SACRAMENTO METROPOLITAN FIRE DISTRICT

Audited Financial Statements

June 30, 2011 and 2010

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AUDITED FINANCIAL STATEMENTS

June 30, 2011 and 2010

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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 years then ended June 30, 2011 and 2010, 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 audits.

We conducted our audits 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 audits provide 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, 2011 and 2010 and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the years 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 January 27, 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.

The management's discussion and analysis and required supplementary information is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Richardson & Company

January 27, 2012

SACRAMENTO METROPOLITAN FIRE DISTRICT
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011

The June 30, 2011, management discussion and analysis is presented in conjunction with the audited financial statements immediately following this section. In addition, discussion is provided regarding revenue collections and budgetary actions that have occurred to date in fiscal year 2012.

DISTRICT OVERVIEW

The Sacramento Metropolitan Fire District (District) is an independent special district created more than 10 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 417 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 640,000 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 65,000 emergency calls annually. Because most emergency calls are medical in nature, all firefighters are also certified as paramedics or emergency medical technicians (EMT).

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 also include 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.

Currently, the District has 615 employees, which is 179 employees fewer than pre-recession staffing levels.

All of these resources are in place to serve the District's mission "To provide professional and compassionate protection, education and service to our community."

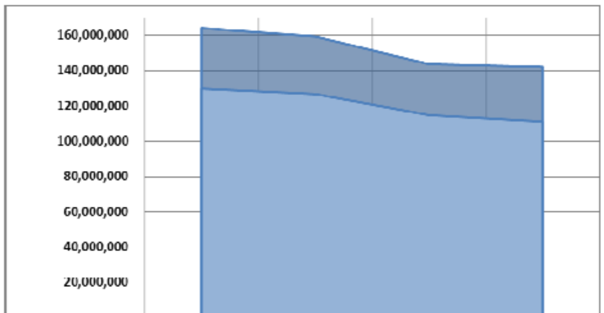
GOVERNANCE

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. Four of the nine Board members joined the Board after November 2010. Two of the Board members were elected in November 2010 and two others were recently appointed to fill Board member vacancies. In April 2011, the Board promoted Kurt P. Henke to the position of Fire Chief. Chief Henke uses his 30 years of fire service experience to oversee all aspects of the District's fire protection and life safety services.

FINANCIAL SUMMARY

REVENUE

Funding for the services provided by the District primarily comes from property taxes. Since 2008, property values in the District's service areas have declined, resulting in reduced property tax revenues. This in turn reduces funding for the District's vital services. The property tax revenue for fiscal year 2011 was $19 million less than the amount received in 2008. It is projected that the overall reduction will reach $21 million in fiscal year 2012. In addition, development fees – used to fund District infrastructure – have dropped another $1.5 million from the amount received in 2008. Facing these challenges, steps were taken in fiscal year 2010, 2011 and 2012 to address the huge drop in revenue. Costs saving measures were implemented and new revenue sources pursued. Changes were initiated in fiscal year 2010 were fully implemented during fiscal year 2011. Cost-saving measures made in fiscal year 2011 were in place less than the 12-month period in fiscal year 2011. As a result, financial results show $21 million more in expenditures than revenues in fiscal year 2011. Further changes occurring in fiscal year 2012 will not be reflected in the current expenses.



	FY 07/08	FY 08/09	FY 09/10	FY 10/11
TOTAL REVENUE	164,172,570	159,376,514	143,706,445	142,096,970
PROPERTY TAXES	129,961,569	126,816,416	114,845,031	111,181,890

EXPENSES

As a result of the decline in revenue, the District was forced to close two of its 42 fire stations in fiscal year 2010. Two additional stations were closed in fiscal year 2012. 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 closing, 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.

- In fiscal year 2010, 41 positions received pay cuts. Twenty-seven (27) Fire Captain and Engineer positions had temporary rank reductions. Fourteen (14) support personnel returned to lower positions previously held to avoid layoffs.
- In fiscal year 2011, cost containment measures included 34 labor force reductions. In total, 26 support staff were laid off, and eight employees voluntarily accepted incentives to leave District employment.
- Existing labor contracts were reopened in fiscal year 2011 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 2011, more changes will be phased in during fiscal year 2012 and the full 12% contribution will begin in fiscal year 2013. 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, second-tier of lower benefits for vesting in retiree medical has been instituted for new hires.
- The pay package for the position of Fire Chief has also been reduced, with the current contract representing a 21% reduction in total compensation, saving the District $89,000 annually.

Discussions are currently underway with management for additional concessions for further reducing labor costs.

Many of these budget-saving efforts reduced operating costs in fiscal year 2011 and are projected to save the District $13.5 million annually.

No safety positions were cut. In fact, to replace retiring firefighters and to put in federally funded safety positions, 45 firefighters were hired in fiscal year 2011.

CAPITAL

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 2011, and another $13 million was incurred in fiscal year 2012. A large portion of the fiscal year 2012 debt proceeds repaid the District's reserves which had been advanced to purchase the headquarters building. Offsetting the fiscal year 2012 debt service payments is lease revenue from Sutter Health, 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 formerly District occupied office buildings 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.

CHANGES

To mitigate property tax losses, revenue enhancements have been put into place by increasing district-wide emergency medical services and fees. Charge for Services was up $1.5 million in fiscal year 2011 from reducing the scope of ambulance services provided through a contract with American Medical Response ("AMR"), and instead using internal District resources. Fee increases were also put in place effective July 1, 2011, and therefore will serve to increase future revenue. The District also has put in place an active grant program to garner $1.1 million in fiscal year 2011 and is projected to bring in $7.6 million in fiscal year 2012. A portion of that includes 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 and two fire trucks, but will expire in May of 2013.

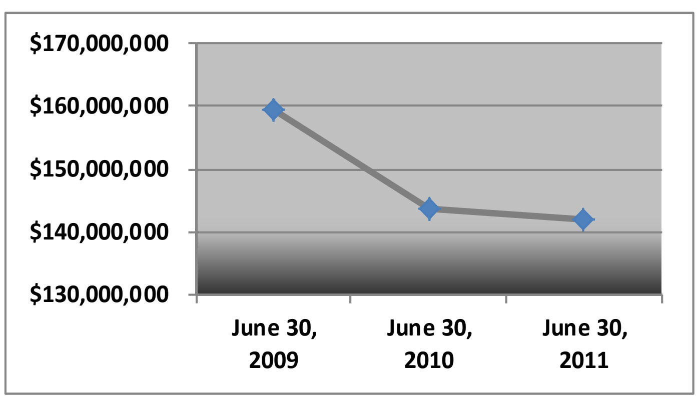
Economic analyses show the Sacramento region still faces serious economic woes which may result in further reductions in revenue.

In sum, the District is making tough decisions in tough economic times and is working with its employees to reduce costs and replace lost revenue. Fortunately, the Board of Directors, Management, Labor and employees are all working collaboratively to serve the public's interests.

FINANCIAL INDICATORS

- The District's total revenues declined by $22.1 million from 2008 to 2011, including a drop of $1.6 million in 2011. Had it not been for the efforts noted above with respect to ambulance transports and aggressively seeking grant revenue, the District would have experienced a much greater decline in 2011.

TOTAL REVENUES	
June 30, 2009	$ 159,377,000
June 30, 2010	$ 143,706,000
June 30, 2011	$ 142,097,000

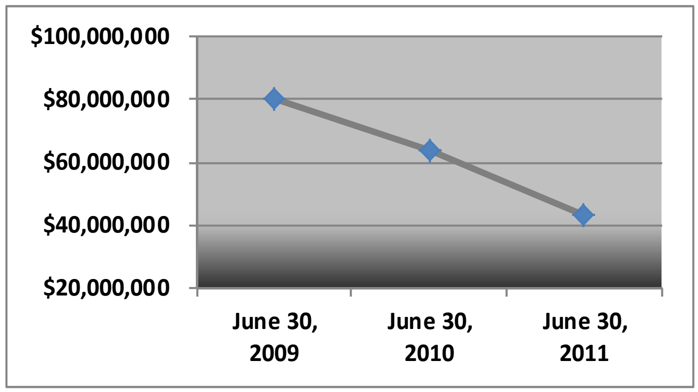


- In fiscal year 2011, property tax revenue dropped another $3.7 million for a total property tax loss of $19 million since 2008. The cumulative property tax revenue losses including the District's fiscal year 2012 budget are $21 million, as more reductions in property taxes are forecast.

- Expenses for the year were up $2.9 million in fiscal year 2011 even with the cost reduction efforts noted above. Service and supplies had a $3.3 million increase mostly from increases in medical supplies, utilities, fleet maintenance and fuel.

