

**Central Fire Protection District of
Santa Cruz County**

Financial Statements and
Supplementary Information

June 30, 2017 and 2016



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central Fire Protection District
of Santa Cruz County
Santa Cruz, California

We have audited the accompanying financial statements of the governmental activities, and each major fund of Central Fire Protection District of Santa Cruz County as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Central Fire Protection District of Santa Cruz County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 each major fund of Central Fire Protection District of Santa Cruz County as of June 30, 2017 and 2016, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information (RSI)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, GASB 68 pension RSI and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2018, on our consideration of Central Fire Protection District of Santa Cruz County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Fire Protection District of Santa Cruz County's internal control over financial reporting and compliance.



Armanino^{LLP}
San Jose, California

May 25, 2018

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Management's Discussion and Analysis

June 30, 2017 and 2016

Central Fire Protection District of Santa Cruz County (the "District") provides fire protection and emergency response for the City of Capitola, the community of Soquel, and the unincorporated area of Live Oak. This section on the District's financial report presents our discussion and analysis of the District's financial performance and conditions during the fiscal year that ended on June 30, 2017 with comparative totals for 2016.

Description of the Basic Financial Statements

The financial statements consist of the following parts: Management's discussion and analysis; the basic financial statements government-wide; governmental fund financial statements; notes to the financial statements; and required supplementary information (budgetary comparison table).

The basic government-wide and governmental fund financial statements present the financial results on different methods of accounting. Included in the financial statements are reconciliations that explain the difference between the two methods.

Government-wide financial statements are prepared on the accrual basis of accounting and economic resources focus. The required financial statements are: Statement of Net Position and Statement of Activities. The Statement of Net Position reports all assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the long term financial position of the District is improving or deteriorating. The Statement of Activities presents information on how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is paid or received.

Governmental funds financial statements are prepared on the modified accrual basis of accounting and current financial resources focus. The required financial statements are: Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Balance Sheet shows only assets and liabilities that come due during the year or soon thereafter; no capital assets or Noncurrent liabilities are included. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports revenues for which cash has been received during or soon after the end of the year; expenditures are recorded when goods or services have been received and payment is due during the year or soon after the end of the year.

The Government-Wide and Governmental Funds financial statements show the results of the following funds:

General Fund - Most of the District's basic services are accounted for in this fund.

Vehicle Replacement Fund - The District transfers amounts to this fund to account for vehicle replacements.

Capital Outlay - The District transfers sufficient amounts to this fund to manage large facility and equipment replacement costs.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Management's Discussion and Analysis
June 30, 2017 and 2016

Description of the Basic Financial Statements (continued)

Fleet Maintenance - The District transfers amounts to this fund, a percentage of total cost covering the cost of in-house maintenance.

Economic Stability - The District transfers amounts to this fund to insulate the District and help fund the District during downturns in property tax revenue.

Condensed Government-Wide Financial Data

	<u>2017</u>	<u>2016</u>
Current assets	\$ 12,488,606	\$ 11,372,542
Station and equipment, net of accumulated depreciation	<u>9,308,999</u>	<u>9,481,114</u>
Total assets	<u>21,797,605</u>	<u>20,853,656</u>
Deferred outflows of resources	<u>5,208,048</u>	<u>2,025,422</u>
Total assets and deferred outflows of resources	<u>\$27,005,653</u>	<u>\$22,879,078</u>
Current liabilities	\$ 1,548,527	\$ 1,482,410
Noncurrent liabilities, net of current portion	<u>28,613,406</u>	<u>25,024,744</u>
Total liabilities	<u>30,161,933</u>	<u>26,507,154</u>
Deferred inflow of resources	<u>1,257,013</u>	<u>1,910,908</u>
Net position		
Net investment in capital assets	9,308,999	9,172,936
Unrestricted	<u>(13,722,292)</u>	<u>(14,711,920)</u>
Total net position (deficit)	<u>(4,413,293)</u>	<u>(5,538,984)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$27,005,653</u>	<u>\$22,879,078</u>
	<u>2017</u>	<u>2016</u>
Expenditures, net of program revenue	\$15,500,325	\$13,846,274
General revenues		
Property tax	15,703,346	14,657,823
Use of money and property (interest income)	79,076	54,378
Aid from other government agencies	410,610	376,713
Other revenues		
Insurance proceeds	83,013	183,338
Service center charges (fleet maintenance)	343,707	192,577
Other revenue	<u>6,264</u>	<u>14,127</u>
Change in net position	<u>\$ 1,125,691</u>	<u>\$ 1,632,682</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Management's Discussion and Analysis

June 30, 2017 and 2016

Financial Analysis of the District as a Whole

The District's net position increased by \$1,125,691 for the fiscal year ended June 30, 2017, or approximately 20.33 percent, to a total deficit of \$4,413,293. Of the deficit of \$4,413,293 in net position, \$9,308,999 are invested in capital assets (net of accumulated depreciation and related debt).

Financial Analysis of the District's Funds

Governmental Fund balances increased by \$1,064,922. The main reasons for the difference between the \$1,064,922 increase in District net position and the \$1,125,691 increase in fund balances, is the difference in accounting for fixed assets, pension liability, other post-employment benefits (health insurance) and long term debt payments.

Capital Assets

As of June 30, 2017, the District had invested \$16,714,830 in a broad range of capital assets including land, structures and improvements, and equipment.

Major fixed asset additions for the fiscal year ended June 30, 2017 consisted of the following:

	<u>2017</u>
Station improvements (including fleet maintenance building re-roofing)	\$ 81,207
Equipment (communication and extraction equipment and imager)	\$108,583
Mobile equipment (including mechanics truck)	\$ 87,109

Noncurrent Liabilities

At June 30, 2017, the District had \$29,703,406 in noncurrent liabilities, prior to reduction for current portion, which consist of (1) net pension liability, (2) net other postemployment benefit obligation, (3) compensated absences, and (4) a debt, the original proceeds of which were used to pre pay the CalPER's Side Fund Liability.

During the year ended June 30, 2017, the District noncurrent liabilities increased by \$3,607,782. Increase in noncurrent liabilities resulted from: an increase of \$4,705,250 in the net pension liability, an increase in other postemployment benefit obligation of \$233,300, a decrease in compensated absences of \$19,590, decrease in the land and building debt of \$308,178 due to pay off, and decrease on the debt used to pay off CalPER's Side Fund Liability of \$1,003,000 due to making required payments.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Management's Discussion and Analysis
June 30, 2017 and 2016

Budget Highlights, Economic Factors and Next Year's Budget

The District, like many local government and special districts in California, has embarked on a path to redefine services in a changing economic climate. The District is challenged by changing fiscal rules driven to address unfunded liabilities due to the economic pressure that originates from national economic policy, state legislative rule making, and funding based on local conditions. Property tax revenue has grown in 2016 & 2017, at a rate of 6.70% and 6.66% respectively, with a projected growth rate of 5.00% in 2018. The District will be challenged to creatively and thoughtfully address consistently increasing personnel benefit expenses with existing revenues. The District continues to evaluate changing conditions, anticipate future impacts, develop fiscal strategies and engage in collective bargaining that allows continued high levels of service to the community at an affordable and responsible level.

Workers' Compensation

During this reporting year of 2016/2017, the District realized a significant increase of \$108,777, or 34%, in workers' compensation cost. This is due in part to recent injury and claim experience. The current forecast by SCCFAIG is for significantly increasing workers' compensation costs over the coming years.

Public Employees Retirement System (CalPERS)

Employee retirement expense represents a significant fiscal impact on the District. The District's combined expense is approximately \$2,893,361 which is comprised of \$1,890,361 in employer contributions to CalPERS with the remaining \$1,003,000 contributed to the PERS Side Fund. Over the past several years, pension costs have significantly increased due to CalPERS receiving lower than expected returns on its investment portfolio, changes in methodology calculations, unfavorable changes in member demographics, and the lowering of its discount rate to 7% to address unfunded liabilities over a period of time. This methodology will inherently increase employer rates for several years as those funding factors are implemented.

Employee/Retiree Health Insurance

Employee and retiree health insurance premium expense is a significant annual expense subject to regulatory impact and economic conditions. Health plan rates are negotiated by the California Public Retirement System Healthcare Administration. The District continues to seek cost containment through labor negotiations with the three bargaining units. The Board of Directors has established a District contribution for employees and retirees at 85% of the third most expensive plan, while allowing for the option of enhanced medical coverage being made available if a member wishes to pay the increased cost differential.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Management's Discussion and Analysis

June 30, 2017 and 2016

Other Post-Employment Benefits (OPEB)

The District provides post-employment health benefits for employees who retire from the District. The benefits are based on the Memorandum of Understanding (MOU) with all three labor groups, and/or Board adopted Resolutions. The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), and the amount actuarially determined in accordance with GASB Statement No.45. 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 over a period not to exceed thirty years. Prior to joining a post-employment investment trust fund with the CalPERS system, the District's past practice was "pay as you go". Modest reductions in OPEB liabilities were realized by a membership in the trust. In conjunction with joining the trust, the District also committed to a prepayment plan with its latest valuation actuarial methodology and continues to seek sustainable solutions to manage the cost of benefits provided to District employees.

Operational Services and Supplies

Operational services and supplies make up approximately 15% of the annual operating budget. Spending has increased over the past year due to the replacement of outdated equipment, supply cost, as well as inflationary increases in utility costs. The District's staff continues to work hard to seek out and secure the best pricing. Competitive bidding in conjunction with partnering of other governmental agencies has also been utilized this past year to help curtail costs and control spending.

General Budget Comparisons

The following is a side-by-side comparison of expenditure budget adoptions by category and financial trends from 2016 to 2017. The expanded expenditure budget can be found on pages 51 to 56.

	<u>2017</u>	<u>2016</u>
Salaries and employee benefits	\$12,644,933	\$11,847,945
Services and supplies	\$ 2,067,529	\$ 1,568,028
Other charges	\$ 1,129,067	\$ 1,153,651
Fixed assets	\$ 119,273	\$ 241,511
Contingencies	\$ 100,000	\$ 100,000

Contingencies - Fiscal Year 2016/2017

With the uncertainty of the economy, contingency funding is needed for unexpected expenditures, and has remained the same dollar amount as last fiscal year.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Management's Discussion and Analysis

June 30, 2017 and 2016

Apparatus and Equipment Replacement

Staff has implemented a long term vehicle replacement schedule recognizing the effects of the replacement cycle, inflation factors, and industry-driven price increases as a planning tool for future budget development. An additional plan is also in place for large-value equipment purchases. The District intends to purchase four new apparatus in the upcoming fiscal year to replace a portion of its ageing fleet.

