/EXPENSES	147,276,274	15,017,081	162,293,355
NET PROGRAM EXPENSE	(112,718,915)	(13,956,429)	(126,675,344)
GENERAL REVENUES			
Property taxes and assessments	108,148,609	161,836	108,310,445
Intergovernmental	4,269,772	(297,369)	3,972,403
Use of money and property	521,826	196,397	718,223
Miscellaneous	442,397		442,397
Loss on disposal of assets		(45,589)	(45,589)
TOTAL GENERAL REVENUES	113,382,604	15,275	113,397,879
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	663,689	(13,941,154)	(13,277,465)
OTHER FINANCING SOURCES:			
Proceeds from debt	13,045,925	(13,045,925)	-
Proceeds from sale of assets	12,700	(12,700)	-
SOURCES (USES)	13,058,625	(13,058,625)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	13,722,314	(26,999,779)	(13,277,465)
Fund balance/net assets, beginning of year	26,858,205	16,511,387	43,369,592
FUND BALANCE/NET ASSETS, END OF YEAR	$ 40,580,519	$ (10,488,392)	$ 30,092,127

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

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
REVENUES				
Taxes and assessments	$ 113,830,837	$ 107,078,640	$ 108,148,609	$ 1,069,969
Intergovernmental	10,974,785	9,002,799	9,019,099	16,300
Charges for services	22,988,716	26,905,389	28,645,724	1,740,335
Development fees	800,000	1,000,000	1,152,633	152,633
Use of money and property	598,115	399,767	521,826	122,059
Fines, forfeitures, and penalties	6,870	6,900	9,675	2,775
Miscellaneous	69,577	55,300	442,397	387,097
TOTAL REVENUES	149,268,900	144,448,795	147,939,963	3,491,168
EXPENDITURES				
Current:				
Public protection				
Salaries and personnel	121,105,252	119,227,976	120,307,666	(1,079,690)
Services and supplies	16,608,359	18,695,295	17,512,398	1,182,897
Other	170,007	277,311	169,351	107,960
Capital outlay	10,782,384	4,559,173	2,735,359	1,823,814
Debt service:				
Principal	3,362,912	4,883,120	2,964,698	1,918,422
Interest and financing costs	7,830,656	5,012,744	3,586,802	1,425,942
TOTAL EXPENDITURES	159,859,570	152,655,619	147,276,274	5,379,345
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	(10,590,670)	(8,206,824)	663,689	8,870,513
OTHER FINANCING SOURCES				
Proceeds from debt	13,100,000	13,045,926	13,045,925	(1)
Proceeds from sale of assets	1,250	1,300	12,700	11,400
TOTAL OTHER FINANCING SOURCES	13,101,250	13,047,226	13,058,625	11,399
NET CHANGE IN FUND BALANCE	$ 2,510,580	$ 4,840,402	$ 13,722,314	$ 8,881,912

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

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	2012
ASSETS:	
Cash and investments, at fair value	$ 2,319
Total assets	$ 2,319
NET ASSETS:	
Held in trust for pension benefits	$ 2,319
Total net assets	$ 2,319

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

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2012

	2012
Additions:	
Investment income	$ 21
Employer contributions	13,036
Total revenues	13,057
Deductions:	
Benefits paid	22,347
Administrative fees	1
Total expenditures	22,348
Change in net assets	(9,291)
Net assets, beginning of year	11,610
Net assets, end of year	$ 2,319

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

NOTE A–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

Scope of Financial Reporting Entity: The District was established under Health & Safety Code Section 13800 on December 1, 2000, as a result of the merger between the American River and Sacramento County Fire Protection Districts. It is governed by a nine member Board of Directors elected by geographic division. The District's boundaries cover approximately 411 square miles that include Sacramento and Placer counties with a population exceeding 655,000 residents. The District provides fire protection services including fire suppression, fire prevention, inspection, plan checking, and public education programs. It also provides emergency medical services, advanced life support and rescue services, and ambulance services. It employs approximately 629 people and operates forty-two fire stations, an administration building, a fire prevention/supply warehouse building, a training facility, a fleet maintenance shop, and two surplus office buildings.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether it exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship. The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

Joint Powers Authorities or Jointly Governed Organizations: The District is a member of the Northern California Fire and Rescue Training Authority (CFRTA), the Sacramento Regional Fire/EMS Communications Center (SRFECC), the Special District Risk Management Authority (SDRMA), and the California Municipal Finance Authority (CMFA) for which the District participation does not involve an ongoing financial interest or responsibility. As a member of these organizations, the District receives the following services:

- CFRTA provides fire, rescue, EMS, and Haz-Mat training
- SRFECC serves as the District's fire dispatch center
- SDRMA provides insurance coverage for general and auto liability, errors and omissions, property, boiler and machinery and employee dishonesty
- CMFA facilitates the issuance of the District's bonds

The amounts paid to these jointly governed organizations in fiscal year 2011/12 consist of the following:

CFRTA	$ 45,000
SRFECC	2,625,422
SDRMA	461,156

NOTE A–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the year, the District paid CFRTA $90,000 for training costs. On December 19, 2011, the District entered into a ground lease agreement with CFRTA whereby the District leased 8.25 acres of land to CFRTA for 55 years at a minimum rental fee of $30,000 per year, to be increased by $10,000 per year upon additional agencies joining CFRT. The lease may be cancelled by CFRTA with six months notice or by the District with 24 month notice. In addition, CFRTA reimbursed the District $1,521,974, received upon the signing of the lease on December 19, 2011, for costs incurred in the planning, design, and constructions of the civil work on the leased property.