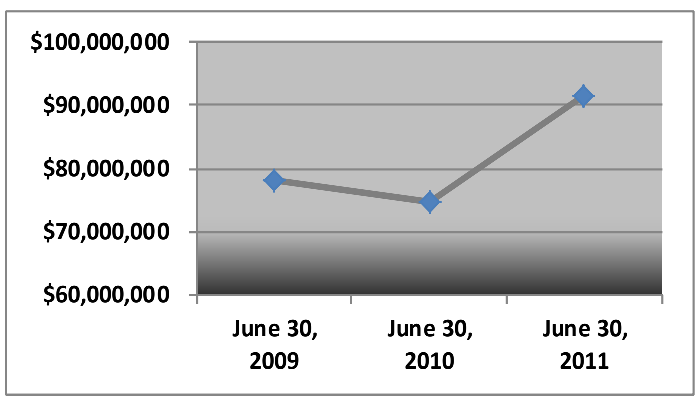
- Expenses exceeded revenue by $21 million in 2011, reducing the District's net assets by that amount.

NET ASSETS	
June 30, 2009	$ 80,285,000
June 30, 2010	$ 64,071,000
June 30, 2011	$ 43,370,000



- Nearly $21 million was invested in infrastructure in fiscal year 2011. That amount includes the $11.2 million in replacement apparatus (see the discussion below regarding capital lease transactions under LIABILITIES), $1.5 million for site improvements for the Zinfandel training center, $5.9 million to purchase the headquarters building, and $2.2 million for improvements to the headquarters building.

CAPITAL ASSETS	
June 30, 2009	$ 77,964,000
June 30, 2010	$ 74,713,000
June 30, 2011	$ 91,374,000



- Long-term obligations at June 30, 2011, are up $23 million or 18% due to the new lease obligation for fire apparatus ($11.2 million) and unfunded post-retirement obligations ($15.6 million), less debt service payments.

- Lastly, the District's auditors removed their audit opinion qualification from the prior years' audits indicating the audited financial statements are fairly presented.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's basic financial statements are: the Statement of Net Assets and Governmental Fund Balance Sheet; Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances; Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual; and the Statement of Fiduciary Net Assets.

Governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as of balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term requirements.

Government-wide financial statements provide broad financial information using the accrual basis of accounting. This basis of accounting reports all assets and liabilities, including capital assets and outstanding debt, which is not shown in the Governmental fund financial statements. Accrual basis accounting also records revenue and expenses in the year earned regardless of the timing of cash received or paid.

The Statement of Net Assets and Governmental Fund Balance Sheet show first the Governmental Funds and then have adjustments to arrive at the Government-wide Statement of Net Assets. The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances also show first the Governmental General Fund and then have adjustments to arrive at the Government-wide Statement of Activities. See Note M for specific information on the adjustments.

Financial statement notes are an important part of the basic financial statements. They provide the readers additional information required by GAAP. Preceding the basic financial statements is Management's Discussion and Analysis, which is required supplementary information to the basic financials statements.

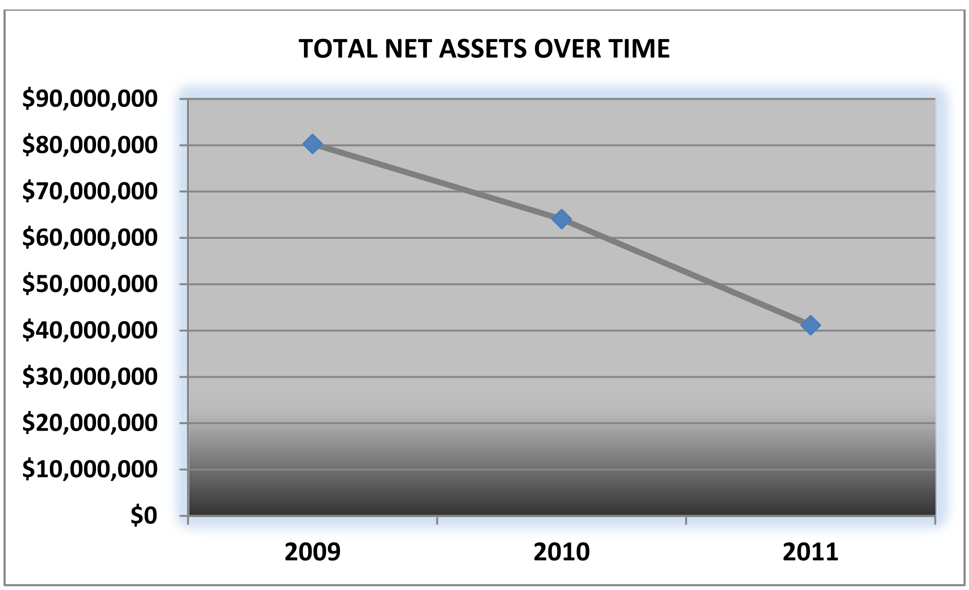
The District adopts an appropriated budget for its governmental fund and actual to budget comparisons are shown in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual. This required supplementary information demonstrates budget compliance.

NET ASSETS

The condensed Statement of Net Assets below show the District continues to struggle financially as indicated by significant decline in net assets in both fiscal years 2011 and 2010,. The statement also shows the District invested in new Capital Assets by incurring long-term debt.

CONDENSED STATEMENT OF NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011
(in thousands)

	2009	2010	2011	Change 2009 to 2011	% of Change
Assets:					
Current and other	$ 53,768	$ 54,857	$ 40,311	$ (13,457)	-25.0%
Pension asset	67,789	69,246	72,408	4,619	6.8%
Capital assets	77,964	74,713	91,374	13,410	17.2%
Total Assets	199,521	198,816	204,093	4,572	2.3%
Liabilities:					
Current	14,050	15,882	19,393	5,343	38.0%
Long-Term	105,186	118,863	141,330	36,144	34.4%
Total Liabilities	119,236	134,745	160,723	41,487	34.8%
Net Assets:					
Investment in capital assets, net of related debt	77,964	74,713	80,148	2,184	2.8%
Restricted	7,061	7,609	2,901	(4,160)	-58.9%
Unrestricted	(4,740)	(18,251)	(39,679)	(34,939)	737.2%
TOTAL NET ASSETS	$ 80,285	$ 64,071	$ 43,370	$ (36,915)	-46.0%

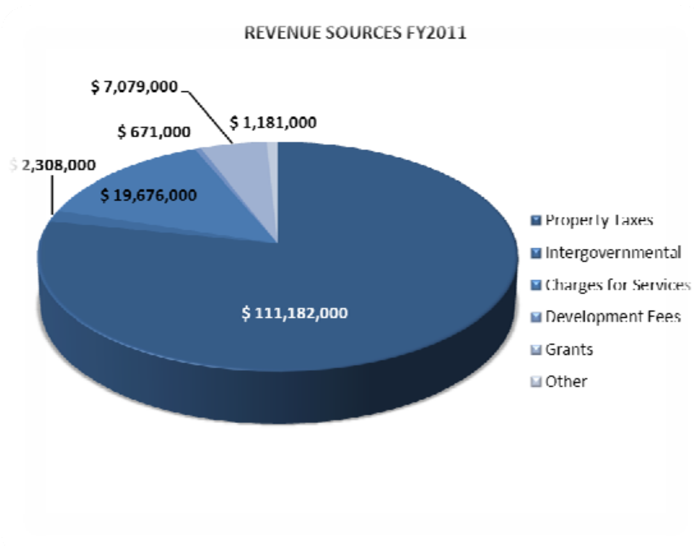


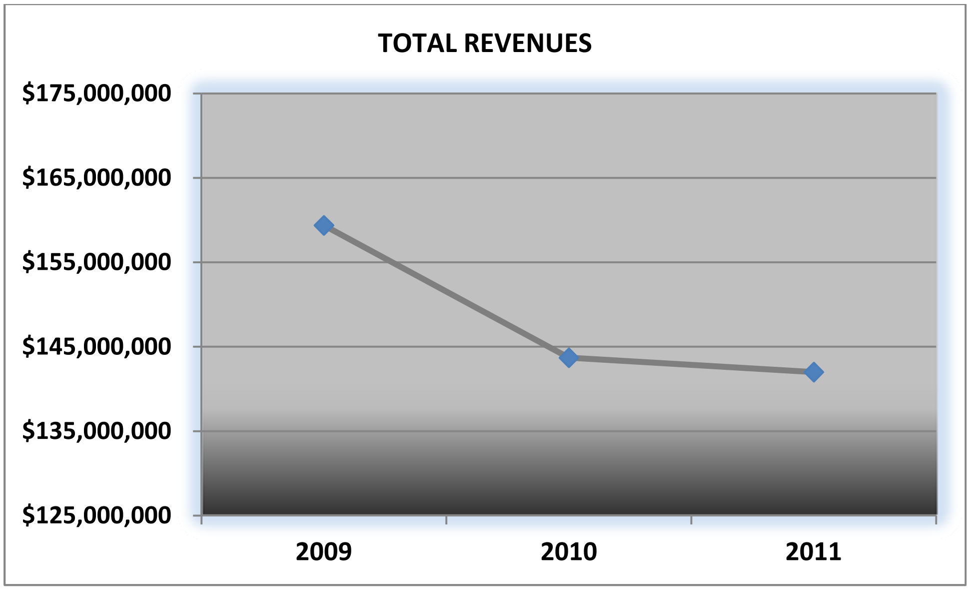
The District's net assets have been declining for several years due primarily to declining property tax revenue and the inclusion of post-retirement medical costs in the operating expenses. In 2009, GASB 45 required the recording unfunded annual required contributions (ARC) for other post-retirement benefits (OPEB). The financial statement liabilities include $37 million for OPEB since this change in 2009, and the fiscal year 2011 unfunded ARC is $10 million. Of the 2011 ARC, 40% represents benefits promised to current employees and 60% is the liability for District retirees. It is the intent of management to set up an OPEB trust with the objective to start pre-funding OPEB liabilities by June 30, 2012. This will allow investment earnings to contribute to these costs. In addition, management and labor will be meeting to make a cooperative effort to make contributions to the trust. The District's Chief is the first employee to contractually agree to make contributions for OPEB and he will be asking others to follow suit. In addition, as of June 30, 2011, the District had set aside $1.7 million for payment of future post-employment medical benefits. This money will be deposited in the trust once it is open.