Future MOU - Employee Salary and Benefits

Memorandum of Understanding (MOU) contract agreements with bargaining groups — Administration and Management - expire at the end of calendar year 2017, with Local 3605's MOU expiring at the end of calendar year 2018. The District's bargaining groups will jointly meet and confer on salary, benefits, working conditions, and terms within this coming year.

Appropriation Limit

For Fiscal Year 2016-17 the appropriations limitation for the District was \$33,742,988. The table below illustrates the computation used to derive the appropriation limits.

Appropriations subject to limit	\$ 15,322,645
<i>Calculation of 2016-2017 limit:</i>	
2015-2016 appropriations limit	\$ 31,755,118
Change in assessment roll	105.37%
% change in county population	<u>100.84%</u>
Total change factor	106.26%
2016-2017 appropriations limitations	\$ 33,742,988
Amount under appropriations limitation	\$(18,420,343)
Excess appropriations subject to limitation	\$ -0-

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Management's Discussion and Analysis

June 30, 2017 and 2016

Summary

Over the fiscal year, the District staff has worked to complete all facility maintenance and repairs, control spending in response to economic conditions and yet maintain cost effective emergency services to the communities we serve. Over the next several years, close attention to revenue sources and evaluation of necessary expenditures will have to be made to continue the overall readiness and fiscal sustainability of the District.

Contacting the District's Financial Management

The Management Discussion and Analysis Report are respectfully prepared as a general overview of the District's financial process. If you have any questions, comments or suggestions, please contact our District Administrative Office at 930 17th Avenue, Santa Cruz, California 95062 or telephone (831) 479-6842.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Cash in county treasury		
Santa Cruz County	\$ 12,178,090	\$ 11,153,381
Accounts receivable		
Capitola RDA and strike team	30,752	38,581
Service center charges	107,227	18,763
Prepaid expenses	<u>172,537</u>	<u>161,817</u>
Current assets	<u>12,488,606</u>	<u>11,372,542</u>
Station and equipment - net of accumulated depreciation		
Land	2,845,037	2,845,037
Structures and improvements	7,191,769	7,110,562
Equipment	<u>6,678,024</u>	<u>6,482,332</u>
Total station and equipment	16,714,830	16,437,931
Less: accumulated depreciation	<u>(7,405,831)</u>	<u>(6,956,817)</u>
Station and equipment, net of accumulated depreciation	<u>9,308,999</u>	<u>9,481,114</u>
Total assets	<u>21,797,605</u>	<u>20,853,656</u>
Deferred outflows of resources		
Contributions	1,890,361	1,672,160
Difference between actual and projected earnings on plan assets	2,828,294	-
Actuarial change in proportion	<u>489,393</u>	<u>353,262</u>
Total deferred outflow of resources	<u>5,208,048</u>	<u>2,025,422</u>
Total assets and deferred outflows of resources	<u>\$ 27,005,653</u>	<u>\$ 22,879,078</u>

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Statements of Net Position (Continued)
 June 30, 2017 and 2016

LIABILITIES AND NET POSITION

	2017	2016
Liabilities		
Due within one year - current liabilities		
Accounts payable	\$ 123,599	\$ 124,416
Accrued salaries and benefits	334,928	282,969
Accrued interest on long-term liabilities	-	4,145
Current portion of long-term liabilities	1,090,000	1,070,880
Total current liabilities	1,548,527	1,482,410
Due in more than one year - noncurrent liabilities		
Net pension liability	21,918,653	17,213,403
Net other postemployment benefit obligation	5,312,443	5,079,143
Compensated absences	1,329,310	1,348,900
Long-term debt		
Purchase lot and building	-	308,178
Debt funds use to pay off CalPER's Side Fund Liability	1,143,000	2,146,000
	29,703,406	26,095,624
Less: current portion of debt	(1,090,000)	(1,070,880)
Total noncurrent liabilities	28,613,406	25,024,744
Total liabilities	30,161,933	26,507,154
Deferred inflow of resources		
Differences between actual and projected earnings on plan assets	-	416,052
Differences between expected and actual actuarial experience	123,337	166,867
Changes in assumptions	574,089	821,322
Differences between actual and proportionate share of contributions	559,587	506,667
Total deferred inflow of resources	1,257,013	1,910,908
Net position (deficit)		
Net investment in capital assets	9,308,999	9,172,936
Unrestricted net position		
General fund	(13,722,292)	(14,711,920)
Total net position (deficit)	(4,413,293)	(5,538,984)
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 27,005,653	\$ 22,879,078

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Statements of Activities
 For the Year Ended June 30, 2017
 (With Comparative Totals for 2016)

	<u>Program Revenues</u>				<u>Totals</u>	
	<u>Expenditures</u>	<u>Fees and Charges for Services</u>	<u>Emergency Response Recovery</u>	<u>Operating Grants and Contributions</u>	2017	2016
Governmental activities						
Fire protection						
Salaries and benefits	\$ 13,466,112	\$ 25,671	\$ 77,625	\$ -	\$ 13,362,816	\$ 11,724,205
Services and supplies	1,759,127	177,112	-	-	1,582,015	1,516,186
Contributions to other agencies	17,658	-	-	-	17,658	18,151
Interest on long-term liabilities	88,822	-	-	-	88,822	144,245
Depreciation	449,014	-	-	-	449,014	443,487
Total governmental activities	<u>15,780,733</u>	<u>202,783</u>	<u>77,625</u>	<u>-</u>	<u>15,500,325</u>	<u>13,846,274</u>
General revenues						
Property tax					15,703,346	14,657,823
Use of money and property					79,076	54,378
Aid from other government agencies						
State homeowners property tax relief					101,445	101,700
RDA supplemental increment pass-through					309,165	275,013
Other revenue						
Other revenue					6,264	14,127
Insurance proceeds					83,013	183,338
Service center charges (fleet maintenance)					343,707	192,577
Total general revenues					<u>16,626,016</u>	<u>15,478,956</u>
Changes in net position					1,125,691	1,632,682
Net position (deficit)						
Net position (deficit) - beginning of the year					<u>(5,538,984)</u>	<u>(7,171,666)</u>
Net position (deficit) - end of the year					<u>\$ (4,413,293)</u>	<u>\$ (5,538,984)</u>

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Statements of Activities
 For the Year Ended June 30, 2016
 (With Comparative Totals for 2015)

Expenditures	Program Revenues			Totals	
	Charges for Services	Emergency Response Recovery	Operating Grants and Contributions	2016	2015
Expenditures					
Fire protection					
Salaries and benefits	\$ 12,288,032	\$ 239,492	\$ 324,335	\$ 11,724,205	\$ 10,667,854
Services and supplies	1,516,186	-	-	1,516,186	1,205,090
Contributions to other agencies	18,151	-	-	18,151	18,866
Interest on long-term liabilities	144,245	-	-	144,245	188,614
Depreciation	443,487	-	-	443,487	464,005
Total governmental activities	14,410,101	239,492	324,335	13,846,274	12,544,429
General revenues					
Property tax				14,657,823	13,736,290
Use of money and property				54,378	33,685
Aid from other government agencies					
State homeowners property tax relief				101,700	101,942
RDA supplemental increment					
pass-through				275,013	186,615
Government grants				-	10
Other revenue					
Other revenue				14,127	118,250
Insurance proceeds				183,338	65,631
Service center charges				192,577	161,161
Gain (loss) on deposal of asset				-	5,500
Total general revenues				15,478,956	14,409,084
Changes in net position				1,632,682	1,864,655
Net position (deficit)					
Net position - beginning of the year, as previously reported				(7,171,666)	12,009,227
Prior period adjustment, restated as of July 1, 2014 for GASB 68 Pension Accounting (note 12)				-	(21,045,548)
Net position (deficit) - beginning of the year, as restated				(7,171,666)	(9,036,321)
Net positon (deficit) - end of the year				\$ (5,538,984)	\$ (7,171,666)

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

CENTRAL FILE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Balance Sheets - Governmental Funds
June 30, 2017

	2017					Totals (Memorandum Only) 2017
	Governmental Fund Types					
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	Economic Stability	
<u>ASSETS AND OTHER DEBITS</u>						
Assets						
Cash	\$ 7,728,036	\$ 2,392,340	\$ 921,591	\$ 210,110	\$ 926,013	\$ 12,178,090
Accounts receivable	30,752	-	-	107,227	-	137,979
Prepaid expenses	168,338	-	-	4,199	-	172,537
Total assets	<u>\$ 7,927,126</u>	<u>\$ 2,392,340</u>	<u>\$ 921,591</u>	<u>\$ 321,536</u>	<u>\$ 926,013</u>	<u>\$ 12,488,606</u>
<u>LIABILITIES, AND FUND BALANCE</u>						
Liabilities						
Accounts payable	\$ 47,571	\$ -	\$ 69,050	\$ 6,978	\$ -	\$ 123,599
Accrued salaries and benefits	325,054	-	-	9,874	-	334,928
Total liabilities	<u>372,625</u>	<u>-</u>	<u>69,050</u>	<u>16,852</u>	<u>-</u>	<u>458,527</u>
Fund balance						
Assigned fund balance						
Imprest cash	300	-	-	-	-	300
Capital improvements	-	-	424,571	-	-	424,571
Equipment	-	-	427,970	-	-	427,970
Compensated absences	313,364	-	-	-	-	313,364
Mobile equipment vehicle replacement	-	2,392,340	-	-	-	2,392,340
Fleet maintenance	-	-	-	304,684	-	304,684
Economic stability	-	-	-	-	926,013	926,013
Unassigned fund balance						
Unreserved, undesignated	7,240,837	-	-	-	-	7,240,837
Total fund balance and other credits	<u>7,554,501</u>	<u>2,392,340</u>	<u>852,541</u>	<u>304,684</u>	<u>926,013</u>	<u>12,030,079</u>
Total liabilities and fund balances	<u>\$ 7,927,126</u>	<u>\$ 2,392,340</u>	<u>\$ 921,591</u>	<u>\$ 321,536</u>	<u>\$ 926,013</u>	<u>\$ 12,488,606</u>

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

CENTRAL FILE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Balance Sheets - Governmental Funds