Basis of presentation - Government-wide Financial Statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District. The effect of interfund activity has been removed from these statements. The District has only governmental activities, which are supported primarily by taxes, intergovernmental revenues and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year of which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Presentation - Fund Financial Statements: The accounts of the District are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. All of the District's activities are reported in the General Fund.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenues to be available if they are collected within 90 days of the end of the current fiscal period. Property taxes, charges for services, intergovernmental revenues, rental income, and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

NOTE A–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and workers compensation claims, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Payable balances consist primarily of payables to vendors. The District reports a *General Fund* that is used to account for all financial resources except those required or designated by the Board of Directors to be accounted for in another fund. The *Pension Trust Fund* is a fiduciary fund used to report resources that are required to be held in trust for the members and beneficiaries of the Sacramento County Fire Protection District Defined Benefit Pension Plan.

Budgetary Principles: As required by the laws of the State of California, the District prepares and legally adopts a final balanced operating budget on or before October 1 of each fiscal year. Public hearings are conducted on the proposed final budget to review all appropriations, sources of financing, and to provide opportunities for public comment. The District’s governing board satisfied these requirements.

Operating budgets are adopted for the General Fund on the modified accrual basis of accounting. Budgetary control and the legal level of control are at the object level. Significant amendments, appropriation transfers between objects, and transfers from contingencies, must be approved by the District’s Board of Directors. Supplemental appropriations financed by unanticipated revenues also must be approved by the Board. The final budget data contained in the financial statements reflects the effect of all approved budget amendments.

The Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual is included as part of the basic financial statements. Reclassifications were made in the budgeted amounts to be consistent with the presentation of the actual balances. These reclassifications include transferring budgeted capital outlay to services and supplies for capital expenditures not meeting the District’s capitalization threshold. In addition, certain principal and interest amounts which were previously budgeted as one line item were split in the statement.

Restricted Assets: The District’s restricted assets consist of fees collected to defray the cost of constructing facilities to serve new construction, unspent bond proceeds for capital acquisitions, amounts held for payment of workers compensation claims and for the District’s flexible spending plan, and debt service reserves.

Medic Fees Receivable: Accounts receivable arise from billings to insurance companies and patients medic services. The District has a receivable balance of $5,932,473 which is net of allowance for doubtful accounts of $6,089,911 at June 30, 2012. The allowance includes an estimate for future uncollectible debt and insurance write-offs.

Inventory: Inventories are stated at the lower of average cost or market. Inventories consist of medical and other supplies, vehicle parts, helicopter parts, and fuel.

Prepaid Costs: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs in both government-wide and fund financial statements. Prepaid costs of governmental funds offset Nonspendable fund balance to indicate they do not constitute resources available for future appropriation.

NOTE A–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Capital assets for governmental fund types are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. For certain older assets, including infrastructure, estimated historical costs are used. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Asset Class	Years
Buildings and Improvements	25 to 50
Equipment	5 to 25

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

Deferred and Unearned Revenues: Unearned revenues arise when resources are received by the District before it has legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures). Deferred revenues in governmental funds arise when a potential revenue source does not meet both the "measurable" and "available" criteria for recognition in the current period. Revenues deferred because they were not received in the availability period are recognized for the government-wide presentation.

Compensated Absences: Regular, full-time District employees are granted vacation, sick and holiday leave in varying amounts based upon length of service. Any accrued hours, not in excess of the maximum allowable and unused during the current period, are carried forward to following years. Additionally, certain employees are allowed compensated time-off in lieu of overtime compensation and/or from working on holidays. District employees may receive from 36% to 38% of accumulated sick leave in cash upon termination, with the remainder applied as an additional service credit for the purpose of determining pension benefits under the Public Employees' Retirement System.

Compensated absences are accrued in the government-wide financial statements when earned. A liability for compensated absences is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements and is currently payable. Each year's budget includes a provision for the estimated expenditure for the current year.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. Issuance costs are expensed as incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

NOTE A–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes: The County of Sacramento is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County of Sacramento up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The District recognizes property taxes when the individual installments are due provided they are collected within 60 days after year-end.

Secured property taxes are levied on or before the first day of September of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the delinquent taxes are not paid at the end of five years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates, but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on March 1, and become delinquent, if unpaid on August 31.

The County uses the alternative method of property tax apportionment known as the "Teeter Plan." Under this method of property tax apportionment, the County purchases the delinquent secured taxes at June 30 of each fiscal year. These taxes are accrued as intergovernmental receivables; they are recognized as governmental fund revenues only if they are received from the County within 60 days after year-end. For government-wide presentation, they are accrued when earned regardless of the timing of the related cash flows.