REVENUES

Property taxes represent the District's largest general revenue source averaging 79.3% of total revenues for the last three years. This makes the District vulnerable to economic downturns. The loss of $19 million in property tax revenue between 2008 and 2011, makes it extremely challenging for the District to maintain current service levels.

Other large revenue sources are charges for services and grant revenue. In prior years development fees were significant, but this is no longer the case with just $671,000 from development fees in 2011 to invest in infrastructure.





A summary of the District's Revenue Sources is presented below:

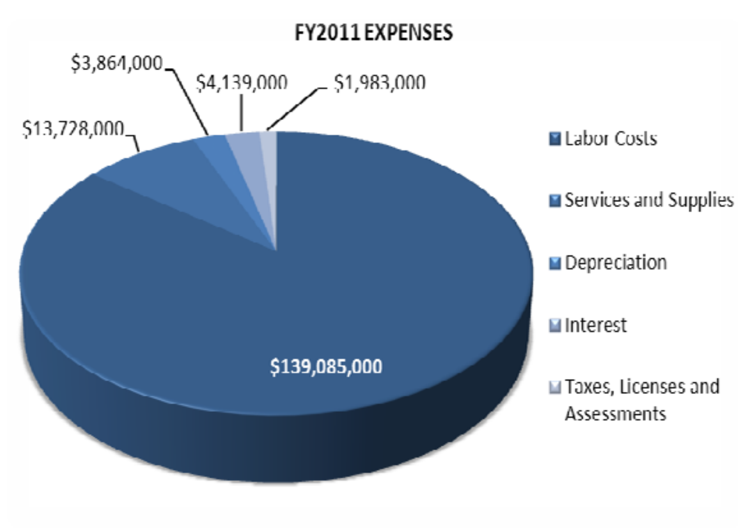
CONDENSED STATEMENT OF REVENUES BY SOURCE
FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011
(in thousands)

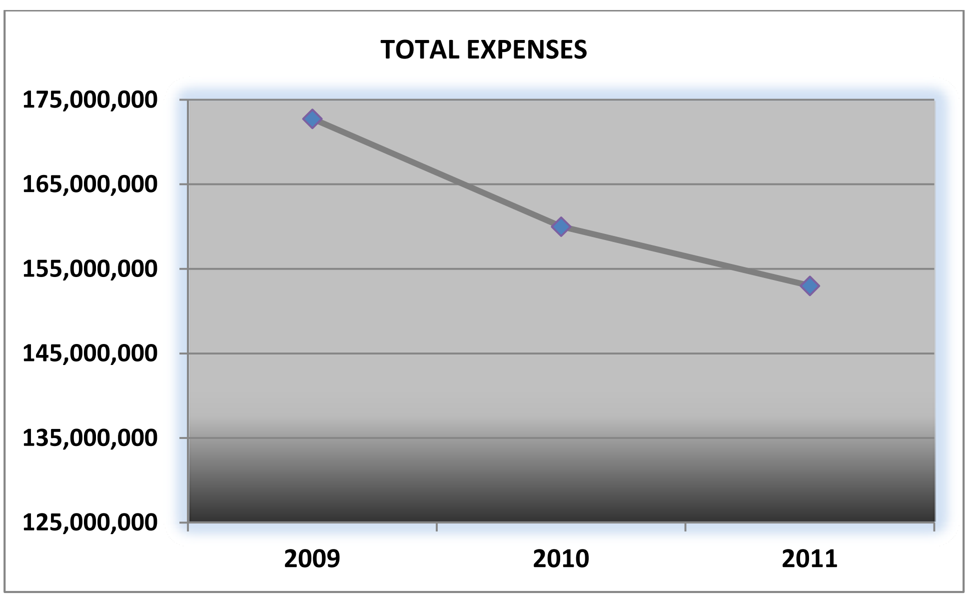
	2009	2010	2011	Change 2009 to 2011	% of Change
General revenues					
Property taxes & assessments	$ 126,816	$ 114,845	$ 111,182	$ (15,635)	-12.3%
Intergovernmental	2,219	2,456	2,308	89	4.0%
Use of money & property	1,157	327	101	(1,056)	-91.3%
Miscellaneous	461	422	145	(317)	-68.6%
Gain (loss) disposal of assets	340	506	(132)	(472)	-138.7%
Total general revenues	130,993	118,556	113,603	(17,390)	-13.3%
Program revenues					
Charges for services	18,163	18,158	19,676	1,513	8.3%
Development fees	1,368	893	671	(696)	-50.9%
Capital grants, oper grants, contributions	5,097	4,371	7,079	1,982	38.9%
Reimbursements/Other	3,756	1,728	1,066	(2,690)	-71.6%
Total revenues	28,383	25,150	28,493	109	0.4%
Total revenues	$ 159,376	$ 143,706	$ 142,096	$ (17,280)	-10.8%

EXPENSES

Overall expenses for fiscal year 2011 increased by $2.9 million over fiscal year 2010, but were still $9.9 below fiscal year 2009. Labor cost increases in 2011 were held to an increase of 1.7%, or $2.2 million, over 2010 and were 5.9% below 2009. Service and supplies had a $3.6 million increase in 2011 over 2010 mostly from increases in medical supplies, utilities, fleet maintenance and fuel. Offsetting these increases was a significant decrease in the OPEB expense for fiscal year 2011. The lower OPEB expense was the result of a recent actuarial valuation.

Fewer covered employees due to the workforce reductions, as well as revisions to future insurance premiums, both contributed to a lower annual required contribution, or “ARC.”





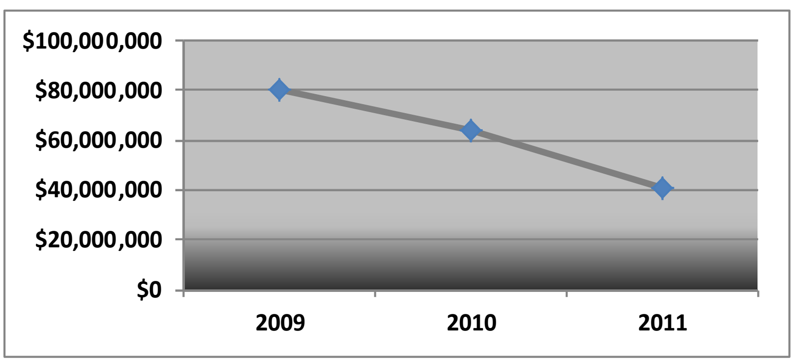
CONDENSED STATEMENT OF EXPENSES
FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011
(in thousands)

	2009	2010	2011	Change 2009 to 2011	% of Change
Public protection					
Salaries and personnel	$ 137,078	$ 126,844	$ 129,058	$ (8,020)	-5.9%
Other Post Employment Benefits	13,886	13,228	10,027	(3,859)	-27.8%
Services, supplies and materials	11,746	10,117	13,728	1,982	16.9%
Taxes, licenses and assessments	1,764	2,019	1,983	219	12.4%
Total public protection	164,474	152,208	154,796	(9,678)	-5.9%
Interest	4,305	3,872	4,139	(166)	-3.9%
Depreciation	3,968	3,841	3,864	(104)	-2.6%
TOTAL EXPENSES	$ 172,747	$ 159,920	$ 162,799	$ (9,948)	-5.8%

CHANGES IN NET ASSETS

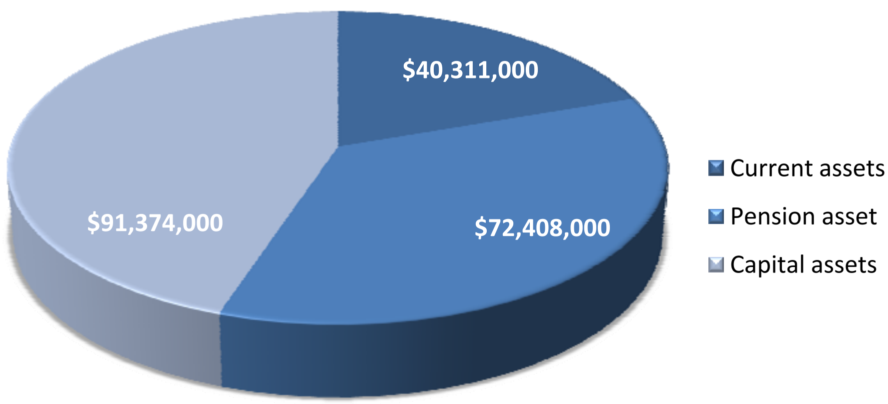
As noted earlier changes of net assets is trending downward from 2009 to 2011. This is a result of the use of reserves to address the budget deficits generated by the significant property tax revenue losses.

