

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

Financial Statements and  
Supplementary Information

June 30, 2015 and 2014

## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 9
Government-Wide Financial Statements	
Statements of Net Position	10
Statements of Activities	11 - 12
Governmental Funds Financial Statements	
Balance Sheets - Governmental Funds	13 - 14
Reconciliation of the Governmental Funds Balance Sheets to the Government - Wide Statements of Net Position	15
Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16 - 17
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities	18
GASB 45 Trust Fund Financial Statement	
Statement of Plan Position and Changes in Plan Net Position	19
Notes to Financial Statements	20 - 48
Required Supplementary Information (RSI) (Unaudited)	
GASB 68 Pension RSI	
Schedule of Proportionate Share of Net Pension Liability and Related Ratios	49
Schedule of Contributions	50
Budgetary Comparison Schedules	
Revenues - Budget and Actual - General Fund	51
Expenditures - Budget and Actual - General Fund	52 - 53
Revenues and Expenditures - Budget and Actual - Vehicle Replacement Fund	54
Revenues and Expenditures - Budget and Actual - Capital Outlay Fund	55
Revenues and Expenditures - Budget and Actual - Fleet Maintenance	56
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	57 - 58
Nonaccounting Information	
Independent Auditor's Report on Nonaccounting Information	59
Nonaccounting Information - Financial Policy	60 - 61



## 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 year ended June 30, 2015, 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 audit. We conducted our audit 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **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 April 25, 2016, 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.

## **Prior Period Summarized Comparative Information**

The 2014 financial statements of Central Fire Protection District of Santa Cruz County as of and for the year ended June 30, 2014, were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino<sup>LLP</sup> as of January 1, 2015, and whose report dated December 30, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented here in as of and for the year ended June 30, 2014 is consistent in all material respect, with the audited financial statements from which it has been derived.



Armanino<sup>LLP</sup>  
Santa Cruz, California

April 25, 2016

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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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, 2015 with comparative totals for 2014.

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 - Equipment - The District transfers sufficient amounts to this fund to manage large replacement cost equipment items.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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Description of the Basic Financial Statements (continued)

Capital Outlay - The District transfers amounts to this fund to manage large facility expenses.

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

Condensed Government-Wide Financial Data

	<u>2015</u>	<u>2014</u>
Current assets	\$ 9,841,811	\$ 8,178,448
Station and equipment, net of accumulated depreciation	9,803,503	10,159,619
Deferred outflows of resources	<u>1,683,687</u>	<u>3,804,026</u>
Total assets	<u>\$21,329,001</u>	<u>\$22,142,093</u>
Current liabilities	\$ 1,270,188	\$ 1,109,518
Noncurrent liabilities	22,854,252	9,023,348
Deferred inflow of resources	<u>4,376,227</u>	<u>-</u>
Total liabilities	<u>28,500,667</u>	<u>10,132,866</u>
Net position		
Net investment in capital assets	9,435,439	9,728,677
Unrestricted	<u>(16,607,105)</u>	<u>2,280,550</u>
Total net position	<u>(7,171,666)</u>	<u>12,009,227</u>
Total liabilities and net position	<u>\$21,329,001</u>	<u>\$22,142,093</u>
	<u>2015</u>	<u>2014</u>
Expenditures, net of program revenue	\$12,544,429	\$13,023,133
General revenues		
Property tax	13,736,290	12,732,497
Use of money and property (interest income)	33,685	22,514
Aid from other government agencies	288,567	227,995
Other revenues		
Insurance proceeds	65,631	47,607
Other revenue	279,411	207,603
Gain (loss) on sale of assets	<u>5,500</u>	<u>(35,962)</u>
Change in net position	<u>\$ 1,864,655</u>	<u>\$ 179,121</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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Financial Analysis of the District as a Whole

Net Position. The District's net position increased by \$1,864,655 for the fiscal year ended June 30, 2015, or approximately 26.00 percent, to a total deficit of \$7,171,666. Of the deficit of \$7,171,666 in net position, \$9,435,439 are invested in capital assets (net of accumulated depreciation and related debt).