Charges for Services: The District incurs costs associated with deploying strike teams to fight fires for which it receives reimbursement from other agencies for the salary and other costs reimbursed by the District. The District reflects these revenues as an offset to expenses for budgetary purposes.

New Pronouncements: In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement requires debt issuance costs to be expensed as incurred, and was implemented as of June 30, 2012, resulting in the write-off of $453,007 of issuance costs previously recorded as an other asset, as well as the expensing of $291,275 of issuance costs incurred during the year ended June 30, 2012 related to the issuance of the lease revenue bonds.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. Among other things, this Statement requires the balance sheet to reflect the plan funding status showing the net difference between the pension liabilities and pension assets. Pension liabilities are determined using the entry age normal cost method and pension assets are determined using market value. Certain other changes will also impact the pension liability and expense. In addition, this Statement requires employers to revise and expand note disclosures and to provide required supplementary information (RSI). The implementation of this GASB Statement will have a significant impact on the District's financial statements and is effective for the District's June 30, 2015 financial statements.

NOTE B–CASH AND INVESTMENTS

As of June 30, 2012, the District's cash and investments are classified in the accompanying financial statements as follows:

Cash and investments	$ 35,138,730
Restricted cash and investments	9,351,034
Investments in fiduciary fund	2,319
Total	$ 44,492,083

Cash and investments as of June 30, 2012 consisted of the following:

Governmental Activities	
Cash on hand and in banks	$ 257,401
Investment in Sacramento County Pooled Investment Fund	32,049,233
Investments with fiscal agent	
Money market mutual funds	10,856,558
Local Agency Investment Fund	1,326,572
	44,489,764
Fiduciary Activities	
Investments with fiscal agent	
Money market mutual funds	2,315
Fixed income mutual funds	4
	2,319
Total Cash and Investments	$ 44,492,083

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts. Cash in county treasury consists of District cash held by the Sacramento County Treasury that is invested in the county investment pool.

Investments with fiscal agent consist of funds held at Deutsche Bank committed to the planned early retirement of the District's pension bond obligations. It is also comprised of funds held at US Bank for debt reserve requirements of its lease revenue bonds as well as for qualified future expenditures.

Deposit and Investment Policies: Investments are stated at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table in the next page identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

NOTE B–CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issue
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
California Local Agency debt	5 years	None	None
Bankers acceptances	180 days	40%	30%
High grade commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	None
Medium term corporate notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
Collateralized negotiable investments	5 years	None	None
Repurchase agreements	92 days	20%	None
LAIF	N/A	None	None
Local government investment pools	N/A	None	None

The District complied with the provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investment in Pooled Funds: The District's investments in the Sacramento County pooled investment fund is managed by the Sacramento County Treasurer and is stated at fair value or amortized cost, which approximates fair value. The total amount invested by all public agencies as of June 30, 2012 was $2,307,059,837. Sacramento County does not invest in any derivative financial products directly. The Sacramento County Treasury Investment Oversight Committee (Committee) has oversight responsibility for Sacramento County's cash and investment pool. The Committee consists of ten members as required by State law. The value of pooled shares in Sacramento County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

The Authority is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California and the Pooled Money Investment Board. The State Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the District's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

NOTE B–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. Information about the sensitivity of the fair values of the District's investments to market fluctuations is provided by the following table that shows the distribution of its investments by maturity as of June 30, 2012:

		Effective Duration	
	Total	< 1 year	1-5 years
Governmental Activities			
Investment in Sacramento County Pooled Investment Fund	$ 32,049,233	$ 32,049,233	
Investments with fiscal agent			
Money market mutual funds	10,856,558	10,856,558	
Local Agency Investment Fund	1,326,572	1,326,572	
Fiduciary Activities			
Investments with fiscal agent			
Money market mutual funds	2,315	2,315	
Fixed income mutual funds	4		$ 4
Total	$ 44,234,682	$ 44,234,678	$ 4

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the instrument. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, and the actual rating as of year-end for each investment type as of June 30, 2012:

		Minimum	Ratings as of Year End	
Governmental Activities	Total	Legal Rating	AAA	Not Rated
Investment in Sacramento County Pooled Investment Fund	$ 32,049,233	N/A		$ 32,049,233
Investments with fiscal agent				
Money market mutual funds	10,856,558	N/A	$ 10,856,558	
Local Agency Investment Fund	1,326,572	N/A		1,326,572
Fiduciary Activities				
Investments with fiscal agent				
Money market mutual funds	2,315	N/A	2,315	
Fixed income mutual funds	4	N/A	4	
Total	$ 44,234,682		$ 10,858,877	$ 33,375,805

NOTE B–CASH AND INVESTMENTS (Continued)

Concentration of credit risk: The District had no investment policy limiting the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2012 and 2011, the District had no investments in one issuer (other than mutual funds and the Sacramento County Pooled Investment Fund) that represented 5% or more of total District investments.

Custodial credit risk: Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits be made by state or local governmental units by pledging securities in an undivided collateral pool held by a depositary regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities must be equal to at least 110% of the total amount deposited by the public agencies. California law allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits.