June 30, 2016

	2016				Totals (Memorandum Only) 2016
	Governmental Fund Types				
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	
<u>ASSETS AND OTHER DEBITS</u>					
Assets					
Cash	\$ 7,916,343	\$ 2,010,209	\$ 1,025,634	\$ 201,195	\$ 11,153,381
Accounts receivable	38,581	-	-	18,763	57,344
Prepaid expenses	157,563	-	-	4,254	161,817
Total assets	<u>\$ 8,112,487</u>	<u>\$ 2,010,209</u>	<u>\$ 1,025,634</u>	<u>\$ 224,212</u>	<u>\$ 11,372,542</u>
<u>LIABILITIES, AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 96,723	\$ -	\$ -	\$ 27,693	\$ 124,416
Accrued salaries and benefits	275,282	-	-	7,687	282,969
Total liabilities	<u>372,005</u>	<u>-</u>	<u>-</u>	<u>35,380</u>	<u>407,385</u>
Fund balance					
Assigned fund balance					
Imprest cash	300	-	-	-	300
Capital improvements	-	-	643,080	-	643,080
Equipment	-	-	382,554	-	382,554
Compensated absences	313,364	-	-	-	313,364
Mobile equipment vehicle replacement	-	2,010,209	-	-	2,010,209
Fleet maintenance	-	-	-	188,832	188,832
Unassigned fund balance					
Unreserved, undesignated	7,426,818	-	-	-	7,426,818
Total fund balance and other credits	<u>7,740,482</u>	<u>2,010,209</u>	<u>1,025,634</u>	<u>188,832</u>	<u>10,965,157</u>
Total liabilities and fund balances	<u>\$ 8,112,487</u>	<u>\$ 2,010,209</u>	<u>\$ 1,025,634</u>	<u>\$ 224,212</u>	<u>\$ 11,372,542</u>

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Reconciliation of the Governmental Funds Balance Sheets
to the Government - Wide Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Total fund balances - Governmental Funds	\$ 12,030,079	\$ 10,965,157
Amounts to be reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds.		
Total historical cost of capital assets	16,714,830	16,437,931
Less: accumulated depreciation	(7,405,831)	(6,956,817)
Deferred outflows of resources reported in the Statement of Net Position are not reported in governmental funds.	5,208,048	2,025,422
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds.	-	(4,145)
Long-term liabilities were not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30 consist of the following:		
Net pension liability	(21,918,653)	(17,213,403)
Net other postemployment benefit obligation	(5,312,443)	(5,079,143)
Compensated absences	(1,329,310)	(1,348,900)
Long-term debt		
Purchase of 410 Kennedy	-	(308,178)
Debt funds use to pay off CalPER's Side Fund Liability	(1,143,000)	(2,146,000)
Deferred inflows of resources reported in the Statement of Net Position are not reported in governmental funds.	(1,257,013)	(1,910,908)
Net position	\$ (4,413,293)	\$ (5,538,984)

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Statements of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds
 For the Year Ended June 30, 2017

	2017					Totals (Memorandum Only) 2017
	Governmental Funds					
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	Economic Stability	
Revenues						
Property taxes	\$ 15,703,346	\$ -	\$ -	\$ -	\$ -	\$ 15,703,346
Use of money and property	45,525	18,759	7,782	1,454	5,556	79,076
Aid from other government agencies	488,235	-	-	-	-	488,235
Charges for services	202,783	-	-	343,707	-	546,490
Other revenue	89,277	-	-	-	-	89,277
Total revenues	<u>16,529,166</u>	<u>18,759</u>	<u>7,782</u>	<u>345,161</u>	<u>5,556</u>	<u>16,906,424</u>
Expenditures						
Salaries and employee benefits	12,053,316	-	-	330,357	-	12,383,673
Services and supplies	1,311,631	-	42,731	404,765	-	1,759,127
Other charges	1,130,342	-	291,461	-	-	1,421,803
Fixed assets	96,288	71,628	108,983	-	-	276,899
Total expenditures	<u>14,591,577</u>	<u>71,628</u>	<u>443,175</u>	<u>735,122</u>	<u>-</u>	<u>15,841,502</u>
Excess (deficiency) of revenues over expenditures	1,937,589	(52,869)	(435,393)	(389,961)	5,556	1,064,922
Other financing sources						
Insurance proceeds	-	-	-	-	-	-
Sale of fixed assets	-	-	-	-	-	-
Operating transfers out of General fund to the:						
Capital improvements	(150,000)	-	150,000	-	-	-
Equipment	(112,300)	-	112,300	-	-	-
Mobile vehicle replacement	(435,000)	435,000	-	-	-	-
Fleet Maintenance	(505,813)	-	-	505,813	-	-
Economic stability	(920,457)	-	-	-	920,457	-
Operating transfers out of capital outlay	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	(185,981)	382,131	(173,093)	115,852	926,013	1,064,922
Beginning fund balance	<u>7,740,482</u>	<u>2,010,209</u>	<u>1,025,634</u>	<u>188,832</u>	<u>-</u>	<u>10,965,157</u>
Ending fund balance	<u>\$ 7,554,501</u>	<u>\$ 2,392,340</u>	<u>\$ 852,541</u>	<u>\$ 304,684</u>	<u>\$ 926,013</u>	<u>\$ 12,030,079</u>

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Statements of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds
 For the Year Ended June 30, 2016

	2016				Totals (Memorandum Only) 2016
	Governmental Funds				
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	
Revenues					
Property taxes	\$ 14,657,823	\$ -	\$ -	\$ -	\$ 14,657,823
Use of money and property	34,923	11,922	6,406	1,127	54,378
Aid from other government agencies	701,048	-	-	-	701,048
Charges for services	239,492	-	-	192,577	432,069
Other revenue	197,465	-	-	-	197,465
Total revenues	<u>15,830,751</u>	<u>11,922</u>	<u>6,406</u>	<u>193,704</u>	<u>16,042,783</u>
Expenditures					
Salaries and employee benefits	11,549,142	-	-	310,124	11,859,266
Services and supplies	1,140,011	-	-	376,175	1,516,186
Other charges	1,147,065	-	-	-	1,147,065
Fixed assets	111,774	-	-	9,324	121,098
Total expenditures	<u>13,947,992</u>	<u>-</u>	<u>-</u>	<u>695,623</u>	<u>14,643,615</u>
Excess (deficiency) of revenues over expenditures	1,882,759	11,922	6,406	(501,919)	1,399,168
Other financing sources					
Operating transfers out of General fund to the:					
Capital improvements	(150,000)	-	150,000	-	-
Equipment	(112,300)	-	112,300	-	-
Mobile vehicle replacement	(349,620)	349,620	-	-	-
Fleet maintenance	(482,407)	-	-	482,407	-
Operating transfers out of Vehicle replacement	-	-	-	-	-
Operating transfers out of capital outlay	119,243	-	(119,243)	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	907,675	361,542	149,463	(19,512)	1,399,168
Beginning fund balance	<u>6,832,807</u>	<u>1,648,667</u>	<u>876,171</u>	<u>208,344</u>	<u>9,565,989</u>
Ending fund balance	<u>\$ 7,740,482</u>	<u>\$ 2,010,209</u>	<u>\$ 1,025,634</u>	<u>\$ 188,832</u>	<u>\$ 10,965,157</u>

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Reconciliation of the Statements of Revenues, Expenditures and Changes
 in the Fund Balances of Governmental Funds to the Statements of Activities
 For the Years Ended June 30, 2017 and 2016

	2017	2016
Net change in Fund Balances - total Governmental Funds	\$ 1,064,922	\$ 1,399,168
<p>Amounts reported for governmental activities in the statement of activities (Statement B) are different because:</p> <p>Government Funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense during the year.</p>		
Expenditures for capital assets	276,899	121,098
Less current year depreciation expense	(449,014)	(443,487)
<p>Repayment of principal on long-term liabilities is an expenditure for Governmental Funds, but the repayment reduces long-term liabilities on the Government-Wide Statement of Net Position. Principal payments made on long-term liabilities during the year consist of the following:</p>		
Debt used to pay off CalPER's Side Fund Liability	1,003,000	923,000
Debt used to fund purchase of lot and building	308,178	59,886
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Change in compensated absences	19,590	(24,187)
Change in other post-employment benefits	(233,300)	(351,900)
Change in pension liability and deferred inflows and outflows	(868,729)	(52,677)
<p>In the Governmental Funds interest expenses on long-term debt is measured by the amount of financial resources used, which is the amounts actually paid. In the Government - Wide statement of activities, interest expense is measured by the amounts accrued during the year. Interest paid was more or (less) than accrued.</p>		
	4,145	1,781
Change in net position of Governmental Activities	\$ 1,125,691	\$ 1,632,682

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

GASB 45 TRUST FUND FINANCIAL STATEMENTS

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Statements of Plan Position and Changes in Plan Net Position
 For the Years Ended June 30, 2017 and 2016

STATEMENTS OF PLAN POSITION

	2017	2016
Assets		
Cash and short-term investments	\$ 1,355,667	\$ 856,512
Net position held in trust for other post employment benefits	\$ 1,355,667	\$ 856,512

STATEMENTS OF CHANGES IN PLAN NET POSITION

Additions		
Operating transfers	\$ 424,100	\$ 330,100
Investment income	75,933	46,963
Total additions	500,033	377,063
Deductions		
Professional services	878	530
Total deductions	878	530
Net increase	499,155	376,533
Net position held in trust for other post employment benefits		
Beginning of year	856,512	479,979
End of year	\$ 1,355,667	\$ 856,512

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

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

1. General Information

Organization

The Central Fire Protection District of Santa Cruz County was organized October 17, 1987, under the authority of Section 56000 et seq. of the California Government Code, and operates under the provisions of the Fire Protection District Law of 1987 (beginning with Health and Safety Code Section 13800). The District provides fire protection for the City of Capitola, the Town of Soquel, the area east of the City of Santa Cruz known as Live Oak, and portions of the surrounding area.

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

District officials

The District is governed by a board of seven directors. The following were in office at June 30, 2017:

	Term Expires <u>November</u>
Owen Miller, Chair	2020
John Lucchesi, Vice-Chair	2020
David Burnham	2020
James Cupples	2018
Barry Franchi	2018
Christopher Hass	2018
Kevin Walter	2020

Steven Hall was the Fire Chief at June 30, 2017.

Accounting records

The official accounting records of the District are maintained in the office of the Auditor/Controller of Santa Cruz County. Supporting documents are maintained by the District.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

1. General Information (continued)

Minutes

Minutes were recorded for meetings and contained approvals for disbursement.

Budgetary procedure

The District prepares a fiscal year budget in accordance with applicable laws and regulations.