Financial Analysis of the District's Funds

Governmental Fund balances increased by \$1,613,975. The main reasons for the difference between the \$1,864,655 increase in District net position and the \$1,613,975 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, 2015, the District had invested \$16,316,833 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, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Station improvements	\$ 2,231	\$625,736
Equipment	\$23,875	\$ 12,042
Mobile equipment	\$81,783	\$ 59,332

Noncurrent Liabilities

At June 30, 2015, the District had \$23,854,252 in noncurrent liabilities which consist of (1) a debt, the original proceeds of which were used to lease purchase land and building, (2) a debt, the original proceeds of which were used to Prepay the CalPER's Side Fund Liability, (3) net pension liability, (4) net other postemployment benefit obligation, and (5) compensated absences.

During the year ended June 30, 2015, the District reduce debt liabilities by \$907,878. Reduction in debt liabilities resulted from: making scheduled payments on the land and building debt and on the CalPER's Side Fund Liability. Compensated absences increased by \$33,152 and other postemployment benefit obligation increased by \$432,520.

During the year ended June 30, 2015 the Governmental Accounting Standard Board "GASB" Statement 68, accounting and financial reporting for pensions was implemented. The new statement required the District to record a net pension liability of \$14,353,672.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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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. The District's projected Property Tax revenue growth in fiscal year 2014-2015 was 5.00%; however the District experienced actual Property Tax revenue growth at 7.88% which returns the District to 2007 revenue levels. The District will be challenged to creatively and thoughtfully address consistently increasing personnel benefit expense with existing revenues. The District continues to evaluate changing conditions, anticipate future impacts, and develop fiscal strategies and engage in collective bargaining that allow continued levels of service to the community at an affordable and responsible level.

Workers' Compensation

During this reporting year of 2014/2015, the District realized a modest increase 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 \$2,203,801 which comprises of \$1,358,801 which represents a contribution for safety personnel of 26.149% of payroll and 14.660% of payroll for miscellaneous personnel. The remaining \$845,000 is contributed to the PERS Side Fund. The California Public Employees Retirement System suffered significant investment losses in 2008/2009 due to general economic conditions. The CalPER's Board of Directors has adopted a smoothing plan to defer investment losses, change actuarial methodology, update demographic factors and address unfunded liabilities over a period of time. This methodology will inherently increase employer rates for several years to come 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, the Board of Directors have established a District contribution for employees and retirees at 100% 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 differential in cost. During the period the District was able to negotiate a 15% employee contribution towards health premiums with four of five bargaining groups.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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GASB 45

The District submitted the RFP/RFQ process to complete the new GASB 45 actuarial requirements effective fiscal year end June 2011. The GASB 45 recommendations require the District to complete actuaries for future medical/health cost beginning in 2008/2009. In an attempt to keeping current on PERS cost and benefit issues, staff attended an annual PERS training seminar to better understand program benefits. The board of directors has accepted and approved the consultant's GASB 45 reports issued in 2013. Currently the District's practice is to "pay as you go," and the District has joined a post employment investment trust fund with the CalPER's system for post retirement medical benefits. Investment trusts and other tools to address unfunded retiree benefit liabilities will continue to be reviewed for opportunities based on current economic conditions, available funding, and legislated requirements. The District continues to seek sustainable solutions to manage the cost of benefits provided to District employees. Modest reductions in OPEB liabilities were realized by a membership in the Trust. The final actuarial results of the 2013 report will be undervalued as not all bargaining units have agreed to the target contribution level utilized by the actuarial report.