At June 30, 2012, the carrying value of the District's deposits was $244,912 and the balance in financial institutions was $323,464. The District's funds were deposited in noninterest bearing accounts which are insured in full by the Federal Deposit Insurance Corporation.

NOTE C–CAPITAL ASSETS

The District's capital assets consist of the following:

	July 1, 2011	Additions	Transfers	Disposals	June 30, 2012
Capital assets, not being depreciated:					
Land	$ 21,952,359	$ -	$ 1,178,825	$ -	$ 23,131,184
Construction-in-progress	20,382,409	2,345,273	(19,799,694)	(131,069)	2,796,919
Total capital assets, not being depreciated	42,334,768	2,345,273	(18,620,869)	(131,069)	25,928,103
Capital assets, being depreciated:					
Buildings and improvements	47,669,180	5,826	7,302,186	-	54,977,192
Equipment	47,732,593	401,760	11,318,683	(3,144,546)	56,308,490
Total capital assets, being depreciated	95,401,773	407,586	18,620,869	(3,144,546)	111,285,682
Less accumulated depreciation for:					
Buildings and improvements	(14,626,510)	(1,079,099)	-	-	(15,705,609)
Equipment	(31,735,666)	(2,428,242)	-	2,807,586	(31,356,322)
Total accumulated depreciation	(46,362,176)	(3,507,341)	-	2,807,586	(47,061,931)
Total capital assets, being depreciated, net	49,039,597	(3,099,755)	18,620,869	(336,960)	64,223,751
Total capital assets	$ 91,374,365	$ (754,482)	$ -	$ (468,029)	$ 90,151,854

Net depreciation expense of $3,507,341 was recorded for the year ended June 30, 2012.

NOTE C–CAPITAL ASSETS (Continued)

As discussed in Note E, on November 15, 2011, the District issued lease revenue bonds to finance certain capital acquisitions. Three fire stations with a net book value of $10,308,153 as of June 30, 2012 were used as security for the bonds. In addition, the District also has a capital lease obligation in which equipment with a total net book value of $10,601,254 as of June 30, 2012 were pledged as collateral.

NOTE D–RETIREMENT PLAN

Plan Descriptions: The District contributes to four defined benefit pension plans as follows:

- The Safety Plan of the Sacramento Metropolitan Fire District (the Safety Plan), an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (PERS).
- The Miscellaneous Plan of the Sacramento Metropolitan Fire District (the Miscellaneous Plan), a cost-sharing multiple-employer defined benefit pension plan administered by PERS.
- The Sacramento County Employees Retirement System Safety Tier 1 Plan (the SCERS Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the County of Sacramento.
- The Sacramento County Fire Protection District Pension Plan (the SCFPDP Plan), a single-employer defined benefit pension plan administered by U.S. Bank Institutional Financial Services.

Benefit provisions and all other requirements for PERS are established by State statute and benefit provisions and all other requirements for SCERS are established by Section 31584 of the County of the Sacramento Retirement Law of 1932. The establishment and amendment of specific benefit provisions of the plans are authorized by resolutions of the Board.

Each plan 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 permanent and part-time employees working at least 1,000 hours per year are enrolled in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their highest average monthly salary over 12 consecutive months of employment. Only the plans administered by PERS are open for new enrollment. The Miscellaneous Plan participates in the PERS Miscellaneous 3% at 60 Risk Pool. PERS issues publicly available financial reports for its plans. Copies of the PERS annual financial report and pertinent past trend information may be obtained from their Executive Office at 400 P Street, Sacramento, CA 95814. SCERS issues a publicly available financial report for its plans. Copies of the SCERS annual report may be obtained from their Executive Offices at 980 9th Street, Suite 1800, Sacramento, CA 95814.

The SCFPDP Plan is maintained by the District as a trust fund for one surviving spouse of a retired employee. Benefits to participants are payable for life at a fixed monthly amount. Payments to a surviving spouse continue until the 120th month following the first payment to the retiree.

NOTE D–RETIREMENT PLAN (Continued)

Funding Policy: The District is required by statute to contribute the actuarially determined amounts necessary to fund the benefits for participants in each of its plans. Required contributions of active plan members and of the District for fiscal year 2011/12 were as follows:

PERS Safety Plan:		
Plan participants		9.00%
District rate		31.236%
Required contributions		$ 23,522,599
District contributions made	$ 18,489,378	
Employee contributions made	$ 5,033,221	
PERS Miscellaneous Plan:		
Plan participants		8.00%
District rate		15.505%
Required contributions		$ 1,818,181
District contributions made	$ 1,361,270	
Employee contributions made	$ 456,911	
SCERS Plan (Safety Tier 1):		
Plan participants		14.12%
District		54.42%
Required contributions		$ 567,647
Contributions made		$ 567,647

Contribution rates and amounts for each plan are actuarially determined annually by the respective administrators. Required contributions were made each pay period, based on required contribution rates. The District makes the contributions on behalf of the plan participants. However, due to the changes made to the plan, the employees paid a portion of the District's contribution.