2. Summary of Significant Accounting Policies

Basis of accounting and measurement focus

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The District uses a chart of accounts based on the uniform accounting system prescribed by the State Controller.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Financial statement presentation

Government-Wide Financial Statements

The District's Government-Wide Financial Statements include a statement of net position and a statement of activities and changes in net position. These statements present summaries of governmental activities for the District.

The basic Government-Wide financial statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, deferred inflows/outflows of resources, including capital assets, and noncurrent liabilities are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period the liability is incurred.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Financial statement presentation (continued)

The District's governmental-wide net position is classified in the following categories:

- Net investment in capital assets - Includes amount of the net position that is invested in capital assets net of accumulated depreciation and any related debt.
- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by a formal action of the government's highest level of decision-making authority, external resource providers, constitutionally, or through enabling legislation.
- Unrestricted - Includes amounts that are technically available for any purpose and includes all amounts not contained in other classifications.

Governmental Funds Financial Statements

The District's Government Funds financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements of net position presented in the Government-Wide financial statements.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred. Reconciliation of the Governmental Funds financial statements to the Government-Wide financial statements is provided to explain the differences created by the different measurement focus and basis of accounting.

The District's governmental fund balance is classified in the following categories:

- Nonspendable - Includes amounts that are not in a spendable form or are required to be maintained intact.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Financial statement presentation (continued)

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.
- Committed - Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- Assigned - Includes amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned - Includes amounts that are technically available for any purpose and includes all amounts not contained in other classifications.

Total columns on combined statements - overview

Total columns on the combined statement are captioned "memorandum only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Property tax revenue

The County of Santa Cruz assesses properties, bills, and collects property taxes for the District. Assessed values are determined annually by the County Assessor as of March 1, and become a lien on real property as of that date. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County bills and collects property taxes and remits them to the District under the State authorized method of apportioning taxes whereby all local agencies, including special districts, receive from the County their respective shares of the amount of ad valorem taxes collected.

Cash in County Treasury

The Districts cash is held in the Santa Cruz County (the "County") Treasury Pool, which is not rated by national credit rating agencies. See Note 3 to these financial statements for information regarding the Pools investments, interest rate risk, concentration of credit risk and custodial credit risk. The County Treasurer pools cash with other County and Special District funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the County's investment pool. The County routinely reviews its investment policy. The estimated

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Cash in County Treasury (continued)

fair value of investments in the pool is based on quoted market prices. The fair value of the District's position in the pool is the same as the value of the pool shares. The value of the pool shares may be withdrawn at any time based on an amortized cost basis, which is different than the fair value of the District's position in the pool. Information regarding the investments within the pool, including risks, can be found in the County's Comprehensive Annual Financial Report.

Accounts receivable

All accounts receivable, if any, are shown net of any allowance for uncollectible accounts. All receivables which have been remitted within 60 days subsequent to fiscal year end are considered measurable and available and recognized as income in the government-fund financial statements.

Prepaid items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and government fund financial statements.

Capital assets

Capital assets, which include land, buildings, improvements, and equipment are reported in the Government-Wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District capitalization thresholds for reporting capital assets as of June 30, 2017 is \$5,000.

Depreciation is recorded on the straight-line method over the useful lives of the assets as follows:

Buildings	20 - 30 years
Equipment	3 - 10 years

District special expense

Fire hose couplings and nozzles are peculiar to fire districts, the manual of the State Controller provides that purchases of such items be charged to the expense account "District special expense".

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Liability for compensated absences

The District is required to recognize a liability for employees' rights to receive compensation for future absences. On June 30, 2017 and 2016, the liability for compensated absences was \$1,329,310 and \$1,348,900, respectively.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report deferred outflows of resources. Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the items included in deferred outflows of resources relate to GASB 68 Pension accounting and are reported on the government-wide financial statement.

In addition to liabilities, the statement of financial position will sometimes report deferred inflows of resources. Deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Currently, the items included in deferred inflows of resources are related to GASB 68 Pension accounting and are reported on the government-wide financial statement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Upcoming accounting pronouncement

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and financial reporting requirements for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for the District's fiscal year beginning after June 15, 2017 (2017-18). The statement requires recording the net OPEB liability. The District has obtained a valuation report preliminarily indicating a net OPEB liability of approximately \$16,500,000. The District is analyzing this data to determine the effect on the financial statements.

Expenditures over appropriations

Required Supplementary Information budgetary comparison schedules report budget to actual. Total governmental fund expenditures were under appropriations limit. Individual expenditures over appropriations for the year ended June 30, 2017 were caused by year end reclassification journal entries.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

3. Pooled cash and investments

The District's funds are held in the County of Santa Cruz pooled cash and investment pool. The following is information from the June 30, 2017 audited financial statements of the County of Santa Cruz.

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds monthly using a formula based on the average daily cash balance of each fund. Interest earned through June 30, 2017 was distributed on the June 30, 2017.

The following is a summary of cash and investments at June 30, 2017:

Government-Wide Statement of Net Position				
	Primary Governments			Component Unit
	Governmental Activities	Business-Type Activities	Total	Santa Cruz County Sanitation District
Cash and investments	\$ 211,407,554	\$ 9,321,184	\$ 220,728,738	\$ 10,385,721
Restricted cash and investments	<u>11,750,266</u>	<u>7,356,690</u>	<u>19,106,956</u>	<u>969,937</u>
Total cash and investments	<u>\$ 223,157,820</u>	<u>\$ 16,677,874</u>	<u>\$ 239,835,694</u>	<u>\$ 11,355,658</u>
Fiduciary Funds				
	Agency Funds	Investment Trust Fund	Private Purpose Trust Fund	County Total
Cash and investments	\$ 53,547,289	\$ 552,112,345	\$ 13,224,532	\$ 849,998,625
Restricted cash and investments	<u>-</u>	<u>-</u>	<u>3,483,329</u>	<u>23,560,222</u>
Total cash and investments	<u>\$ 53,547,289</u>	<u>\$ 552,112,345</u>	<u>\$ 16,707,861</u>	<u>\$ 873,558,847</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

3. Pooled cash and investments (continued)

	<u>Cash and Investments</u>	<u>Restricted Cash & Investments</u>	<u>Total</u>
Primary government and fiduciary funds			
Cash on hand or imprest cash	\$ 1,762,650	\$ -	\$ 1,762,650
Cash deposits in treasury pool	28,482,515	-	28,482,515
Investments in treasury pool	809,367,739	-	809,367,739
Restricted investments in other pools	-	\$ 15,250,263	15,250,263
Restricted cash deposits in treasury pool	-	-	-
County Disposal Sites CSA 9C	-	<u>7,340,022</u>	<u>7,340,022</u>
Total	<u>839,612,904</u>	<u>22,590,285</u>	<u>862,203,189</u>
Component unit			
Investments in treasury pool	10,385,721	-	10,385,721
Restricted investments in other banks	-	<u>969,937</u>	<u>969,937</u>
Total	<u>10,385,721</u>	<u>969,937</u>	<u>11,355,658</u>
 Total cash and investments	 <u>\$ 849,998,625</u>	 <u>\$ 23,560,222</u>	 <u>\$ 873,558,847</u>

At June 30, 2017, the County's cash on hand, deposits, and investments consisted of:

	<u>Treasury Pool</u>	<u>Other Banks/ Investment Pools</u>	<u>Total</u>
Primary government and fiduciary funds			
Cash on hand or imprest cash	\$ 60,536	\$ 1,702,114	\$ 1,762,650
Deposits	28,482,515	-	28,482,515
Investments	<u>816,158,514</u>	<u>15,799,510</u>	<u>831,958,024</u>
Total primary government and fiduciary funds	<u>844,701,565</u>	<u>17,501,624</u>	<u>862,203,189</u>
Component unit			
Investments	<u>10,385,721</u>	<u>969,937</u>	<u>11,355,658</u>
Total component unit	<u>10,385,721</u>	<u>969,937</u>	<u>11,355,658</u>
 Total reporting entity	 <u>\$ 855,087,286</u>	 <u>\$ 18,471,561</u>	 <u>\$ 873,558,847</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

3. Pooled cash and investments (continued)

The carrying amounts of the County's cash deposits were \$28,482,515 at June 30, 2017, of which the bank balances were fully insured or collateralized with securities held by the pledging financial institutions in the County's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the County's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County's name.

The market value of pledged securities must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000, by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 Years	10%	None
U.S. treasury obligations	5 Years	100%	None
U.S. government agency obligations	5 Years	100%	25%
Bankers' acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 Years	30%	10%
Bank deposit	5 Years	10%	10%
Repurchase agreements	1 Year	100%	10%
Medium term notes	5 Years	30%	10%
Mutual funds/money market mutual funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$65 Million	None
Joint Powers Authority investment funds	N/A	25%	10%
Supranationals	5 years	30%	10%

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Notes to Financial Statements
June 30, 2017 and 2016

3. Pooled cash and investments (continued)

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at cost, as the fair market value adjustment at the year-end was immaterial.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code of the County's investment policy.

Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

At June 30, 2017, the County had the following investment maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less Than 1	1 to 2	2 to 3	3 to 4	More than 4
U.S. treasury securities	\$ 314,658,348	\$ 149,841,930	\$ 128,271,428	\$ 16,780,190	\$ 19,764,800	\$ -
Federal agency securities	283,244,403	123,884,210	159,360,193	0	-	-
Medium term notes - other	57,359,088	37,530,188	9,947,400	9,881,500	-	-
Money market mutual funds	5,009,647	5,009,647	-	-	-	-
Local Agency Investment						
Fund (LAIF)	65,123,913	65,123,913	-	-	-	-
Certificates of deposit	76,236,156	74,999,500	969,937	266,719	-	-
Investment agreements	12,000,000	12,000,000	-	-	-	-
Supranationals	39,688,350	-	-	29,798,850	9,889,500	-
Total investments	<u>\$ 853,319,905</u>	<u>\$ 468,389,388</u>	<u>\$ 298,548,958</u>	<u>\$ 56,727,259</u>	<u>\$ 29,654,300</u>	<u>\$ -</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

3. Pooled cash and investments (continued)

Concentration of Credit Risk

At June 30, 2017, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds, or medium-term notes of a single organization, nor did it have 10% or more of its investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government sponsored enterprises are exempt from these limitations.

The following schedule is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2017.