NET ASSETS	
June 30, 2009	$ 80,285,000
June 30, 2010	$ 64,071,000
June 30, 2011	$ 43,370,000



ASSETS

As shown on page 7, the District's assets are comprised of Current and Other Assets, Pension Assets, and Capital Assets. Current and Other Assets decreased $14.6 million from fiscal year 2010 to 2011 due to the use of cash reserves to fund the District's deficit. Pension Assets increased $3.2 million from 2010 to 2011, due to an additional year of investment income, offset by the amortization of the net pension asset. Lastly, Capital Assets increased $16.7 million from 2010 to 2011 due to the new assets purchased for District operations as previously discussed.



LIABILITIES

Current liabilities include amounts for trade payables, salaries and benefits payable, deferred and unearned revenue, accrued interest payable and the current portion of long-term liabilities. Those amounts increased by a total of $3.5 million in fiscal year 2011. The largest increase was from amounts due within one year on the new capital lease of $1.1 million.

Long-term liabilities include the capital lease, pension obligation bonds, compensated absences, OPEB liability and workers' compensation liability.

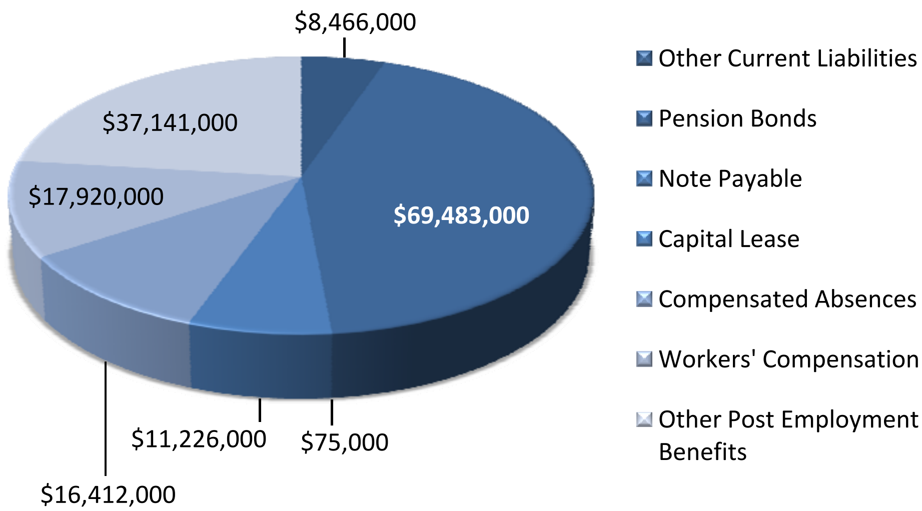
Since the recession hit, the District has been postponing its emergency fleet purchases. Facing an aging emergency vehicle fleet and increased demands for services, the District financed $11.2 million of emergency response apparatus in fiscal year 2011. The new capital lease was used for the financing. The emergency response apparatus includes 12 ambulances, 20 pumper engines and 2 tractor drawn aerials. Pumpers and aerials are financed for ten years at 2.88% with annual payments of $1.1 million, and the Ambulance Units are financed for five years at 2.17% with annual payments of $340,000.

Payments on the pension obligation bonds during fiscal year 2011 reduced the obligation by $1.2 million, while accreted interest added $897,000 to the balance for a net decrease of $328,000 in the pension obligation bonds at June 30, 2011.

Compensated balances represent unpaid time off, sick leave and compensatory time off in lieu of overtime pay. During fiscal year 2011 the balance increased $536,000.

The District is currently funding retiree benefits on a "pay as you go basis." In fiscal year 2011, $5.6 million was spent on retiree benefits. The difference between the ARC and the "pay as you go" payments was added to the OPEB liability during fiscal year 2011. The OPEB liability on the financial statements is $37 million at June 30, 2011.

The workers' compensation liability is actuarially determined and increased $2 million in the most recent valuation. The District is self-insured for workers' compensation claims. Claims, expenditures, and liabilities are reported when it is probable that a loss has occurred and the loss amount can be reasonably estimated. The actuarial estimated claims liability for workers' compensation on June 30, 2011 was $17.9 million. The District currently maintains $4 million in its workers' compensation dedicated reserve account and has excess insurance coverage of $1 million when an individual claim exceeds $2.5 million.



Other current liabilities exclude the current portions of other listed obligations.

FUND BALANCE

In fiscal year 2011 the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement established new fund balance classifications that comprise a hierarchy of fund balance resources that have been reflected in the General Fund, fund balances. For more information see Note H to the financial statements. Overall fund balance declined $12.7 million during fiscal year 2011. Large items contributing to the decreasing in fund balance were the excess of expenditures over revenues, and the investment of $20.8 million in capital assets. One large item increasing the fund balance in 2011 was the funds received from the $11.2 million capital lease discussed earlier.

DEBT ADMINISTRATION

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

FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011
(in thousands)

	June 30, 2009	June 30, 2010	June 30, 2011
Pension bonds payable	$ 69,995	$ 69,810	$ 69,483
Notes payable	95	85	75
Capital lease	-	-	11,226
Total Long-Term Debt	$ 70,090	$ 69,895	$ 80,784

The Board of Directors of the District has adopted a policy to plan and budget for the extinguishment of the outstanding pension bond obligations at the earliest possible date. Board policy requires that each budget year, the District budget for the bi-annual principal and interest payments. In addition, the policy also requires budgetary provisions to set aside an annual deposit payment increasing by 1% each year in preparation for the eventual extinguishment of the series bonds, A and B, in 2018 and 2025, respectively. The funding policy assumes a 4.5% interest earnings rate to reach its goal. Investment earnings, however, have been historically low and consequently, the District will need to revisit its earnings assumptions. Additional detail regarding long-term debt is located in Note E of the financial statements.

This table reflects the new capital lease discussed earlier. An additional borrowing was done in December 2011 to finance the acquisition of, and improvements to, the new headquarters building at Mather, along with certain equipment purchases. (See Note L for a discussion of the new Lease Revenue Bonds.)

Annually the District posts continuing disclosure information on the pension bond payable.

In conjunction with the December 2011 debt issuance, Standard and Poor's rated the District's credit as a favorable AA-.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary fund variances are monitored by the Board of Directors at each monthly Finance Committee meeting. During the year, the District revised its budget to lower revenue by $6 million as revenue came in lower than expected from just about all sources. Actual revenue was an additional $867,000 below the budget as revised. Overall expenditures were $696,000 below budget. So the net budget variance is a negative $165,000. The fiscal year 2011 expenditures over revenue on the governmental fund budget was a $14.7 million deficit. District reserves were used to make up the shortfall. Fiscal year 2012 budget was originally in balance without the use of reserve funds. As discussed previously, a budget assessment is currently being done due to negative variances in labor cost and property tax receipts.

OBTAINING ADDITIONAL INFORMATION

These financial reports are intended to provide The District's elected officials, citizens, investors, and creditors with an assessment 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: Office of the Fire Chief, Sacramento Metropolitan Fire District, 10565 Armstrong Avenue, Mather, CA 95655. More information on the District's operations can also be found on its website www.sacmetro.com.