Contribution rates for the Safety Plan are individually determined for the District by PERS. Contribution rates for the Miscellaneous Plan are determined with reference to the risk pool to which it belongs. Additionally, PERS manages a Side Fund for the Miscellaneous Plan, that was created at the time the District joined the plan, to reflect the difference between the funded status of the District's plan and the funded status of the risk pool. The Side Fund is invested and is being amortized to reduce the normal required contributions.

Contribution rates and amounts for the SCERS Plan are determined annually by SCERS.

There are no active employees enrolled in the SCFPDP Plan. One surviving spouse of a retired employee is the sole remaining participant in the SCFPDP Plan. The District made a $13,036 contribution to the SCFPDP Plan during the year ended June 30, 2012. Additional contributions will be made by the District as needed to fund the benefit payments to the sole remaining participant, which expire in December, 2012.

NOTE D–RETIREMENT PLAN (Continued)

Annual Pension Cost and Net Pension Asset—PERS Safety Plan: For the PERS Safety Plan, the annual pension cost and net pension asset for the year ended June 30, 2012 was as follows:

Annual required contribution (ARC)	$ 25,923,791
Less interest on net pension asset	(4,735,431)
Plus amortization of pension asset	3,534,835
Annual pension cost	24,723,195
Contributions made	23,522,599
Increase in net pension asset	1,200,596
Net pension asset - beginning of year	61,102,330
Net pension asset - end of year	$ 62,302,926

Three-year Trend Information for PERS Safety Plan

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
June 30, 2010	$ 23,875,929	104%	$ 59,110,313
June 30, 2011	$ 24,154,031	108%	$ 61,102,330
June 30, 2012	$ 24,723,195	105%	$ 62,302,926

Since no activity occurred for the SCFPDP Plan other than interest earned on the trust account, the disclosures above were omitted for the SCFPDP Plan.

Funded Status and Funding Progress: As of June 30, 2011, the most recent actuarial valuation date, the Safety Plan was 78.6% funded. The actuarial liability for benefits was $813.5 million and the actuarial value of assets was $639.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of $173.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $60.7 million, and the ratio of the UAAL to the covered payroll was 286.4%.

The schedule of funding progress, presented as Required Supplementary Information (RSI), presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE D–RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions: In the June 30, 2011 actuarial valuation for the Safety Plan, the entry age normal cost method was used to determine the required contribution. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) (b) projected salary increases ranging from 3.30% to 14.20% depending on age, service and type of employment and (c) an inflation component of 2.75%, which is included in the salary increase assumptions. The actuarial value of assets was determined using techniques that spread the effects of short term volatility in the market value of investments over a 15-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining rolling amortization period at June 30, 2011 was 32 years.

Other Pension Assets: In addition to the Net Pension Asset with respect to the Safety Plan set forth in the Annual Pension Cost and Net Pension Asset section on page 32, pension assets exist for the Miscellaneous Plan and SCERS Plan as of June 30, 2012:

Miscellaneous Plan	$ 1,002,971
SCERS Plan	9,406,325
	$ 10,409,296

NOTE E–LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the fiscal year ended June 30, 2012:

	Balance July 1, 2011	Additions	Repayments	Balance June 30, 2012	Amounts Due within One Year
Pension bonds payable	$ 69,482,600	$ 947,580	$ (1,420,000)	$ 69,010,180	$ 1,635,000
Lease revenue bonds payable	-	13,045,925	(321,704)	12,724,221	740,000
Note payable	74,509	-	(74,509)	-	-
Compensated absences	16,412,094	3,350,249	(2,936,676)	16,825,667	5,355,329
Capital lease	11,225,914		(1,150,189)	10,075,725	1,181,146
Workers' compensation liability	17,919,794	7,515,378	(2,349,197)	23,085,975	4,693,000
Liability for other post-employment benefits	37,140,785	16,579,431	(6,158,766)	47,561,450	6,900,000
	$ 152,255,696	$ 41,438,563	$ (14,411,041)	$ 179,283,218	$ 20,504,475

NOTE E–LONG-TERM LIABILITIES (Continued)

Pension Bonds Payable: In October 2004, the District issued pension obligation bonds in the original amount of $69,998,975. The proceeds were used to reduce the unfunded actuarial liabilities in three of its pension plans. The bonds were issued in three series and bear interest at rates of 4.79% to 5.51%. Three series require semi-annual payments of interest. The remaining series accretes interest, which results in increases to principal, until November 15, 2018. Principal repayments, which are made annually, began May 15, 2005 for one series, and begin May 15, 2020, 2026 and 2031 for the other three series, respectively. The interest rates for two of the series change to auction rate as of November 15, 2018 and 2025, respectively. The bonds mature at various dates from May 15, 2019 to 2034. In the following maturity schedule, an interest rate of 5% is assumed at the point in time where the rates change to auction rates.