Operational Services and Supplies

Operational services and supplies make up approximately 15% of the 2015/2014 annual operating budget. Utility costs continue to rise sharply this past year as a result of the water service and utility market and impact our operational costs. Program management and a tighter control on spending allowed for a moderate decrease in the operations expenditures of the District. The District's staff continues to work hard to seek out and secure the best pricing. Competitive bidding in conjunction with other governmental agencies has also been utilized this past year to help curtail costs and control spending.

ERAF (Education Revenue Augmentation Fund)

In 1992, the State of California was in a serious deficit position and was faced with Proposition 98 required funding levels for education. In response, the State enacted local legislation to shift partial financing responsibility for funding education to local governments (cities, counties, and special districts). The State implemented this action through directing counties to shift local property tax revenues from local governments to education revenue augmentation funds to support schools.

The Education Revenue Augmentation Fund (ERAF) has and continues to transfer a significant portion of our property tax revenue funding to the value of approximately \$800,000 per year. This diversion of funding has had a long term impact on the ability of the District to fund and support capital replacement and improvements. The District has been and will continue to monitor, politically engage and respond with lobbying action if future fund shifts are to occur at the state level. Note: The District has losses over \$14,000,000 of owed tax revenues due to the State's ERAF shift and taking of the District's revenues.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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General Budget Comparisons

The following is a side by side comparison expenditure budget adoptions by category and financial trends from 2014 to 2015. The expanded expenditure budget can be found on pages 50 to 55.

	<u>2015</u>	<u>2014</u>
Salaries and employee benefits	\$10,686,198	\$9,928,297
Services and supplies	\$ 1,634,974	\$1,586,088
Other charges	\$ 1,116,998	\$1,085,720
Fixed assets	\$ 119,775	\$ 697,332

Redevelopment Funding

Due to the significant impact and volatile nature of this funding source, management continues to monitor RDA residual revenues and future legislative impacts relative to Special District tax increment for risks to sustainable operations.

The District will continue to monitor RDA activity, residual revenues, and introduction of RDA type laws for the protection of the District's tax increment and incremental pass through revenues. State law initiated the closure of the RDA's statewide and the result was a migration of tax increment into secured property tax increment preventing transparency of fiscal effect.

Apparatus and Equipment Replacement

Staff has implemented a long term vehicle replacement schedule recognizing the effect of the replacement cycle, inflation factors, and industry driven price increases as a future planning tool for future budget development. An additional plan has been created for large value equipment purchases. A new staff vehicle was purchased in this period.

Contingencies - Fiscal Year 2014/2015

With the uncertainty of the economy, contingency funding was reduced to complete the operational funding of services.

Future MOU - Employee Salary and Benefits 2014/2015

The District's bargaining groups jointly met and conferred on salary, benefits, terms and working conditions. Through these Memorandum of Understanding (MOU) contract agreements, the board and labor groups agreed to a three year contract for four of five bargaining groups concluding December 31, 2017.

The District maintained benefits for employee groups and provided a 2% cost of living adjustment for miscellaneous employees and 1% for Mid Management and Executive class with these employees contributing 15% towards health premiums.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Management's Discussion and Analysis  
June 30, 2015 and 2014

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Appropriation Limit

For Fiscal Year 2014-15 the appropriations limitation for the District was \$30,323,833. The table below illustrates the computation used to derive the appropriation limits.

Appropriations subject to limit	<b>\$ 13,054,727</b>
<i>Calculation of 2015-2014 limit:</i>	
2013-2014 appropriations limit	\$ 29,887,476
Change in assessment roll	101.13%
% change in county population	<u>101.33%</u>
Total change factor	101.46%
2014-2015 appropriations limitations	<b>\$ 30,323,833</b>
Amount under appropriations limitation	\$(17,269,106)