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>% of Portfolio</u>
U.S. treasury securities	N/A	N/A	36.10%
Federal agency securities	AA+	Aaa	32.51%
Supranationals	AAA	Aaa	4.57%
Medium term notes	A/AAA	A+	6.60%
Money market mutual funds	Unrated	Unrated	0.57%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	7.46%
Certificates of deposit	A1+	P1	8.62%
Checking account	Unrated	Unrated	2.20%
Investment agreements	Unrated	Unrated	1.37%
Total			<u>100.00%</u>

Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

3. Pooled cash and investments (continued)

Local Agency Investment Fund

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2017, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

At June 30, 2017, the County had \$65,123,913 invested in LAIF, which had invested 0.05% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.08% in the previous year. LAIF provided a fair value factor of 0.998940671 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair market value of LAIF, as the fair market value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

3. Pooled cash and investments

Fair Value Measurements

Level 1: Investments reflect prices quoted in active markets,

Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active, and

Level 3: Investments reflect prices based upon unobservable sources.

The Pool has the following recurring fair value measurements as of June 30, 2017:

		Fair Value Measurements Using		
Investment by Fair Value Level		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
U.S. treasury securities	\$ 314,658,348	\$ 314,658,348	\$ -	\$ -
Federal agency securities	283,244,403	283,244,403	-	-
Medium term notes - other	57,359,088	57,359,088	-	-
Certificates of deposit	75,249,793	75,249,793	-	-
Investment agreements	12,000,000	12,000,000	-	-
Supranationals	39,688,350	39,688,350	-	-
Total investments measured at fair value	\$ 782,199,982	\$ 782,199,982	\$ -	\$ -
Investments measured at amortized cost:				
Money market mutual funds	5,009,647			
Local Agency Investment Fund (LAIF)	65,123,913			
Total Pooled and directed investments	\$ 852,333,542			

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

4. Changes in Fixed Assets

The District's inventory is based on historical costs, or estimates of historical cost. For purposes of fixed asset accounting the District considers assets with a cost of \$1,500 or more and a useful life of three years or more to be fixed assets.

Current year changes to fixed assets were as follows:

	Balance <u>June 30, 2016</u>	Additions/Adjust <u>to Inventory</u>	Adjustments/ <u>Deletions</u>	Balance <u>June 30, 2017</u>
Land	\$ 2,845,037	\$ -	\$ -	\$ 2,845,037
Structures and improvements	7,110,562	81,207	-	7,191,769
Equipment	<u>6,482,332</u>	<u>195,692</u>	-	<u>6,678,024</u>
Total	<u>\$16,437,931</u>	<u>\$ 276,899</u>	<u>\$ -</u>	<u>\$16,714,830</u>

Accumulated depreciation	<u>\$ (6,956,817)</u>	<u>\$(449,014)</u>	<u>\$ -</u>	<u>\$ (7,405,831)</u>
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	Balance <u>June 30, 2015</u>	Additions/Adjust <u>to Inventory</u>	Adjustments/ <u>Deletions</u>	Balance <u>June 30, 2016</u>
Land	\$ 2,845,037	\$ -	\$ -	\$ 2,845,037
Structures and improvements	7,078,386	32,176	-	7,110,562
Equipment	<u>6,393,410</u>	<u>88,922</u>	-	<u>6,482,332</u>
Total	<u>\$16,316,833</u>	<u>\$ 121,098</u>	<u>\$ -</u>	<u>\$16,437,931</u>

Accumulated depreciation	<u>\$ (6,513,330)</u>	<u>\$(443,487)</u>	<u>\$ -</u>	<u>\$ (6,956,817)</u>
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5. Net Pension Asset

The net pension asset was removed as of June 30, 2015 due to adoption of GASB 68 pension accounting. The net pension asset resulted from the District prepaying the unfunded CalPERs Side Fund in the amount of \$6,065,432 during the fiscal year ended June 30, 2012.

Prior to adoption of GASB 68, in accordance with GASB Statement No. 27, the net pension asset was being amortized using the same amortization methodology utilized by CalPER's to calculate the Annual Required Contribution (ARC) each year.

Terms at inception

Amortization method	Level percentage of pay
Average remaining period	8 years
Investment rate of return	7.5%

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

5. Net Pension Asset (continued)

Straight line annual amortization is \$753,802 over 8 years. The prepaid balance as of June 30, 2014 of \$3,804,026 was applied to the pension liability as of July 1, 2015, upon adoption of GASB 68, and was recorded as a prior period adjustment. A summary of the changes in the Net Pension Asset for the year ended June 30, 2015 is as follows:

<u>Fiscal Year Ended</u>	<u>Beginning Balance</u>	<u>Amortization</u>	<u>Ending Balance</u>
June 30, 2015	\$3,804,026	\$3,804,026 ⁽¹⁾	\$ -

(1) Recorded as a prior period adjustment, see note 12.

6. Defined Benefit Pension Plan

Plan description

The Plan is a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provision under the Plans are established by State statute and the District's resolution. CalPERS issues publically available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service, age, and final compensation.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	9.67%	6.25%

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Benefits provided (continued)

	Safety Tier 1	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	18.52%	11.50%

	Safety Tier 2	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	1, 2013	1, 2013
Benefit formula	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	15.63%	11.50%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Contributions (continued)

For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Contributions - employer	\$101,352	\$1,789,009	\$1,890,361
Contributions - employee (paid by employer)	\$ 58,539	\$ 474,783	\$ 533,321

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Contributions - employer	\$79,285	\$1,592,875	\$1,672,160
Contributions - employee (paid by employer)	\$45,241	\$ 453,497	\$ 498,738

Net pension liability

As of June 30, 2017 and 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>2017</u>	<u>2016</u>
Miscellaneous	\$ 775,899	\$ 612,157
Safety	<u>21,142,754</u>	<u>16,601,246</u>
Total net pension liability	<u>\$21,918,653</u>	<u>\$17,213,403</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability, pension expense, and deferred outflows/inflows of resource related to pensions, as of June 30, 2017, of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's change in proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety Tier</u>
Proportion - June 30, 2015	\$ 612,157	\$16,601,246
Proportion - June 30, 2016	<u>775,899</u>	<u>21,142,754</u>
Change - increase/ (decrease)	163,742	4,541,508

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Pension expenses and deferred outflows/inflows of resources related to pensions

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$2,732,763 and \$1,723,735, respectively, in the government wide statement of activities.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred Inflows of resources</u>
Pension contributions subsequent to measurement date	\$1,890,361	\$ -
Net difference between projected and actual earnings on pension plan assets (investments)	2,828,294	-
Actuarial change in proportion	489,393	-
Differences between expected and actual actuarial experience	-	(123,337)
Changes in assumptions	-	(574,089)
Differences between employers actual and proportionate share of contributions	-	(559,587)
Total	<u>\$5,208,048</u>	<u>(\$1,257,013)</u>

The \$1,890,361 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as part of pension expense as follows:

<u>Year Ended June 30</u>	<u>Schedule of Future Pension Expenses</u>
2018	\$ 281
2019	16,459
2020	1,307,831
2021	736,103
2022	-
Total	<u>\$ 2,060,674</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Actuarial assumptions

The net pension liability, expense, and deferred outflows/inflows of resource related to pensions, as of June 30, 2017, of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Valuation date	June 30, 2015	June 30, 2015	June 30, 2015
Measurement date	June 30, 2016	June 30, 2016	June 30, 2016
Actuarial cost method	Entry-age normal cost method		
Actuarial Assumptions:			
Discount rate	7.65%	7.65%	7.65%
Inflation	2.75%	2.75%	2.75%
Payroll Growth	3.0%	3.0%	3.0%
Projected salary increase	Varies ⁽¹⁾	Varies ⁽¹⁾	Varies ⁽¹⁾
Investment rate of return	7.5% ⁽²⁾	7.5% ⁽²⁾	7.5% ⁽²⁾
Mortality ⁽³⁾	Derived using CalPERS' Membership Data for all funds.		
Post Retirement Benefit Increase	Contract Cost-of-Living-Adjustment (COLA) up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.00% thereafter.		

⁽¹⁾ Depending on age, service and type of employment.

⁽²⁾ Net of pension plan investment and administrative expenses, including inflation.

⁽³⁾ The mortality table used was developed based on CalPERS's specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of assumptions

The discount rate was changed from 7.50 percent in 2014 to 7.65 percent as of the June 30, 2015 measurement date.

Discount rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Discount rate (continued)

each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Discount rate (continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 ^(a)</u>	<u>Real Return Years 11+ ^(b)</u>
Global equity	51.0%	5.25%	5.71%
Global fixed income	20.0%	.099%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	4.50%	5.09%
Liquidity	<u>1.0%</u>	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the District for each Plan, calculated using the discount rate for each Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% decrease	6.65%	6.65%
Net pension liability	\$1,172,869	\$31,523,182
Current discount rate	7.65%	7.65%
Net pension liability	\$775,899	\$21,142,754
1% increase	8.65%	8.65%
Net pension liability	\$447,823	\$12,621,487

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

6. Defined Benefit Pension Plan (continued)

Pension plan fiduciary net position

The plan fiduciary net position disclosed in the District's CalPERS GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the District's CalPERS funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the District's funding actuarial valuation. In additions, differences may result from early CAFR closing and final reconciled reserves.

<u>Valuation date: June 30, 2015</u>	<u>Miscellaneous</u>	<u>Safety</u>
Pool total pension liability	\$13,639,503,084	\$18,131,714,318
District's % of total pension liability	0.020673%	0.410921%
District's pension liability	\$2,819,694	\$74,507,022
District's fiduciary net position	\$2,207,537	\$57,905,776
Net pension liability	\$ 612,157	\$16,601,246

<u>Valuation date: June 30, 2016</u>	<u>Miscellaneous</u>	<u>Safety</u>
Pool total pension liability	\$14,397,353,530	\$18,961,274,094
District's % of total pension liability	0.020480%	0.403300%
District's pension liability	\$2,948,578	\$76,470,818
District's fiduciary net position	\$2,172,679	\$55,328,064
Net pension liability	\$ 775,899	\$21,142,754

Payable to the pension plan

At June 30, 2017, there is no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

7. Post-Employment Benefits Other than Pension Benefits

In addition to the pension benefits described in Note 6, Defined Benefit Pension Plan, the District provides medical insurance to retired employees. The scope of the benefits provided depends on the memorandum of understanding between the District and the various employee groups.

Plan description

Eligible retirees may elect to maintain their life and dental insurance benefits provided their portion of the premium is paid. Vision insurance coverage is offered to retirees, but 100% of the premium is paid by the retiree.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

7. Post-Employment Benefits Other than Pension Benefits (continued)

Current accounting and funding policy of the plan

The District primarily finances the plan on a pay-as-you-go basis. For the years ended June 30, 2017 and 2016, expenditures of approximately \$1,363,500 and \$1,368,400, respectively, were recognized for post-employment benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. The actuarial assumptions included (a) Demographic assumptions affected by mortality, turnover, disability, and retirement based on the June 30, 2015 CalPERS pension valuation, (b) 5.25% investment rate of return, and (c) 2.00% overall payroll growth.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employers in comparison to the Annual Required Contribution (ARC) an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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.