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2011

	General Fund	Adjustments (Note M)	Statement of Net Assets
ASSETS			
Cash and investments	$ 24,236,246		$ 24,236,246
Receivables, net of			
allowance for uncollectibles:			
Medic fees receivable	4,391,410		4,391,410
Interest receivable	21,372		21,372
Taxes receivable	2,479,761		2,479,761
Other receivables	12,700		12,700
Due from other governments	2,468,395		2,468,395
Inventory	2,742,172		2,742,172
Prepaid costs and other assets	123,123		123,123
Restricted assets:			
Cash and investments	3,382,337		3,382,337
Unamortized bond issuance costs		$ 453,007	453,007
Pension asset		72,407,929	72,407,929
Capital assets:			
Not being depreciated		42,334,768	42,334,768
Being depreciated, net		49,039,597	49,039,597
TOTAL ASSETS	$ 39,857,516	164,235,301	204,092,817
LIABILITIES			
Accounts payable and accrued expenses	3,476,670		3,476,670
Salaries and benefits payable	4,236,406		4,236,406
Deferred and unearned revenue	4,878,945	(4,878,945)	
Accrued interest payable	64,661	689,792	754,453
Long-term liabilities:			
Due within one year	342,629	10,582,894	10,925,523
Due in more than one year		141,330,173	141,330,173
TOTAL LIABILITIES	12,999,311	147,723,914	160,723,225
FUND BALANCES/NET ASSETS			
Fund balance:			
Nonspendable	2,865,795	(2,865,795)	
Restricted	2,901,130		
Committed	13,621,642	(13,621,642)	
Unassigned	7,469,638	(7,469,638)	
Total fund balances	26,858,205	(23,957,075)	
TOTAL LIABILITIES AND FUND BALANCES	$ 39,857,516		
Net assets:			
Invested in capital assets, net of related debt		80,148,451	80,148,451
Restricted			2,901,130
Unrestricted		(39,679,989)	(39,679,989)
TOTAL NET ASSETS		$ 16,511,387	$ 43,369,592

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

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2010

	General Fund	Adjustments (Note M)	Statement of Net Assets
ASSETS			
Cash and investments	$ 33,364,130		$ 33,364,130
Receivables, net of			
allowance for uncollectibles:			
Medic fees receivable	3,327,151		3,327,151
Interest receivable	177,051		177,051
Taxes receivable	3,334,992		3,334,992
Other receivables	381,026		381,026
Due from other governments	3,786,558		3,786,558
Inventory	2,331,265		2,331,265
Prepaid costs and other assets	39,143		39,143
Restricted assets:			
Cash and investments	7,628,134		7,628,134
Unamortized bond issuance costs		$ 487,854	487,854
Pension asset		69,245,984	69,245,984
Capital assets:			
Not being depreciated		22,976,014	22,976,014
Being depreciated, net		51,736,896	51,736,896
TOTAL ASSETS	$ 54,369,450	144,446,748	198,816,198
LIABILITIES			
Accounts payable and accrued expenses	$ 2,628,154		2,628,154
Salaries and benefits payable	2,871,553		2,871,553
Deferred and unearned revenue	6,912,280	(6,912,280)	-
Accrued interest payable	3,365	456,958	460,323
Long-term liabilities:			
Due within one year	354,584	9,567,064	9,921,648
Due in more than one year		118,863,383	118,863,383
TOTAL LIABILITIES	12,769,936	121,975,125	134,745,061
FUND BALANCES/NET ASSETS			
Fund balance:			
Nonspendable	2,370,908	(2,370,908)	
Restricted	7,608,994		
Committed	19,103,311	(19,103,311)	
Unassigned	12,516,301	(12,516,301)	
Total fund balances	41,599,514	(33,990,520)	
TOTAL LIABILITIES AND FUND BALANCES	$ 54,369,450		
Net assets:			
Invested in capital assets, net of related debt		74,712,910	74,712,910
Restricted			7,608,994
Unrestricted		(18,250,767)	(18,250,767)
TOTAL NET ASSETS		$ 22,471,623	$ 64,071,137

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, 2011

	General Fund	Adjustments (Note M)	Statement of Activities
PROGRAM REVENUES			
Charges for services	$ 18,521,065	$ 1,155,374	$ 19,676,439
Reimbursements from other agencies	1,417,163	(359,142)	1,058,021
Development fees	670,997		670,997
Capital grants and contributions	1,337,199	571,783	1,908,982
Operating grants and contributions	7,079,009	(1,908,834)	5,170,175
Fines, forfeitures, and penalties	8,169		8,169
TOTAL PROGRAM REVENUES	29,033,602	(540,819)	28,492,783
EXPENDITURES/EXPENSES			
Current:			
Public protection	145,362,703	9,433,091	154,795,794
Capital outlay	20,790,074	(20,790,074)	-
Debt service:			
Principal	1,235,675	(1,235,675)	-
Interest	2,973,820	1,165,026	4,138,846
Depreciation		3,863,875	3,863,875
TOTAL EXPENDITURES/EXPENSES	170,362,272	(7,563,757)	162,798,515
NET PROGRAM EXPENSE	(141,328,670)	7,022,938	(134,305,732)
GENERAL REVENUES			
Property taxes and assessments	112,080,077	(898,187)	111,181,890
Intergovernmental	2,897,007	(589,250)	2,307,757
Use of money and property	100,611		100,611
Miscellaneous	150,584	(5,079)	145,505
Gain on disposal of assets		(131,576)	(131,576)
TOTAL GENERAL REVENUES	115,228,279	(1,624,092)	113,604,187
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(26,100,391)	5,398,846	(20,701,545)
OTHER FINANCING SOURCES:			
Proceeds from capital leases	11,225,914	(11,225,914)	-
Proceeds from sale of assets	133,168	(133,168)	-
TOTAL OTHER FINANCING SOURCES (USES)	11,359,082	(11,359,082)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(14,741,309)	(5,960,236)	(20,701,545)
Fund balance/net assets, beginning of year	41,599,514	22,471,623	64,071,137
FUND BALANCE/NET ASSETS, END OF YEAR	$ 26,858,205	$ 16,511,387	$ 43,369,592

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, 2010

	General Fund	Adjustments (Note M)	Statement of Activities
PROGRAM REVENUES			
Charges for services	$ 18,464,189	$ (305,388)	$ 18,158,801
Reimbursements from other agencies	1,843,061	(128,442)	1,714,619
Development fees	893,121		893,121
Capital grants and contributions		82,667	82,667
Operating grants and contributions	3,071,405	1,216,441	4,287,846
Fines, forfeitures, and penalties	13,834		13,834
TOTAL PROGRAM REVENUES	24,285,610	865,278	25,150,888
EXPENDITURES/EXPENSES			
Current:			
Public protection	140,181,808	12,025,924	152,207,732
Capital outlay	739,765	(739,765)	-
Debt service:			
Principal	1,044,981	(1,044,981)	-
Interest	2,987,504	884,418	3,871,922
Depreciation		3,840,572	3,840,572
TOTAL EXPENDITURES/EXPENSES	144,954,058	14,966,168	159,920,226
NET PROGRAM EXPENSE	(120,668,448)	(14,100,890)	(134,769,338)
GENERAL REVENUES			
Property taxes and assessments	116,508,904	(1,663,873)	114,845,031
Intergovernmental	2,588,949	(132,838)	2,456,111
Use of money and property	326,570		326,570
Miscellaneous	440,295	(18,054)	422,241
Gain on disposal of assets		505,604	505,604
TOTAL GENERAL REVENUES	119,864,718	(1,309,161)	118,555,557
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(803,730)	(15,410,051)	(16,213,781)
OTHER FINANCING SOURCES:			
Proceeds from sale of assets	631,008	(631,008)	-
TOTAL OTHER FINANCING SOURCES (USES)	631,008	(631,008)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(172,722)	(16,041,059)	(16,213,781)
Fund balance/net assets, beginning of year	41,772,236	38,512,682	80,284,918
FUND BALANCE/NET ASSETS, END OF YEAR	$ 41,599,514	$ 22,471,623	$ 64,071,137

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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
REVENUES				
Taxes and assessments	$115,194,689	$113,818,592	$112,080,077	$ (1,738,515)
Intergovernmental	13,091,680	11,307,908	11,313,215	5,307
Charges for services	20,171,018	18,422,642	18,521,065	98,423
Reimbursements from other agencies			1,417,163	1,417,163
Development fees	1,350,000	1,000,000	670,997	(329,003)
Use of money and property	348,165	176,165	100,611	(75,554)
Fines, forfeitures, and penalties	14,456	10,935	8,169	(2,766)
Miscellaneous	823,600	392,855	150,584	(242,271)
TOTAL REVENUES	150,993,608	145,129,097	144,261,881	(867,216)
EXPENDITURES				
Current:				
Public protection				
Salaries and personnel	133,846,286	130,054,992	129,650,797	404,195
Services and supplies	13,350,537	13,964,819	13,728,419	236,400
Other	2,110,721	1,987,779	1,983,487	4,292
Capital outlay	14,956,024	13,793,224	9,564,160	4,229,064
Debt service:				
Principal		9,500	1,235,675	(1,226,175)
Interest	12,000	22,000	2,973,820	(2,951,820)
TOTAL EXPENDITURES	164,275,568	159,832,314	159,136,358	695,956
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	(13,281,960)	(14,703,217)	(14,874,477)	(171,260)
OTHER FINANCING SOURCES				
Proceeds from sale of assets	251,207	126,602	133,168	6,566
TOTAL OTHER FINANCING SOURCES	251,207	126,602	133,168	6,566
NET CHANGE IN FUND BALANCE	$ (13,030,753)	$ (14,576,615)	$ (14,741,309)	$ (164,694)