As of June 30, 2012, pension bonds payable maturities based on the fully accreted amounts were as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2013	$ 1,635,000	$ 2,643,767	$ 4,278,767
2014	1,860,000	2,565,450	4,425,450
2015	2,105,000	2,476,357	4,581,357
2016	2,365,000	2,375,527	4,740,527
2017	2,640,000	2,262,244	4,902,244
2018-2022	12,965,000	13,855,238	26,820,238
2023-2027	14,155,000	12,344,114	26,499,114
2028-2032	24,925,000	7,483,750	32,408,750
2033-2034	13,950,000	1,061,250	15,011,250
	$ 76,600,000	$ 47,067,697	$ 123,667,697

Lease Revenue Bonds: On November 15, 2011, the District sold Lease Revenue Bonds with interest rates ranging from 3% to 5.125% and a face value of $12,960,000, of which $11,786,000 was available to replenish reserves for the headquarters building fund, building improvements, purchase of firefighting and computer equipment and to pay off the note payable of $74,509. The bonds were issued at a premium of $85,926. The debt service on the bonds is approximately $1,322,000 per year until May 15, 2016 and then drops to about $675,000 per year through 2041. Standard & Poor’s Rating Agency rated the bonds at AA-. As of June 30, 2012, unspent bond proceeds amounted to $1,696,088 which will be drawn down as expenditures are incurred.

NOTE E–LONG-TERM LIABILITIES (Continued)

As of June 30, 2012, bonds payable maturities were as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2013	$ 740,000	$ 581,906	$ 1,321,906
2014	760,000	559,706	1,319,706
2015	795,000	529,306	1,324,306
2016	830,000	497,506	1,327,506
2017	210,000	464,306	674,306
2018-2022	1,190,000	2,174,881	3,364,881
2023-2027	1,480,000	1,891,344	3,371,344
2028-2032	1,870,000	1,507,595	3,377,595
2033-2037	2,385,000	988,075	3,373,075
2038-2041	2,380,000	312,625	2,692,625
	$ 12,640,000	$ 9,507,250	$ 22,147,250

Capital Lease Obligation: The District leased equipment under capital leases which have yearly payments of $1,122,164 through September 27, 2020 and $340,008 through September 27, 2015, including interest at 2.88% and 2.17%, respectively. Capital assets acquired under the capital leases consist of equipment with cost totaling $11,225,913 and accumulated depreciation of $624,659 at June 30, 2012. Future minimum lease payments under the capital lease obligation are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2013	$ 1,181,146	$ 281,027	$ 1,462,172
2014	1,212,947	249,225	1,462,172
2015	1,245,617	216,556	1,462,172
2016	1,279,178	182,994	1,462,172
2017	973,647	148,517	1,122,164
2018-2021	4,183,191	305,465	4,488,656
	$ 10,075,725	$ 1,383,784	$ 11,459,509

NOTE F—INSURANCE

The District is a member of the Special District Risk Management Authority (SDRMA). The SDRMA is a risk-pooling self-insurance authority, created under the provisions of the California Government Code Sections 6500 et. seq. Its purpose is to provide a full risk management program for California local governments. The District pays an annual premium to SDRMA for general and auto liability, errors and omissions, property, boiler and machinery and employee dishonesty insurance coverage. The District annual premium is based on its pro-rata share of charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the SDRMA. Aviation insurance continues to be covered through a commercial insurer.

NOTE F—INSURANCE (Continued)

The District's coverage and corresponding deductibles are as follows:

Coverage	Amount	Deductible
General and auto liability (includes errors and omissions)	$ 10,000,000	$500 to $25,000
Property damage	1,000,000,000	2,000
Boiler and machinery	100,000,000	1,000 to 350,000
Employee dishonesty	400,000	-
Aviation	10,000,000	$1,000 - 2% of insured values

The District is self-insured for all losses from workers compensation claims from 2003, when it terminated its excess liability insurance coverage until 2009. Beginning in 2010, the District obtained excess Commercial coverage for the first $1,000,000 of losses in excess of $2,500,000, for each claim. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The liability for claims is based on historical cost and/or actuarial estimates of the amounts needed to pay prior and current year claims, and to allow the accrual of estimated incurred but not reported claims and incremental claims expense. Changes in the District's claims liability for the fiscal year ended June 30, 2012 were as follows:

Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 17,919,794
Incurred claims and claim adjustment expenses:	
Provision for insured events of current fiscal year	7,263,000
Increases in provision for insured events of prior fiscal year	252,378
Total incurred claims and claim adjustment expenses	7,515,378
Payments:	
Claim and claim adjustment expenses attributable to insured events of the current fiscalyear	811,174
Claim and claim adjustment expenses attributable to insured events of the current fiscalyear	1,538,023
Total payments	2,349,197
Total unpaid claims and claim adjustment expenses	$ 23,085,975
Short-term liability	$ 4,693,000
Long-term liability	18,392,975
Total unpaid claims and claim adjustment expenses	$ 23,085,975

NOTE G—OTHER POST-EMPLOYMENT BENEFITS

Plan Description: The Sacramento Metropolitan Fire District Retiree Healthcare Plan ("Plan") is a single-employer defined benefit healthcare plan administered by the District. The Plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System healthcare program (PEMHCA). Benefit provisions are established and may be amended through agreements and memorandums of understanding among the District, its non-represented employees, and the unions for represented District employees. The Retiree Healthcare Plan does not issue financial statements.