Additional information as of the latest actuarial valuation follows:

	<u>District Service Benefit</u>
Valuation date	June 30, 2015
Actuarial cost method	Projected Unit Credit
Amortization method	Level Percentage of Pay
Remaining amortization period	29 Years
Asset valuation method	14/15 th of Expected Value plus 1/5 th of Market Value
Actuarial assumptions	
Investment rate of return	5.25%

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

7. Post-Employment Benefits Other than Pension Benefits (continued)

The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution (ARC)	\$1,355,300
Interest on net OPEB obligation	324,600
Adjustments to ARC	<u>(316,400)</u>
Annual OPEB cost	1,363,500
Contributions to irrevocable trust	(424,100)
Contributions made (payments for current Retirees and payment to irrevocable trust)	<u>(706,100)</u>
Increase in OPEB obligation	233,300
Net OPEB obligation - beginning of the year	<u>5,079,143</u>
Net OPEB obligation - end of the year	<u>\$5,312,443</u>

Required supplementary information

Schedule of Funding Progress

Funded Status						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
June 30, 2015	\$ 496,800	\$17,073,500 ⁽¹⁾	\$16,576,700	3%	\$6,591,000	252%

⁽¹⁾ Unfunded AAL is undervalued as not all bargaining units have agreed to the target contribution level utilized by the actuarial report.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

8. Changes in Debt

A summary of debt transactions of Central Fire Protection District of Santa Cruz County for the year ended June 30, 2017 and 2016 follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Adjustments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Accumulated unpaid				
Compensated absences	\$1,348,900	\$ -	\$ (19,590)	\$1,329,310
Debt funds used to pay off				
CalPER's Side Fund Liability	\$2,146,000	\$ -	\$(1,003,000)	\$1,143,000
Land and building debt	\$ 308,178	\$ -	\$ (308,178)	\$ -

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Adjustments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Accumulated unpaid				
Compensated absences	\$1,324,713	\$24,187	\$ -	\$1,348,900
Debt funds used to pay off				
CalPER's Side Fund Liability	\$3,069,000	\$ -	\$(923,000)	\$2,146,000
Land and building debt	\$ 368,064	\$ -	\$(59,886)	\$ 308,178

Debt - notes payable consist of the following items:

	<u>2017</u>	<u>2016</u>
JPMorgan Chase Bank, N.A. funded fiscal year June 30, 2011, due in semi-annual payments, including interest at 4.70% per annum. Initial payment due June 15, 2011, final payment due April 13, 2019.	\$1,143,000	\$2,146,000
Privately funded fiscal year June 30, 2011 due in monthly payments of \$6,581, including interest at 4.0% per annum. Initial payment due September 1, 2010, final payment made as of June 30, 2017.	-	308,178
	<u>\$1,143,000</u>	<u>\$3,437,064</u>

Principal payments on the notes payable are due as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2018	\$1,090,000	\$41,054	\$1,131,054
June 30, 2019	<u>53,000</u>	<u>1,661</u>	<u>54,661</u>
	<u>\$1,143,000</u>	<u>\$42,715</u>	<u>\$1,185,715</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

9. Commitments and Contingencies

The District requires financial assistance for the period July to April due to the flow of property tax revenue. The Board of Supervisors of the County of Santa Cruz, by resolution, approved its intention to provide needed "tax anticipation funds" to the District in the amount of \$1,000,000. The balance is due and payable by April 30, 2018. As of June 30, 2017 and 2016, no amount was outstanding.

During the fiscal year ended June 30, 2017 and 2016, the General Fund borrowed tax anticipation funds up to a maximum of \$0 and \$0, respectively.

10. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Workers' compensation coverage

The District is a member of the Santa Cruz County Fire Agencies Insurance Group (the "Group"). In a board meeting on June 19, 2002, the Group approved the return of its self-insurance certificates to the State and to accept a proposal from California Public Entity Insurance Authority (CPEIA) a joint powers authority for both primary and excess workers' compensation coverage. In a resolution dated September 20, 2007, the Santa Cruz Fire Agencies Insurance Group's Board of Directors opted to terminate the CPEIA joint power agreement and merge into the CSAC Excess Insurance Authority (CSAC-EIA) Joint Power Agreement. This change was predicated on the decision of CSAC-EIA to restructure their Bylaws and JPA agreements discontinuing the operation of CPEIA and allowing its members to become full participants in the CSAC-EIA programs. Being a CPEIA member granted automatic approval of inclusion into both the Primary and Excess EIA workers' compensation programs beginning with the July 1, 2007 policy renewals. The relationship between the Group and CSAC-EIA ("the JPA") is such that CSAC-EIA is not a component unit of the Group for reporting purposes.

CSAC-EIA is a joint powers agency (JPA) formed pursuant to Section 6500 et seq. of the California Government Code. Members are assessed a contribution for each program in which they participate. Members may be subject to additional supplemental assessments if it is determined that the contributions are insufficient. Members may withdraw from the CSAC-EIA only at the end of a poly period and only if a sixty day written advance note is given. However, CSAC-EIA may cancel a membership at any time upon a two-thirds vote of the Board of Directors and with sixty days written notice. Upon withdrawal or cancellation, a member shall remain liable for additional assessments for the program periods they have participated. CSAC-EIA is governed by a board of directors. The Board controls the operations of CSAC-EIA, including adopting an annual budget.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

10. Risk Management (continued)

Primary workers' compensation

The Primary Workers' Compensation program is a full service program including claims administration. The program blends pooling of workers' compensation claims with purchased stop loss insurance policy.

Excess workers' compensation

CPEIA retains responsibility for payment of claims in excess of \$125,000 for each member who also participates in the primary workers' compensation program. Claim liabilities are recognized based on the actuarial estimate of expected ultimate claim cost discounted at 6%.

The District paid \$431,555 and \$322,778, including the District's payment for workers' compensation portfolio transfer for workers' compensation to the Group for the years ended June 30, 2017 and 2016, respectively.

Fire Agencies Insurance Risk Authority (FAIRA)

The District has joined the Fire Agencies Insurance Risk Authority, a joint powers authority (JPA), with other California special districts as members. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for reporting purposes. The Authority, as administrator, maintains general liability insurance for its members. The purpose of this joint protection program is to reduce the amount and frequency of their losses, pool their self-insured losses, and jointly purchase general liability insurance. For the fiscal year ended June 30, 2017, self-insurance retention was \$250,000. The JPA's separately published financial statements are available from the JPA.

Insurance coverage

Insurance coverage at June 30, 2017 was as follows:

	<u>Limits</u>	<u>Deductible</u>
Coverage through FAIRA		
General liability		
General liability - per occurrence	\$ 1,000,000	\$ -
Wrongful acts - aggregate	\$ 2,000,000	
Auto liability - combined single limit	\$ 5,000,000	\$1,000
Other auto coverage -		
Uninsured motorist/bodily injury	\$ 60,000	\$1,000
Excess liability coverage - per occurrence	\$10,000,000	\$ -

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

10. Risk Management (continued)

Insurance coverage (continued)

Property, building and contents:

	<u>Building Contents</u>	<u>Building Value</u>	<u>Deductible</u>
Station - 3445 Thurber Lane	\$ 383,000	\$1,914,000	\$5,000
Station - 930 17th Avenue	\$ 736,000	\$3,110,000	\$5,000
Station - 4747 Soquel Drive	\$ 211,000	\$1,053,000	\$5,000
Station - 405 Capitola Avenue	\$ 175,000	\$ 876,000	\$5,000
Administration Building	\$ 433,000	\$1,924,000	\$5,000
Fleet Maintenance Building	\$ 256,000	\$1,406,000	\$5,000

	<u>Limits</u>	<u>Deductible</u>
Equipment floater -		
Miscellaneous portable equipment	\$461,708	\$1,000
Vehicles		
Comprehensive	Actual Cash Value	\$1,000
Collision	Actual Cash Value	\$1,000
Flood insurance -		
Building - Station 3, 4747 Soquel Drive	\$30,300	\$1,000
Contents	\$17,400	\$1,000

Other Insurance:

Personnel

Workers' compensation (self- insured through the Santa Cruz County Fire Agencies Insurance Group)	Statutory
Health -	
PERS	Limited Coverage
Dental -	
Delta Dental	Limited Coverage
Life and Long-Term Disability CA Assn. of Professional Firefighters - Fontis/Unum	Limited Coverage
Paid Call -	
Life Insurance and Long-Term Disability - C.S.F.A.	Limited Coverage

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

11. Fund Balance - Designated

In anticipation of future expenditures, the District, by the Board of Directors, has set up the following designated funds:

	<u>June 30, 2016</u>	<u>Amounts Made Available</u>	<u>Increase New Designations</u>	<u>June 30, 2017</u>
Compensated absences	\$ 313,364	\$ -	\$ -	\$ 313,364
Mobile vehicle replacement	\$2,010,209	\$ 71,628	\$453,759	\$2,392,340
Capital improvements:				
Building improvements	\$ 643,080	\$ 372,669	\$154,160	\$ 424,571
Equipment	<u>382,554</u>	<u>70,506</u>	<u>115,922</u>	<u>427,970</u>
Total capital outlay	<u>\$1,025,634</u>	<u>\$ 443,175</u>	<u>\$270,082</u>	<u>\$ 852,541</u>
Economic stability	\$ -	\$ -	\$ 926,013	\$ 926,013

Designated compensated absences reserve fund

The District has recognized that a liability exists for compensated absences. In recognition of that liability the District has set aside \$313,364.

Designated mobile vehicle replacement reserve fund

The District currently maintains a Mobile Vehicle Replacement Reserve Fund. This account is funded based on a long range replacement plan developed by the District. In recognition of that liability the District has set aside \$2,392,340.

Designated capital improvements reserve

The District uses a Capital Outlay Fund to account for building improvements and equipment. The amount of \$852,541 (\$424,571 for building improvements and \$427,970 for equipment) as of June 30, 2017, and is in recognition that District fire stations need capital improvements and equipment.