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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)
REVENUES				
Taxes and assessments	$118,758,712	$118,758,710	$116,508,904	$ (2,249,806)
Intergovernmental	9,749,761	9,749,761	5,660,354	(4,089,407)
Charges for services	18,002,515	18,002,515	18,464,189	461,674
Reimbursements from other agencies			1,843,061	1,843,061
Development fees	1,627,091	1,627,091	893,121	(733,970)
Use of money and property	303,274	622,863	326,570	(296,293)
Fines, forfeitures, and penalties	20,587	20,587	13,834	(6,753)
Miscellaneous	1,244,615	1,244,615	440,295	(804,320)
TOTAL REVENUES	149,706,555	150,026,142	144,150,328	(5,875,814)
EXPENDITURES				
Current:				
Public protection				
Salaries and personnel	132,188,893	132,188,893	128,045,471	4,143,422
Services and supplies	12,869,634	12,869,634	10,117,137	2,752,497
Other	2,036,440	2,036,440	2,019,200	17,240
Capital outlay	2,530,680	2,535,680	739,765	1,795,915
Debt service:				
Principal	127,000	127,000	1,044,981	(917,981)
Interest	257,000	257,000	2,987,504	(2,730,504)
TOTAL EXPENDITURES	150,009,647	150,014,647	144,954,058	5,060,589
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	(303,092)	11,495	(803,730)	(815,225)
OTHER FINANCING SOURCES				
Proceeds from sale of assets	1,183	1,183	631,008	629,825
TOTAL OTHER FINANCING SOURCES	1,183	1,183	631,008	629,825
NET CHANGE IN FUND BALANCE	$ (301,909)	$ 12,678	$ (172,722)	$ (185,400)

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

SACRAMENTO METROPOLITAN FIRE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011 and 2010

	2011	2010
ASSETS:		
Cash and investments, at fair value	$ 11,610	$ 28,099
Total assets	$ 11,610	$ 28,099
NET ASSETS:		
Held in trust for pension benefits	$ 11,610	$ 28,099
Total net assets	$ 11,610	$ 28,099

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, 2011 and 2010

	2011	2010
Additions:		
Investment income	$ 868	$ 112,858
Employer contributions	5,000	
Total revenues	5,868	112,858
Deductions:		
Benefits paid	22,347	830,610
Administrative fees	10	1,873
Total expenditures	22,357	832,483
Change in net assets	(16,489)	(719,625)
Net assets, beginning of year	28,099	747,724
Net assets, end of year	$ 11,610	$ 28,099

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

NOTE A–REPORTING ENTITY AND 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 417 square miles that include Sacramento and Placer counties with a population exceeding 640,000 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 operates forty-two fire stations, an administration building, a fire prevention/supply warehouse building, a training facility, fleet maintenance shops, and employs approximately 750 people.

Joint Power 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) and the Special District Risk Management Authority (SDRMA), for which the District participation does not involve an ongoing financial interest or responsibility. The amounts paid to SDRMA are for insurance coverage. The amounts paid to these jointly governed organizations consist of the following:

	2011	2010
CFRTA	$ 45,000	$ 46,000
SRFECC	2,487,853	2,448,674
SDRMA	443,416	454,119

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.

NOTE A–REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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. 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.

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.

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. No significant supplemental appropriations were required during the years ended June 30, 2011 and 2010. 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 prepared on the budgetary basis of accounting and does not include the capital lease proceeds of $11,225,914 that are recorded as proceeds from capital lease and capital outlay expenditures on the GAAP basis.

Restricted Assets: The District's restricted assets consist of fees collected to defray the cost of constructing facilities to serve new construction, amounts held for payment of workers compensation claims and amounts held for the District's flexible spending plan.

NOTE A–REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medic Fees Receivable: Accounts receivable arise from billings to insurance companies and patients medic services. The District has provided an allowance for doubtful accounts of $4,046,009 and $2,950,492 at June 30, 2011 and 2010, respectively.

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 an expenditure 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 20

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.

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 maintained in tanks.

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 are offset by a reservation of fund balance to indicate they do not constitute resources available for future appropriation.

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, which are 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

NOTE A–REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

<u>Long-term Obligations</u>: 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 reported as deferred charges and are amortized over the life of the related debt.

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.

<u>Property Taxes</u>: 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 only if they are received from the County within 60 days after year-end for the governmental funds and are accrued when earned for the government-wide presentation regardless of the timing of the related cash flows.

NOTE A–REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reimbursements from Other Agencies: 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 Accounting Pronouncements: In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement was implemented as of June 30, 2011.

NOTE B–CASH AND INVESTMENTS

At June 30, 2011 and 2010, the District's cash and investments are classified in the accompanying financial statements as follows:

	2011	2010
Cash and investments	$ 24,236,246	$ 33,364,130
Restricted cash and investments	3,382,337	7,628,134
Investments in fiduciary fund	11,610	28,099
	$ 27,630,193	$ 41,020,363

Cash and investments as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
Cash on hand	$ 500	$ 500
Deposits with financial institutions	182,745	239,785
Total cash	183,245	240,285
Investment in Sacramento County Pooled Investment Fund		
Investment Fund	19,668,441	32,984,889
Held by pension plan trustee		
Money market mutual funds	6,071	3,081
Mutual funds	5,539	25,018
Held by pension bond trustee		
Money market mutual funds	7,766,897	7,767,090
Total investments	27,446,948	40,780,078
Total	$ 27,630,193	$ 41,020,363

NOTE B–CASH AND INVESTMENTS (CONTINUED)

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 below 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.

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.

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:

		Effective Duration	
	Total	12 Months Or Less	25 to 60 Months
Investment in Sacramento County Pooled Investment Fund	$ 19,668,441	$ 19,668,441	
Held by pension plan trustee			
Money market mutual funds	6,071	6,071	
Mutual funds	5,539		$ 5,539
Held by pension bond trustee			
Money market mutual funds	7,766,897	7,766,897	
Total at June 30, 2011	$ 27,446,948	$ 27,441,409	$ 5,539

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 required by (where applicable) the California Government Code or the District's Investment Policy, and the actual rating as of the year end for each investment type. 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.

			Ratings as of Year End	
	Total	Minimum Legal Rating	AAA	Not Rated
Investment in Sacramento County Pooled Investment Fund	$ 19,668,441	N/A		$ 19,668,441
Held by pension plan trustee				
Money market mutual funds	6,071	N/A	$ 6,071	
Mutual funds	5,539	N/A		5,539
Held by pension bond trustee				
Money market mutual funds	7,766,897	N/A	7,766,897	
Total at June 30, 2011	$ 27,446,948		$ 7,772,968	$ 19,673,980

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, 2011 and 2010, 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 also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits.

At June 30, 2011, the carrying value of the District's deposits was $182,745 and the balance in financial institutions was $305,355. Of the balance in financial institutions, $259,251 was covered by federal deposit insurance and $46,104 was uninsured, but collateralized. At June 30, 2010, the carrying value of the District's deposits was $239,785 and the balance in financial institutions was $315,527. Of the balance in financial institutions, $254,034 was covered by federal deposit insurance and $61,493 was uninsured. State Law (Government Code Section 53630) requires that the uninsured amount be collateralized by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Investment in Sacramento County Pooled Investment Fund: The District's investments in the Sacramento County pooled investment fund are stated at fair value or amortized cost, which approximates fair value. The total amount invested by all public agencies as of June 30, 2011 was $2,527,299,059 and as of June 30, 2010 was $2,463,940,790 and is managed by the Sacramento County Treasurer. 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.