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, 2015 and 2014

<u>ASSETS</u>	2015	2014
Cash in county treasury		
Santa Cruz County	\$ 9,784,927	\$ 8,145,868
Accounts receivable		
Capitola RDA and Strike Team	56,884	32,580
Current assets	9,841,811	8,178,448
Station and equipment - net of accumulated depreciation		
Land	2,845,037	2,845,037
Structures and improvements	7,078,386	7,076,155
Equipment	6,393,410	6,293,252
Total station and equipment	16,316,833	16,214,444
Less: accumulated depreciation	(6,513,330)	(6,054,825)
Station and equipment, net of accumulated depreciation	9,803,503	10,159,619
Deferred outflows of resources		
Deferred pension - actuarial	324,886	-
Deferred pension - contributions	1,358,801	-
Net pension asset	-	3,804,026
Total deferred outflow of resources	1,683,687	3,804,026
Total assets and deferred outflows of resources	\$ 21,329,001	\$ 22,142,093
<u>LIABILITIES AND NET POSITION</u>		
Due within one year - current liabilities		
Accounts payable	\$ 54,577	\$ 22,132
Accrued salaries and benefits	221,245	171,948
Accrued interest on long-term liabilities	5,926	7,560
Current portion of long-term liabilities	988,440	907,878
Total current liabilities	1,270,188	1,109,518
Due in more than one year - noncurrent liabilities		
Net pension liability	14,353,672	-
Net other postemployment benefit obligation	4,727,243	4,294,723
Compensated absences	1,324,713	1,291,561
Long-term debt		
Purchase lot and building	368,064	430,942
CalPER's Side Fund Liability	3,069,000	3,914,000
	23,842,692	9,931,226
Less: current portion of debt	(988,440)	(907,878)
Total noncurrent liabilities	22,854,252	9,023,348
Deferred inflow of resources		
Deferred pension	4,376,227	-
Total deferred inflow of resources	4,376,227	-
Total liabilities and deferred inflow of resources	28,500,667	10,132,866
Net position (deficit)		
Net investment in capital assets	9,435,439	9,728,677
Unrestricted net position		
General fund (fiscal year beginning July 1, 2014 as restated)	(16,607,105)	2,280,550
Total net position (deficit)	(7,171,666)	12,009,227
Total liabilities, deferred inflows of resources and net position	\$ 21,329,001	\$ 22,142,093

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, 2015  
 (With comparative totals for 2014)

	<u>Program Revenues</u>				<u>Totals</u>	
	<u>Expenditures</u>	<u>Charges for Services</u>	<u>Emergency Response Recovery</u>	<u>Operating Grants and Contributions</u>	<u>2015</u>	<u>2014</u>
Governmental activities						
Fire protection						
Salaries and benefits	\$ 10,901,119	\$ 151,358	\$ 78,007	\$ 3,900	\$ 10,667,854	\$ 10,284,330
Services and supplies	1,223,174	1,004	17,080	-	1,205,090	1,277,375
Contributions to other agencies	18,866	-	-	-	18,866	22,241
Interest on long-term liabilities	188,614	-	-	-	188,614	228,366
Depreciation	464,005	-	-	-	464,005	457,019
Amortization of PERS Side Fund	-	-	-	-	-	753,802
Total governmental activities	<u>12,795,778</u>	<u>152,362</u>	<u>95,087</u>	<u>3,900</u>	<u>12,544,429</u>	<u>13,023,133</u>
General revenues						
Property tax					13,736,290	12,732,497
Use of money and property					33,685	22,514
Aid from other government agencies						
State homeowners property tax relief					101,942	100,244
RDA supplemental increment						
pass-through					186,615	127,625
Government grants					10	126
Other revenue						
Other revenue					118,250	99,627
Insurance proceeds					65,631	47,607
Service center charges					161,161	107,976
Gain (loss) on disposal of asset					5,500	(35,962)
Total general revenues					<u>14,409,084</u>	<u>13,202,254</u>
Changes in net position before prior period adjustment					1,864,655	179,121
Net position (deficit)						
Net position - beginning of the year					12,009,227	11,830,106
Prior period adjustment, restated as of July 1, 2014 for GASB 68 Pension Accounting (note 13)					<u>(21,045,548)</u>	-
Net position (deficit) - beginning of the year, as restated					<u>(9,036,321)</u>	<u>11,830,106</u>
Net position (deficit) - end of the year					<u>\$ (7,171,666)</u>	<u>\$ 12,009,227</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, 2014  
 (With Comparative Totals for 2013)