Economic stability reserve fund

The District, during fiscal year ended June 30, 2017, funded an economic stability reserve fund. This account will be funded annually based on excess of property tax revenue over budget. The purpose of the fund is to insulate the District and help fund the District during downturns in property tax revenue.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2017 and 2016

12. Fiscal year end 2015 prior period adjustments

For the fiscal year end June 30, 2015 a prior period adjustment of \$21,045,548 was made to decrease the governmental activities beginning net position. The adjustment was made to reflect the prior period costs to the implementation of the net pension liability.

The restatement of the beginning net position of the governmental activities is summarized as follows:

Governmental activities	
Net position at July 1, 2014 as previously stated	\$ 12,009,227
Net pension liability adjustment	(17,241,522)
Net pension asset adjustment	<u>(3,804,026)</u>
Net position at July 1, 2014, as restated	<u>\$ (9,036,321)</u>

13. Litigation

The District is involved in various legal proceedings. The lawsuits are being contested. In the opinion of the Board of Directors, the amount of the Districts liability, if any will not materially affect its financial position.

14. Subsequent events

The District's management has evaluated events and transactions subsequent to June 30, 2017 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through May 25, 2018, the date the financial statements become available to be issued. The District does not have subsequent events that require recognition or disclosure in the financial statements for the year ended June 30, 2017.

Subsequent to June 30, 2017 the District has entered into agreements to purchase fire engines. Total contact cost is approximately \$3,500,000 to be paid for by making a down payment of \$1,000,000 out of the vehicle replacement fund, and the remaining amount due by capital lease payments over a ten year period.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Schedule of Proportionate Share of Net Pension Liability and Related Ratios
June 30, 2017
Last 10 Years*

**Schedule of Central Fire Protection District of Santa Cruz County's Proportionate
Share of Net Pension Liability and Related Ratios**

Fiscal year Measurement period	Miscellaneous	Miscellaneous	Miscellaneous
	2016-17 2015-16	2015-16 2014-15	2014-15 2013-14
Proportion of the net pension liability	0.00897%	0.00892%	0.00733%
Proportionate share of the net pension liability	\$ 775,899	\$ 612,157	\$ 456,168
Covered employee payroll	\$ 616,978	\$ 418,627	\$ 356,733
Proportionate share of the net pension liability as a percentage of covered-employee payroll	125.76%	146.23%	127.87%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	83.03%
Plan's proportionate share of aggregate employer contributions	\$ 80,909	\$ 76,361	\$ 60,349
	Safety	Safety	Safety
Fiscal year Measurement period	2016-17 2015-16	2015-16 2014-15	2014-15 2013-14
Proportion of the net pension liability	0.24434%	0.24186%	0.22334%
Proportionate share of the net pension liability	\$ 21,142,754	\$ 16,601,246	\$ 13,897,504
Covered employee payroll	\$ 5,004,715	\$ 4,718,847	\$ 5,244,112
Proportionate share of the net pension liability as a percentage of covered-employee payroll	422.46%	351.81%	265.01%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	81.42%
Plan's proportionate share of aggregate employer contributions	\$ 1,911,743	\$ 1,970,059	\$ 1,724,015

Notes to schedule

* Additional years presented as they become available.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
Schedule of Contributions
June 30, 2017
Last 10 Years*

Schedule of Contributions

Fiscal Year Ended	Miscellaneous 2017	Miscellaneous 2016	Miscellaneous 2015
Contractually required contribution (actuarially determined)	\$ 101,352	\$ 79,285	\$ 59,902
Contributions in relation to the actuarially determined contributions	<u>(101,352)</u>	<u>(79,285)</u>	<u>(59,902)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 733,284	\$ 616,978	\$ 418,627
Contributions as a percentage of covered-employee payroll	13.82%	12.85%	14.31%
Fiscal Year Ended	Safety 2017	Safety 2016	Safety 2015
Contractually required contribution (actuarially determined)	\$ 1,789,009	\$ 1,592,875	\$ 1,298,899
Contributions in relation to the actuarially determined contributions	<u>(1,789,009)</u>	<u>(1,592,875)</u>	<u>(1,298,899)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 4,984,177	\$ 5,004,715	\$ 4,718,847
Contributions as a percentage of covered-employee payroll	35.89%	31.83%	27.53%

Notes to Schedule

* Additional years presented as they become available.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Revenues - Budget and Actual - General Fund
 For the Year Ended June 30, 2017

	Final Budget	Adjusted Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes				
Current secured	\$ 14,781,052	\$ 14,781,052	\$ 15,057,455	\$ 276,403
Residual distribution	-	-	72,139	72,139
Current unsecured	296,407	296,407	304,472	8,065
Penalties and costs of delinquent taxes	10,000	10,000	3,339	(6,661)
Current supplemental - secured	140,000	140,000	212,445	72,445
Current supplemental - unsecured	3,000	3,000	8,066	5,066
Prior year	36,000	36,000	45,430	9,430
In-lieu taxes - other	5,000	5,000	-	(5,000)
Total property taxes	<u>15,271,459</u>	<u>15,271,459</u>	<u>15,703,346</u>	<u>431,887</u>
Use of money and property				
Interest general fund	35,000	35,000	45,525	10,525
Total use of money and property	<u>35,000</u>	<u>35,000</u>	<u>45,525</u>	<u>10,525</u>
Aid from other government agencies				
Contributions other government agencies				
Homeowners' property tax relief	107,212	107,212	101,445	(5,767)
State - other	-	78,100	77,625	(475)
Federal grants	-	-	-	-
RDA's	228,000	228,000	309,165	81,165
Total aid from other government agencies	<u>335,212</u>	<u>413,312</u>	<u>488,235</u>	<u>74,923</u>
Charges for current services				
Emergency response recovery	2,413	2,413	-	(2,413)
Retiree charges - retirees	24,065	24,065	25,671	1,606
Computer services	57,694	57,694	39,924	(17,770)
Copy charges/other revenue	300	300	213	(87)
Cost recovery - other	-	-	1,356	1,356
Charges for current services	118,725	118,725	4,161	(114,564)
Other charges current services	130,000	130,000	131,458	1,458
Total charges for current services	<u>333,197</u>	<u>333,197</u>	<u>202,783</u>	<u>(130,414)</u>
Other revenue				
Insurance proceeds	-	-	83,013	83,013
Other revenue	-	-	6,264	6,264
Total other revenue	<u>-</u>	<u>-</u>	<u>89,277</u>	<u>89,277</u>
Total revenues	<u>\$ 15,974,868</u>	<u>\$ 16,052,968</u>	<u>\$ 16,529,166</u>	<u>\$ 476,198</u>
Other financing sources				
Operating transfers in	\$ -	\$ 8,500	\$ -	\$ (8,500)
Sale of fixed assets	-	-	-	-
Total other financing sources	<u>\$ -</u>	<u>\$ 8,500</u>	<u>\$ -</u>	<u>\$ (8,500)</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures				
Salaries and employee benefits				
Salaries	\$ 7,240,265	\$ 7,240,265	\$ 6,967,414	\$ 272,851
Retirement (Social Security and PERS)	1,968,460	1,968,460	1,948,285	20,175
Employee insurance and benefits	2,420,756	2,420,756	2,378,587	42,169
Unemployment insurance	12,719	12,719	9,399	3,320
Workers' compensation insurance	409,978	409,978	409,978	-
Sick leave reserve	271,202	271,202	339,653	(68,451)
Total salaries and employee benefits	<u>12,323,380</u>	<u>12,323,380</u>	<u>12,053,316</u>	<u>270,064</u>
Services and supplies				
Clothing and personal supplies	111,965	111,965	19,658	92,307
Uniform replacement	21,754	21,754	22,678	(924)
Radio	153,262	153,262	149,166	4,096
Telephone and telegraph	39,333	39,333	36,630	2,703
Food	3,111	3,111	2,953	158
Other household expenses	43,429	43,429	41,108	2,321
Other insurance	32,339	32,339	24,765	7,574
Maintenance - mobile equipment	7,088	7,088	2,125	4,963
Maintenance - office equipment	2,600	2,600	2,288	312
Maintenance - other equipment	41,828	41,828	32,864	8,964
Maintenance - structure and grounds	51,998	51,998	51,364	634
Medical, dental and lab supplies	66,860	66,860	21,695	45,165
Memberships	5,097	5,097	4,378	719
PC software	57,484	57,484	40,943	16,541
Supplies	26,744	26,744	25,158	1,586
Accounting (County PR) and auditing fees	28,508	28,508	27,334	1,174
Directors' fees	22,271	22,271	18,324	3,947
Laundry services	4,524	4,524	1,104	3,420
Medical services - other	46,780	46,780	32,959	13,821
Professional and special services	490,232	490,232	445,375	44,857
Legal notices	4,675	4,675	3,788	887
Equipment lease and rent	4,610	4,610	4,769	(159)
Small tools and instruments	70,107	70,107	48,363	21,744
Education and/or training	29,321	29,321	23,536	5,785
Special district expense	102,318	102,318	64,898	37,420
Subscriptions, books and ed materials	8,848	8,848	8,409	439
Education and training	66,330	66,330	56,271	10,059
Gas, oil, and fuel	67,201	67,201	45,940	21,261
Travel - other	575	575	75	500
Utilities	55,300	55,300	52,713	2,587
Total services and supplies	<u>1,666,492</u>	<u>1,666,492</u>	<u>1,311,631</u>	<u>354,861</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund (continued)
 For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures				
Other charges				
Principal on long-term debt	\$ 1,019,717	\$ 1,019,717	\$ 1,019,717	\$ -
Interest on long-term debt	92,232	92,232	92,967	(735)
Contributions to other agencies	17,658	17,658	17,658	-
Total other charges	<u>1,129,607</u>	<u>1,129,607</u>	<u>1,130,342</u>	<u>(735)</u>
Fixed assets				
Buildings and improvements	-	-	-	-
Computer equipment	22,082	22,082	-	22,082
Equipment	81,340	81,340	80,807	533
Mobile equipment	15,851	15,851	15,481	370
Total fixed assets	<u>119,273</u>	<u>119,273</u>	<u>96,288</u>	<u>22,985</u>
Appropriations for contingencies	<u>100,000</u>	<u>100,000</u>	-	<u>100,000</u>
Total expenditures	<u>\$ 15,338,752</u>	<u>\$ 15,338,752</u>	<u>\$ 14,591,577</u>	<u>\$ 747,175</u>
Other financing uses				
Operating transfers out to				
Vehicle replacement	\$ 435,000	\$ 435,000	\$ 435,000	\$ -
Capital outlay	150,000	150,000	150,000	-
Capital outlay - equipment	112,300	112,300	112,300	-
Fleet maintenance charges	505,813	505,813	505,813	-
Economic stability	-	-	920,457	(920,457)
Total financing uses	<u>\$ 1,203,113</u>	<u>\$ 1,203,113</u>	<u>\$ 2,123,570</u>	<u>\$ (920,457)</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Revenues and Expenditures - Budget and Actual -
 Vehicle Replacement Fund
 For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Use of money and property				
Interest vehicle replacement fund	\$ 9,000	\$ 9,000	\$ 18,759	\$ 9,759
Total use of money and property	<u>9,000</u>	<u>9,000</u>	<u>18,759</u>	<u>9,759</u>
Other revenue				
Other revenue	-	-	-	-
Total other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources				
Sale of fixed assets-nontaxable	-	-	-	-
Operating transfers in	435,000	435,000	435,000	-
Total other financing sources	<u>435,000</u>	<u>435,000</u>	<u>435,000</u>	<u>-</u>
 Total revenues	 <u>\$ 444,000</u>	 <u>\$ 444,000</u>	 <u>\$ 453,759</u>	 <u>\$ 9,759</u>
Fixed assets				
Mobile equipment	\$ -	\$ 80,868	\$ 71,628	\$ 9,240
Other financing uses				
Operating transfers out	-	-	-	-
Total financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	 <u>\$ -</u>	 <u>\$ 80,868</u>	 <u>\$ 71,628</u>	 <u>\$ 9,240</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Capital Outlay Fund
 For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Use of money and property				
Interest	\$ 2,500	\$ 2,500	\$ 7,782	\$ 5,282
Total use of money and property	<u>2,500</u>	<u>2,500</u>	<u>7,782</u>	<u>5,282</u>
Other financing sources				
Operating transfers in capital outlay	150,000	150,000	150,000	-
Operating transfers in equipment	112,300	112,300	112,300	-
Sales of fixed assets	-	-	-	-
Total other financing sources	<u>262,300</u>	<u>262,300</u>	<u>262,300</u>	<u>-</u>
Total revenues	<u>\$ 264,800</u>	<u>\$ 264,800</u>	<u>\$ 270,082</u>	<u>\$ 5,282</u>
Services and supplies				
Clothing and personal supplies	\$ -	\$ -	\$ 42,731	\$ (42,731)
Total service and supplies	<u>-</u>	<u>-</u>	<u>42,731</u>	<u>(42,731)</u>
Other charges				
Principal on long-term debt	-	-	291,461	(291,461)
Interest on long-term debt	-	-	-	-
Contributions to other agencies	-	-	-	-
Total other charges	<u>-</u>	<u>-</u>	<u>291,461</u>	<u>(291,461)</u>
Fixed assets				
Equipment	84,499	114,499	27,776	86,723
Building and improvements	<u>431,232</u>	<u>445,212</u>	<u>81,207</u>	<u>364,005</u>
Total fixed assets	<u>515,731</u>	<u>559,711</u>	<u>108,983</u>	<u>450,728</u>
Other financing uses				
Operating transfers out - capital outlay	-	8,500	-	8,500
Operating transfers out - equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financing uses	<u>-</u>	<u>8,500</u>	<u>-</u>	<u>8,500</u>
Total expenditures	<u>\$ 515,731</u>	<u>\$ 568,211</u>	<u>\$ 443,175</u>	<u>\$ 125,036</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Fleet Maintenance
 For the Year Ended June 30, 2017