NOTE C–CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	Balance July 1, 2010	Additions	Transfers	Disposals	Balance June 30, 2011
Capital assets, not being depreciated:					
Land	$ 22,000,942	$ 2,717		$ (51,300)	$ 21,952,359
Construction-in-progress	975,072	19,950,109	$ (542,772)		20,382,409
Total capital assets, not being depreciated	22,976,014	19,952,826	(542,772)	(51,300)	42,334,768
Capital assets, being depreciated:					
Buildings and improvements	47,453,494	215,686			47,669,180
Equipment	48,648,350	621,562	542,772	(2,080,091)	47,732,593
Total capital assets, being depreciated	96,101,844	837,248	542,772	(2,080,091)	95,401,773
Less accumulated depreciation for:					
Buildings and improvements	(13,652,587)	(973,923)			(14,626,510)
Equipment	(30,712,361)	(2,889,952)		1,866,647	(31,735,666)
Total accumulated depreciation	(44,364,948)	(3,863,875)		1,866,647	(46,362,176)
Total capital assets, being depreciated, net	51,736,896	(3,026,627)	542,772	(213,444)	49,039,597
Total capital assets for governmental activities	$ 74,712,910	$ 16,926,199	$ -	$ (264,744)	$ 91,374,365

	Balance July 1, 2009	Additions	Transfers	Disposals	Balance June 30, 2010
Capital assets, not being depreciated:					
Land	$ 22,095,142			$ (94,200)	$ 22,000,942
Construction-in-progress	668,553	$ 332,315	$ (25,796)		975,072
Total capital assets, not being depreciated	22,763,695	332,315	(25,796)	(94,200)	22,976,014
Capital assets, being depreciated:					
Buildings and improvements	47,567,821	139,756	24,142	(278,225)	47,453,494
Equipment	48,685,886	267,694		(305,230)	48,648,350
Total capital assets, being depreciated	96,253,707	407,450	24,142	(583,455)	96,101,844
Less accumulated depreciation for:					
Buildings and improvements	(12,944,633)	(982,826)		274,872	(13,652,587)
Equipment	(28,108,860)	(2,857,746)		254,245	(30,712,361)
Total accumulated depreciation	(41,053,493)	(3,840,572)		529,117	(44,364,948)
Total capital assets, being depreciated, net	55,200,214	(3,433,122)	24,142	(54,338)	51,736,896
Total capital assets for governmental activities	$ 77,963,909	$ (3,100,807)	$ (1,654)	$ (148,538)	$ 74,712,910

Net depreciation expense of $3,863,875 and $3,840,572 was recorded for the years ended June 30, 2011 and 2010, respectively.

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 retired former employee and 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. The District's policy is to pay the employees' share of required contributions. Required contributions of active plan members and of the District were as follows:

	Fiscal Years Ended June 30,	
	2011	2010
PERS Safety Plan:		
Plan participants	9.00%	9.00%
District		
Rate	27.326%	25.715%
Optional annual lump sum prepayment	$ 20,469,069	$ 18,914,261
See Annual Pension Cost and Net Pension Asset section for actual contributions		
PERS Miscellaneous Plan:		
Plan participants	8.00%	8.00%
District		
Rate	13.179%	12.763%
Optional annual lump sum prepayment	$ 938,706	$ 862,946
Required contributions	$ 1,357,490	$ 1,325,140
Contributions made	$ 1,357,490	$ 1,325,140
SCERS Plan (Safety Tier 1):		
Plan participants	12.30%	12.16%
District	49.86%	39.25%
Required contributions	$ 188,995	$ 194,294
Contributions made	$ 188,995	$ 194,294

Contribution rates and amounts for each plan are actuarially determined annually by the respective administrators. For the fiscal years ended June 30, 2011 and 2010, the District funded the lump sum prepayment amount for the employer portion of the plans administered by PERS. All other required contributions were made each pay period, based on required contribution rates.

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. The one former retired employee took a lump-sum distribution in November, 2009, leaving one surviving spouse of a retired employee as the sole remaining participant in the SCFPDP Plan. No contributions were required or made during the year ending June 30 2010. The District made a $5,000 contribution to the SCFPDP Plan during the year ended June 30, 2011.

NOTE D–RETIREMENT PLAN (CONTINUED)

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.

Annual Pension Cost and Net Pension Asset—PERS Safety Plan: For the PERS Safety Plan, the annual pension cost and net pension asset was as follows:

	Year ended June 30,	
	2011	2010
Annual required contribution (ARC)	$ 26,146,048	$ 24,852,574
Less interest on net pension asset	(4,581,049)	(4,505,359)
Plus amortization of pension asset	2,589,032	3,528,714
Annual pension cost	24,154,031	23,875,929
Contributions made	26,146,048	24,852,574
Increase in net pension asset	1,992,017	976,645
Net pension asset - beginning of year	59,110,313	58,133,668
Net pension asset - end of year	$ 61,102,330	$ 59,110,313

Three-year Trend Information for PERS Safety Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2009	$ 19,890,410	105%	$ 58,133,668
6/30/2010	23,875,929	104%	59,110,313
6/30/2011	24,154,031	108%	61,102,330

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, 2010, the most recent actuarial valuation date, the Safety Plan was 80% funded. The actuarial liability for benefits was $757.9 million and the actuarial value of assets was $603.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $154.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $62.7 million, and the ratio of the UAAL to the covered payroll was 247%.

The schedule of funding progress, presented as RSI below, 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, 2010 and 2009, actuarial valuation for the Safety Plan, the entry age normal cost method was used to determine the required contribution. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.55% to 13.15% depending on age, service and type of employment and (c) an inflation component of 3.0%, 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, 2010 and 2009, was 30 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 above, pension assets exist for the Miscellaneous Plan and SCERS Plan as follows:

	2011	2010
Miscellaneous Plan	$ 1,083,619	$ 967,373
SCERS Plan	10,221,980	9,168,298
	$ 11,305,599	$ 10,135,671

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the PERS Safety Plan

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]**
6/30/2005	$ 420,950,938	$ 453,098,511	$ 32,147,573	93%	$ 57,413,898	56%
6/30/2006	456,310,774	506,081,753	49,770,979	90%	61,503,795	81%
6/30/2007	501,988,835	599,888,655	97,899,820	84%	69,364,626	141%
6/30/2008	542,351,006	664,882,903	122,531,897	82%	70,203,763	175%
6/30/2009	570,524,919	720,740,716	150,215,997	79%	68,303,685	220%
6/30/2010	603,000,919	757,949,033	154,948,114	80%	62,741,464	247%

NOTE E–LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the years ended June 30, 2011 and 2010.

	Balance July 1, 2010	Additions	Repayments	Balance June 30, 2011	Amounts Due within One Year
Pension bonds payable	$ 69,810,255	$ 897,345	$ (1,225,000)	$ 69,482,600	$ 1,420,000
Note payable	85,184		(10,675)	74,509	11,419
Compensated absences	15,876,431	535,663		16,412,094	4,740,990
Capital lease		11,225,914		11,225,914	1,150,189
Workers compensation liability	15,898,999	4,912,549	(2,891,754)	17,919,794	3,602,925
Liability for other post-employment benefits	27,114,162	15,626,819	(5,600,196)	37,140,785	
	$ 128,785,031	$ 33,198,290	$ (9,727,625)	$ 152,255,696	$ 10,925,523

	Balance July 1, 2009	Additions	Repayments	Balance June 30, 2010	Amounts Due within One Year
Pension bonds payable	$ 69,995,340	$ 849,915	$ (1,035,000)	$ 69,810,255	$ 1,225,000
Note payable	95,165		(9,981)	85,184	10,676
Compensated absences	17,131,840		(1,255,409)	15,876,431	4,917,909
Workers compensation liability	14,341,379	3,770,714	(2,213,094)	15,898,999	3,768,063
Liability for other post-employment benefits	13,886,293	17,889,926	(4,662,057)	27,114,162	
	$ 115,450,017	$ 22,510,555	$ (9,175,541)	$ 128,785,031	$ 9,921,648

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 four 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.

NOTE E–LONG-TERM LIABILITIES (CONTINUED)

At June 30, 2011, pension bonds payable maturities based on the fully accreted amounts are as follows:

Year ended June 30,	Principal	Interest	Total
2012	$ 1,420,000	$ 2,711,785	$ 4,131,785
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
2017-2021	12,725,000	13,214,569	25,939,569
2022-2026	13,360,000	13,119,526	26,479,526
2027-2031	22,600,000	8,613,750	31,213,750
2032-2034	19,950,000	2,058,750	22,008,750
	$ 78,020,000	$ 49,779,481	$ 127,799,481

Note Payable: The District is obligated under a loan evidenced by a note payable secured by a deed of trust on one of its fire stations. The loan bears interest at 6.75% and matures January 28, 2017. Monthly principal and interest payments of $1,342 are required.

At June 30, 2011, the note payable maturities are as follows:

Year ended June 30,	Principal	Interest	Total
2012	$ 11,419	$ 4,680	$ 16,099
2013	12,214	3,885	16,099
2014	13,065	3,035	16,100
2015	13,974	2,125	16,099
2016	14,948	1,152	16,100
2017	8,889	196	9,085
	$ 74,509	$ 15,073	$ 89,582

This note payable was paid in full in November, 2011. (See Note L.)