	Program Revenues				Totals	
	Expenditures	Charges for Services	Emergency Response Recovery	Operating Grants and Contributions	2014	2013
Expenditures						
Fire protection						
Salaries and benefits	\$ 10,533,790	\$ 147,697	\$ 97,863	\$ 3,900	\$ 10,284,330	\$ 10,490,473
Services and supplies	1,298,031	1,022	19,634	-	1,277,375	1,195,910
Contributions to other agencies	22,241	-	-	-	22,241	21,031
Interest on long-term liabilities	228,366	-	-	-	228,366	264,128
Depreciation	457,019	-	-	-	457,019	494,095
Amortization of PERS Side Fund	753,802	-	-	-	753,802	753,802
<b>Total governmental activities</b>	<b>2,759,459</b>	<b>148,719</b>	<b>117,497</b>	<b>3,900</b>	<b>13,023,133</b>	<b>13,219,439</b>
General revenues						
Property tax					12,732,497	12,336,367
Use of money and property					22,514	33,926
Aid from other government agencies						
State homeowners property tax relief					100,244	102,525
RDA supplemental increment pass-through					127,625	40,961
Government grants					126	222,163
Other revenue						
Other revenue					99,627	102,192
Insurance proceeds					47,607	7,899
Service center charges					107,976	121,840
Gain (loss) on deposal of asset					(35,962)	141,737
<b>Total general revenues</b>					<b>13,202,254</b>	<b>13,109,610</b>
Changes in net position					179,121	(109,829)
Net position - beginning of year					11,830,106	11,939,935
Net position - end of year					<b>\$ 12,009,227</b>	<b>\$ 11,830,106</b>

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, 2015 and 2014

	2015				Totals (Memorandum Only) 2015
	Governmental Fund Types				
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	
<u>ASSETS AND OTHER DEBITS</u>					
Assets					
Cash	\$ 7,027,517	\$ 1,648,667	\$ 876,171	\$ 232,572	\$ 9,784,927
Accounts receivable	56,884	-	-	-	56,884
Total assets	\$ 7,084,401	\$ 1,648,667	\$ 876,171	\$ 232,572	\$ 9,841,811
<u>LIABILITIES, AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 34,348	\$ -	\$ -	\$ 20,229	\$ 54,577
Accrued salaries and benefits	217,246	-	-	3,999	221,245
Total liabilities	251,594	-	-	24,228	275,822
Fund balance					
Assigned fund balance					
Imprest cash	300	-	-	-	300
Capital improvements	-	-	482,191	-	482,191
Equipment	-	-	393,980	-	393,980
Compensated absences	313,364	-	-	-	313,364
Mobile equipment vehicle replacement	-	1,648,667	-	-	1,648,667
Fleet maintenance	-	-	-	208,344	208,344
Unassigned fund balance					
Unreserved, undesignated	6,519,143	-	-	-	6,519,143
Total fund balance and other credits	6,832,807	1,648,667	876,171	208,344	9,565,989
Total liabilities and fund balances	\$ 7,084,401	\$ 1,648,667	\$ 876,171	\$ 232,572	\$ 9,841,811