	Final Budget	Adjusted Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Use of money and property				
Interest	\$ -	\$ -	\$ 1,454	\$ 1,454
Charges for current services				
Service center charges	<u>216,777</u>	<u>216,777</u>	<u>343,707</u>	<u>126,930</u>
Total use of money and property	<u>216,777</u>	<u>216,777</u>	<u>345,161</u>	<u>128,384</u>
Other financing sources				
Operating intra transfers in	<u>505,813</u>	<u>505,813</u>	<u>505,813</u>	<u>-</u>
Total other financing sources	<u>505,813</u>	<u>505,813</u>	<u>505,813</u>	<u>-</u>
Total revenues	<u>\$ 722,590</u>	<u>\$ 722,590</u>	<u>\$ 850,974</u>	<u>\$ 128,384</u>
Expenditures				
Salaries and employee benefits				
Salaries	\$ 207,312	\$ 207,312	\$ 218,180	\$ (10,868)
Retirement (Social Security and PERS)	28,555	28,555	29,138	(583)
Employee insurance and benefits	56,848	56,848	54,762	2,086
Unemployment insurance	500	500	441	59
Workers' compensation insurance	21,577	21,577	21,577	-
Sick leave reserve	<u>6,761</u>	<u>6,761</u>	<u>6,259</u>	<u>502</u>
Total salaries and employee benefits	<u>321,553</u>	<u>321,553</u>	<u>330,357</u>	<u>(8,804)</u>
Services and supplies				
Telephone and telegraph	3,330	3,330	5,132	(1,802)
Other household expenses	12,868	12,868	9,782	3,086
Other insurance	9,851	9,851	9,800	51
Maintenance - mobile equipment	289,000	289,000	300,737	(11,737)
Maintenance - other equipment	3,200	3,200	4,071	(871)
Maintenance - structure and grounds	11,555	11,555	8,447	3,108
Memberships	80	80	115	(35)
PC software	6,292	6,292	6,384	(92)
Supplies	1,350	1,350	2,682	(1,332)
Small tools and instruments	2,800	2,800	4,488	(1,688)
Special district expenses - services	4,683	4,683	2,833	1,850
Subscriptions, books and ed materials	1,728	1,728	1,728	-
Education and training	10,196	10,196	2,824	7,372
Gas, oil, and fuel	32,150	32,150	32,697	(547)
Utilities	<u>11,954</u>	<u>11,954</u>	<u>13,045</u>	<u>(1,091)</u>
Total services and supplies	<u>401,037</u>	<u>401,037</u>	<u>404,765</u>	<u>(3,728)</u>
Fixed assets				
Equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 722,590</u>	<u>\$ 722,590</u>	<u>\$ 735,122</u>	<u>\$ (12,532)</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Economic Stability Fund
 For the Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Use of money and property				
Interest	\$ -	\$ -	\$ 5,556	\$ 5,556
Total use of money and property	<u>-</u>	<u>-</u>	<u>5,556</u>	<u>5,556</u>
 Other financing sources				
Operating transfers in	-	-	920,457	920,457
Total other financing sources	<u>-</u>	<u>-</u>	<u>920,457</u>	<u>920,457</u>
 Total revenues				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 926,013</u>	<u>\$ 926,013</u>
 Other financing uses				
Operating transfers out	\$ -	\$ -	\$ -	\$ -
Total financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Board of Directors
Central Fire Protection District
of Santa Cruz County

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Central Fire Protection District of Santa Cruz County, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Central Fire Protection District of Santa Cruz County basic financial statements, and have issued our report thereon dated May 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Fire Protection District of Santa Cruz County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Fire Protection District of Santa Cruz County's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Fire Protection District of Santa Cruz County's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Fire Protection District of Santa Cruz County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Armanino LLP". The signature is fluid and cursive, with the letters "Armanino" written in a larger, more prominent script than the "LLP" which follows.

Armanino^{LLP}
San Jose, California

May 25, 2018

NONACCOUNTING INFORMATION

INDEPENDENT AUDITOR'S REPORT ON NONACCOUNTING INFORMATION

Board of Directors
Central Fire Protection District
of Santa Cruz County

Our report on our audit of the basic financial statements of Central Fire Protection District of Santa Cruz County for the year ended June 30, 2017 appears on pages 1 and 2. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The nonaccounting information shown on pages 63 and 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.



Armanino^{LLP}
San Jose, California

May 25, 2018

1. Aggressive Oversight by the Board

The Board of Directors recognizes their responsibility for fiscal accountability to the community, the employee's of the District and the organization. The Board of Directors is committed to staying informed on all financial aspects of District Operations. The Board further commits to using utmost diligence in guaranteeing sound fiscal management principles throughout their decision making process.

2. Treasurer

The District Board acknowledges the Treasurer of the County of Santa Cruz as Treasurer of the District by Statute (Health and Safety Code Section 13854). All cash and reserve funds are held in the investment pool of Santa Cruz County under the management of the County Treasurer. Reserve fund balances will be held available for funding the "dry tax season", capital outlay and mobile equipment objectives rather than borrowing additional funds for that purpose. The District shall maintain a line of credit with the County of Santa Cruz for cash flow needs.

3. Open and Complete Reporting

The Board of Directors and Staff commit to disclose and report all current impacts to the District's finances at every regular monthly Board Meeting. Care will be given to report in a format easily understood by district clientele.

Budget deviations will be processed per policy and Staff shall provide quarterly financial statements to the Board of Directors formatted to include description of funds, expenditure and revenue balances and projected trends throughout the fiscal year.

4. Timely Payment

The District shall process all routine bills received by the District for payment within 30 days and submit all claims to the Board for review at the next regular meeting.

5. Reserves and Designations

The District shall forecast future liabilities and plan for adequate funding based upon economic conditions. Categories shall include:

- a. Accumulated unpaid compensated absences (vacation, cto, sick leave).
- b. Equipment replacement
- c. Facilities - improvement, maintenance, purchase, construction.
- d. Mobile equipment.
- e. Other post-employment benefits - Annual Required Contribution

5. Reserves and Designations (continued)

The funds needed by each category in a fiscal year will be included in that current year budget. Funds not used in the current fiscal year will be transferred to the following years reserve accounts until those accounts become fully funded.

Other Post Employment Benefit expense is currently calculated as the sum of actual annual retiree health benefit premium plus the amortization of accumulated debt over a thirty year period and is identified as the "Annual Required Contribution". Actuarial determination will provide the calculated Annual Required Contribution. The District strives to fund a minimum 50% of the ARC and maintains a goal of contributing 100% of the Annual Required Contribution. Contributions to the ARC shall be deposited in the California Employers' Retiree Benefit Trust (CERBT).

Once funded, these accounts shall not be depleted for any reason other than their stated purpose. If revenues fall, current expenses will be cut to match revenues rather than spending of reserves.

6. Indebtedness

Great diligence will be used to accomplish the mission of the Central Fire Protection District by applying contemporary business practices and recognized cash management principles based on current economic conditions minimizing the use of debt issuance except where appropriate to meet District goals.

7. Budgets

The goal of the Fire District Budget is to reflect a balance of recurring revenues allocated to wages and benefits with services and supplies reflecting current economic conditions, demonstrating fiscal responsibility and providing adequate reserves. An example may be: (85% recurring revenues allocated to wages and benefits, and 15% to services and supplies).