NOTE E–LONG-TERM LIABILITIES (CONTINUED)

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. Fixed assets acquired under the capital leases consist of equipment totaling $11,225,913. There was no accumulated depreciation at June 30, 2011 because the assets were not yet placed into service. As of June 30, 2011, future minimum lease payments under the capital lease obligation are as follows:

Fiscal Year Ending June, 30:	
2012	$ 1,462,172
2013	1,462,172
2014	1,462,172
2015	1,462,172
2016	1,462,172
2017-2021	5,610,820
Total payments	12,921,680
Less: amounts representing interest	(1,695,766)
Net present value of future minimum lease payments	$ 11,225,914

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. The purpose of the SDRMA 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.

The District's deductible and coverage are as follows:

Coverage	SDRMA	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
Employee dishonesty	400,000	25,000

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

NOTE F–INSURANCE (CONTINUED)

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 years ended June 30, 2011 and 2010 are as follows:

Fiscal year ending June 30	Beginning of Fiscal Year Liability	Current Claims and Changes in Prior Estimates	Payments on Claims	End of Fiscal Year Liability
2010	$ 14,341,379	$ 3,770,714	$ (2,213,094)	$ 15,898,999
2011	15,898,999	4,912,549	(2,891,754)	17,919,794

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 between the District, its non-represented employees and the unions representing 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 contribution is capped at the greater of the non-Medicare eligible Blue Shield and Kaiser family premiums ($1,584 for 2011 and $1,501 for 2010). 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 years 2011 and 2010, 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 unions representing District employees. The District contributed $5,600,196 and $4,662,057 during the years ended June 30, 2011 and 2010, respectively, 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.

NOTE G—OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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

	2011	2010
Annual required contribution	$ 15,591,519	$ 18,316,000
Interest on net OPEB obligation	1,220,137	624,883
Adjustment to annual required contribution	(1,184,837)	(1,050,957)
Annual OPEB cost (expense)	15,626,819	17,889,926
Contributions made (premium payments made)	(5,600,196)	(4,662,057)
Increase in net OPEB obligation	10,026,623	13,227,869
Net OPEB obligation, beginning of year	27,114,162	13,886,293
Net OPEB obligation, end of year	$ 37,140,785	$ 27,114,162

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 2011 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 18,331,000	24.20%	$ 13,886,293
6/30/2010	17,889,926	26.06%	27,114,162
6/30/2011	15,626,819	35.84%	37,140,785

<u>Funded Status and Funding Progress</u>: The funded status of the Plan as of June 30, 2011, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 225,418,331
Actuarial value of Plan assets	-
Unfunded actuarial accrued liability (UAAL)	225,418,331
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	48,543,708
UAAL as a percentage of covered payroll	464.36%

NOTE G—OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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, 2011 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 9% in 2012, grading down to 4.5% for 2019 and thereafter. The initial UAAL was amortized as a level percentage of projected payroll over a fixed 28-year period as of June 30, 2011.

Required Supplementary Information
Other Postemployment Benefits Plan
Schedule of Funding Progress

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)
6/30/2009	$ -	$ 194,809,000	$ 194,809,000	0%	$ 66,540,000	292.08%
6/30/2011	$ -	$ 225,418,331	$ 225,418,331	0%	$ 48,543,708	464.36%

NOTE H—NET ASSETS/FUND BALANCES

The government-wide financial statements report net assets. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

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 that 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.

Restricted net assets consists of the following:

	2011	2010
Restricted net assets:		
Capital acquisition	$ 2,718,386	$ 7,369,209
Workers compensation account	174,296	229,930
Flexible spending account	8,448	9,855
Total restricted net assets	$ 2,901,130	$ 7,608,994

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

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 fees collected for the Elk Grove/Vineyard and Antelope areas to be used for capital expenditures in these areas. In addition, the amount includes developer and impact fees collected under Ordinance No 2-05 to mitigate the impact of providing additional fire stations and fire equipment.

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

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

NOTE H—NET ASSETS/FUND BALANCES (CONTINUED)

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.

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

Deferred compensation administration – to provide for the costs of administering the deferred compensation program.

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.

NOTE H—NET ASSETS/FUND BALANCES (CONTINUED)

The following are components of fund balances:

	2011	2010
Nonspendable:		
Inventory	$ 2,742,172	$ 2,331,265
Prepaid expenses and other assets	123,123	39,143
Petty cash	500	500
Total nonspendable fund balance	2,865,795	2,370,908
Restricted for:		
Capital acquisition	2,718,386	7,369,209
Workers compensation account	174,296	229,930
Flexible spending account	8,448	9,855
Total restricted fund balance	2,901,130	7,608,994
Committed for:		
Workers compensation claims	4,000,000	4,000,000
Deferred compensation	103,990	86,300
Other post-employment benefits	1,750,770	5,662,885
Pension bond retirement	7,766,882	9,354,126
Total committed fund balance	13,621,642	19,103,311
Unassigned	7,469,638	12,516,301
Total fund balance	$ 26,858,205	$ 41,599,514

NOTE I–LEASES

The District leases office space and equipment under various non-cancelable operating leases that expire from August, 2011 to May, 2012. As of June 30, 2011, the future minimum non-cancelable operating lease payments are as follows:

Year ending June 30	Payments
2012	$ 4,686
	$ 4,686

Total rental payments for operating leases recorded in the general fund for the years ended June 30, 2011 and 2010, were $94,260 and $84,487, respectively.

NOTE J – COMMITMENTS AND CONTINGENCIES

Commitments: The District has several outstanding purchase commitments as of June 30, 2011 totaling \$880,589. Unexpended amounts on contracts related to the training center project totaled \$367,581 at June 30, 2011.

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 K – 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, 2011 is \$54,037,454. The interest rate charged is the rate earned by the County investment pool.

NOTE L – SUBSEQUENT EVENTS

On July 27, 2011, the District signed a lease with Sutter Health for a base rent of \$743,544 annually, expected to begin January 1, 2012, for 63 months for a portion of the Armstrong building. The base rent will increase by 3% per year.

On November 15, 2011, the District sold its Lease Revenue Bonds at an average interest rate of 4.89% with a face value of \$12,960,000, of which \$11,786,000 is 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 \$74,009. The debt service on the bonds is \$1,322,000 per year until May 15, 2016 and then drops to \$675,000 per year until 2041. Standard & Poor's Rating Agency rated the bonds at AA-. The District estimates that \$10.4 million of the proceeds has been spent and the remaining \$2.7 million will be drawn down as expenditures are incurred.

On December 19, 2011, the District entered into a ground lease agreement with the California Fire and Rescue Training Authority (CFRTA) whereby the District will lease eight and one quarter acres of land to CFRTA within the property owned by the District 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 CFRTA. In addition, the CFRTA reimbursed the District \$1,521,794, received upon the signing of the lease on December 19, 2011, for costs incurred in the planning, design and construction of the civil work on the leased property.

On December 8, 2011, the Board approved executing an agreement for the development and construction of an emergency management and Homeland Security simulator to be funded with a grant from the California Emergency Management Agency of up to \$4 million.

NOTE M– 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 are as follows:

	2011	2010
Fund balances - Total Governmental Funds	$ 26,858,205	$ 41,599,514
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.	91,374,365	74,712,910
Pension asset of the governmental activities is not a financial resource and, therefore, is not reported in the funds.	72,407,929	69,245,984
Governmental funds report debt issuance costs (deferred charges) as part of debt service expenditures, whereas these amounts are deferred and amortized in the Government-wide Statement of Activities.	453,007	487,854
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds.	4,878,945	6,912,280
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.		
Pension bonds payable	(69,482,600)	(69,810,255)
Note payable	(74,509)	(85,184)
Compensated absences	(16,224,232)	(15,647,878)
Interest payable on long-term debt	(689,792)	(456,958)
Workers compensation liability	(17,765,027)	(15,772,968)
Liability for other post-employment benefits	(37,140,785)	(27,114,162)
Capital lease	(11,225,914)	
	(152,602,859)	(128,887,405)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 43,369,592	$ 64,071,137

NOTE M– 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 are as follows:

	2011	2010
Net Change in Fund Balance - Total Governmental Funds	$ (14,741,309)	$ (172,722)
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	20,790,074	739,765
Depreciation expense	(3,863,875)	(3,840,572)
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	(133,168)	(631,008)
Gain (loss) on disposal of assets	(131,576)	505,604
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	1,235,675	1,044,981
Bond accretion	(897,345)	(849,915)
Proceeds from capital lease	(11,225,914)	
Governmental funds report debt issuance costs (deferred charges) as current expenditures, whereas these costs are deferred and amortized in the Government-wide Statement of Activities. This is the amount of issuance costs, net of amortization.	(34,847)	(34,847)
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.	(1,992,059)	(1,647,189)
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	(232,834)	344
Change in compensated absences	(576,354)	1,393,797
Change in other post-employment benefits liability	(10,026,623)	(13,227,869)

NOTE M– RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

	2011	2010
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.	$ 3,161,945	$ 1,456,992
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.	(2,033,335)	(951,142)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (20,701,545)	$ (16,213,781)