The District provides a retiree medical contribution for employees who retire directly from the District under CalPERS. The District's contribution is capped at the greater of the non-Medicare eligible Blue Shield and Kaiser family premiums. The benefit continues to surviving spouses and dependents. Since PEMHCA is a community-rated plan, an implied subsidy is not valued under GASB 45.

The District also provides subsidy/offset payments for certain retirees receiving benefits through the Sacramento Employees Retirement System. The benefit continues at 50% for surviving spouses of retirees. For the fiscal year 2011/12, the amount of the retiree subsidy/offset ranged from $128 to $256 depending on the length of service.

Funding Policy: The contribution requirements of the Plan participants and the District are established by and may be amended by the District pursuant to agreements with its non-represented employees and the union for represented District employees. The District contributed $6,158,766 during the year ended June 30, 2012, on a pay-as-you go basis for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

Annual OPEB Cost and Net OPEB Obligation: The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. 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) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation for the fiscal year ended June 30, 2012:

Annual required contribution	$ 16,581,645
Interest on net OPEB obligation	1,671,335
Adjustment to annual required contribution	(1,673,549)
Annual OPEB cost (expense)	16,579,431
Contributions made (premium payments)	(6,158,766)
Increase in net OPEB obligation	10,420,665
Net OPEB obligation, beginning of year	37,140,785
Net OPEB obligation, end of year	$ 47,561,450

NOTE G—OTHER POST-EMPLOYMENT BENEFITS (Continued)

The OPEB obligation will be increased prospectively to the actuarial accrued liability amount. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 17,889,926	26.06%	$ 27,114,162
June 30, 2011	$ 15,626,819	35.84%	$ 37,140,785
June 30, 2012	$ 16,579,431	37.15%	$ 47,561,450

Funded Status and Funding Progress: The funded status of the Plan as of June 30, 2012 was as follows:

Actuarial accrued liability (AAL)	$ 236,922,598
Actuarial value of Plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 236,922,598
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	50,121,379
UAAL as a percentage of covered payroll	472.70%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost 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 following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. 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 value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 20121 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and a 3.25% increase in salaries. Premiums were assumed to increase from 8.5% in 2013 with an ultimate rate of 4.5% for 2019 and thereafter. The initial UAAL was amortized as a level percentage of projected payroll over 30 years period. As of June 30, 2012, the remaining period was 27 years.

NOTE H—NET ASSETS/FUND BALANCES

The government-wide financial statements report net assets. The following are the three categories:

Invested in capital assets, net of related debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt, net of unspent proceeds, which are attributable to the acquisition, construction or improvement of these assets, reduce the balance in this category.

Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This category represents net assets of the District not restricted for any project or other purpose.

In the fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which comprise inventory, pre-paid items and other assets.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources 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.

Restricted for capital acquisitions – represents developer and impact fees collected under Ordinance No 2-05 to mitigate the impact of providing additional fire stations and fire equipment. It also includes unspent bond proceeds.

Debt service – represents the amount held by bond trustees and the County of Sacramento for payment of bonds.

Workers compensation checking account – represents the amount maintained in the checking account for the payment of workers compensation claims.

Deferred compensation – represents amounts restricted for the costs of administering the deferred compensation program.

Flexible spending checking account – represents the amount maintained in the checking account for the payment of flexible spending account claims.

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the government's Board of Directors modifies, or removes the fund balance commitment.

NOTE H—NET ASSETS/FUND BALANCES (Continued)

Workers compensation claims – represents the amount recommended for contingency reserves in the actuarial reports.

Other post-employment benefits – to set aside amounts for payment of future post-employment benefits.

Pension bond retirement – to set aside amounts for the retirement of the pension bonds prior to their repricing at auction rates in 2018 and 2025.

Assigned Funds – Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Funds – Unassigned fund balance is the residual classification of the District's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

Although the Board has established a contingency reserve for unanticipated or extraordinary expenditures at a minimum of five percent of the General Operating Budget Expenditures, this reserve does not meet the definition of a committed fund balance.

The following are components of fund balances and restricted net assets as of June 30, 2012:

Nonspendable:	
Inventory	$ 2,658,064
Prepaid expenses	180,447
Petty cash	500
Total nonspendable fund balance	2,839,011
Restricted for:	
Capital acquisition	6,815,493
Debt service reserves	2,287,251
Workers compensation claims	231,556
Deferred compensation	158,853
Flexible spending claims	13,356
Total restricted fund balance / net assets	9,506,509
Committed to:	
Workers compensation claims	4,000,000
Other post-employment benefits	1,781,378
Pension bond retirement	11,268,833
Total committed fund balance	17,050,211
Unassigned	11,184,788
Total fund balance	$ 40,580,519

NOTE I – COMMITMENTS AND CONTINGENCIES

Claims: The District is a defendant in a number of lawsuits, which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty. In the opinion of Management and the legal counsel, these actions, when finally adjudicated will not have a material adverse effect on the financial position of the District.

NOTE J – BORROWINGS

The District has borrowings available from the County of Sacramento equal to 85% of estimated tax revenues for July 1 to December 10 and 42.50% of estimated revenues for December 10 to April 10. These borrowings are permitted until the last Monday of April each year. The amount available as of June 30, 2012 is $45,117,921. The interest rate charged is the rate earned by the County investment pool.

NOTE K – SUBSEQUENT EVENTS

On June 19, 2012, the District entered into an agreement to contribute to the California Employer’s Retiree Benefit Trust (CERBT) Fund. The CERBT Fund is managed by the California Public Employees' Retirement System (CalPERS) and provides the District with a trust through which it may prefund retiree medical costs and other post-employment benefits. District’s management will be contributing $13,200 per year while Miscellaneous employees will be contributing 1.405% of their PERS salary. Subsequent to year-end, a total of $1,818,397 was contributed to the fund.

On October 25, 2012, after a thorough evaluation of various bids, the District awarded a contract for the purchase of 90 monitors/defibrillators with a total cost not to exceed $2,686,152. The contract includes a seven-year warranty and a maintenance agreement. The District intends to use $1,737,999 from the Assistance to Firefighters Grant awarded in 2011/12 fiscal year towards the purchase while the remaining amount will be paid for by the District out of its fiscal year 2012/13 budget.

NOTE L– RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the governmental funds balance sheet are being adjusted to arrive at the statement of net assets. The adjustments as of June 30, 2012 are as follows:

Fund balances - Total Governmental Funds	$ 40,580,519
When capital assets that are to be used in governmental activities are purchased or constructed, the costs of those 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.	90,151,854
Capital assets no longer in service have been transferred to other assets.	261,171
Pension asset of the governmental activities is not a financial resource and, therefore, is not reported in the funds.	72,712,222
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds.	6,000,462
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.	
Bonds payable	(81,734,401)
Compensated absences	(16,627,338)
Interest payable on long-term debt	(737,336)
Workers compensation liability	(22,877,851)
Liability for other post-employment benefits	(47,561,450)
Capital lease	(10,075,725)
	(179,614,101)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 30,092,127

NOTE L– RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Amounts reported for governmental activities in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances are adjusted to arrive at the Statement of Activities for Government-wide presentation. The adjustments for the fiscal year ended June 30, 2012 are as follows:

Net Change in Fund Balance - Total Governmental Funds	$ 13,722,314
Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities the cost of those assets when completed is allocated over their estimated useful lives as depreciation expense.	
Cost of assets capitalized	2,735,359
Depreciation expense	(3,507,341)
Impairment of construction in progress	(131,069)
In the Government-wide Statement of Activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds, proceeds from sales increase financial resources.	
Proceeds from sale	(12,700)
Gain (loss) on disposal of assets	(45,589)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets principal payments on long-term debt.	
Principal payments	2,964,698
Bond accretion and write-off of issuance costs	(1,398,883)
Proceeds from debt issuance	(13,045,925)
Worker's compensation claims that are estimated to have been incurred and not reported (IBNR) do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the net change in the Worker's Compensation IBNR liability.	(5,112,824)
Some expenses reported in the Government-wide Statement of Activities do not require the use of current financial resources and therefore are not expenditures in the governmental funds.	
Change in accrued interest payable	(47,544)
Change in compensated absences	(403,105)
Change in other post-employment benefits liability	(10,420,665)

NOTE L– RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Any excess of the amount funded during the fiscal year over the annual required contributions (ARC) for pension benefits was recorded as an expenditure for governmental funds. However, the difference between the ARC and the amount funded is recorded as an adjustment to retirement expense in the statement of activities.	$ 304,293
Some receivables are deferred in the Governmental Funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the Statement of Activities.	1,121,516
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (13,277,465)

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO METROPOLITAN FIRE DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE CALPERS SAFETY PLAN

JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2006	$ 456,310,774	$ 506,081,753	$ 49,770,979	90.2%	$ 61,503,795	80.9%
June 30, 2007	$ 501,988,835	$ 599,888,655	$ 97,899,820	83.7%	$ 69,364,626	141.1%
June 30, 2008	$ 542,351,006	$ 664,882,903	$ 122,531,897	81.6%	$ 70,203,763	174.5%
June 30, 2009	$ 570,524,919	$ 720,740,716	$ 150,215,797	79.2%	$ 68,303,685	219.9%
June 30, 2010	$ 603,000,919	$ 757,949,033	$ 154,948,114	79.6%	$ 62,741,464	247.0%
June 30, 2011	$ 639,709,428	$ 813,537,381	$ 173,827,953	78.6%	$ 60,701,037	286.4%

SACRAMENTO METROPOLITAN FIRE DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH (OPEB) PLAN

JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2009	$ -	$ 194,809,000	$ 194,809,000	0%	$ 66,540,000	292.77%
June 30, 2011	$ -	$ 225,418,331	$ 225,418,331	0%	$ 48,543,708	464.36%
June 30, 2012	$ -	$ 236,922,598	$ 236,922,598	0%	$ 50,121,379	472.70%