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, 2015 and 2014

	2014				Totals (Memorandum Only) 2014
	Governmental Fund Types				
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	
<u>ASSETS AND OTHER DEBITS</u>					
Assets					
Cash	\$ 6,104,180	\$ 1,378,465	\$ 610,660	\$ 52,564	\$ 8,145,869
Accounts receivable	-	-	-	225	225
Total assets	<u>\$ 6,104,180</u>	<u>\$ 1,378,465</u>	<u>\$ 610,660</u>	<u>\$ 52,789</u>	<u>\$ 8,146,094</u>
<u>LIABILITIES, AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 11,909	\$ -	\$ -	\$ 10,223	\$ 22,132
Accrued salaries and benefits	168,718	-	-	3,230	171,948
Total liabilities	<u>180,627</u>	<u>-</u>	<u>-</u>	<u>13,453</u>	<u>194,080</u>
Fund balance					
Assigned fund balance					
Imprest cash	300	-	-	-	300
Capital improvements	-	-	330,060	-	330,060
Equipment	-	-	280,600	-	280,600
Compensated absences	213,364	-	-	-	213,364
Mobile equipment vehicle replacement	-	1,378,465	-	-	1,378,465
Fleet maintenance	-	-	-	39,336	39,336
Unassigned fund balance					
Unreserved, undesignated	5,709,889	-	-	-	5,709,889
Total fund balance and other credits	<u>5,923,553</u>	<u>1,378,465</u>	<u>610,660</u>	<u>39,336</u>	<u>7,952,014</u>
Total liabilities and fund balances	<u>\$ 6,104,180</u>	<u>\$ 1,378,465</u>	<u>\$ 610,660</u>	<u>\$ 52,789</u>	<u>\$ 8,146,094</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, 2015 and 2014

	2015	2014
Total fund balances - Governmental Funds	\$ 9,565,989	\$ 7,952,014
<p>Amounts to be reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds.</p>		
Total historical cost of capital assets	16,316,833	16,214,444
Less: accumulated depreciation	(6,513,330)	(6,054,825)
<p>Accounts receivable related to Strike Team responses will not be received in a timely manner to be considered current financial resources and are not considered accounts receivable in the governmental funds.</p>		
	-	32,354
<p>Deferred outflows of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred pension - actuarial	324,886	-
Deferred pension - contributions	1,358,801	-
Net pension asset	-	3,804,026
<p>Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds.</p>		
	(5,926)	(7,560)
<p>Long-term liabilities are 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:</p>		
Net pension liability	(14,353,672)	-
Net other postemployment benefit obligation	(4,727,243)	(4,294,723)
Compensated absences	(1,324,713)	(1,291,561)
Long-term debt		
Purchase of 410 Kennedy	(368,064)	(430,942)
CalPER's Side Fund Liability	(3,069,000)	(3,914,000)
<p>Deferred inflows of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred pension	(4,376,227)	-
Net position	\$ (7,171,666)	\$ 12,009,227

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, 2015

	2015				Totals (Memorandum Only) 2015
	Governmental Funds				
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	
Revenues					
Property taxes	\$ 13,736,292	\$ -	\$ -	\$ -	\$ 13,736,292
Use of money and property	23,386	6,774	3,211	313	33,684
Aid from other government agencies	416,008	-	-	-	416,008
Charges for services	231,103	-	-	161,161	392,264
Other revenue	43,412	-	-	-	43,412
Total revenues	<u>14,450,201</u>	<u>6,774</u>	<u>3,211</u>	<u>161,474</u>	<u>14,621,660</u>
Expenditures					
Salaries and employee benefits	10,431,780	-	-	198,978	10,630,758
Services and supplies	956,592	-	-	266,586	1,223,178
Other charges	1,116,991	-	-	-	1,116,991
Fixed assets	102,768	-	-	5,121	107,889
Total expenditures	<u>12,608,131</u>	<u>-</u>	<u>-</u>	<u>470,685</u>	<u>13,078,816</u>
Excess (deficiency) of revenues over expenditures	1,842,070	6,774	3,211	(309,211)	1,542,844
Other financing sources					
Insurance proceeds	65,631	-	-	-	65,631
Sale of fixed assets	-	5,500	-	-	5,500
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	(478,219)	-	-	478,219	-
Operating transfers out of Vehicle replacement	91,692	(91,692)	-	-	-
Operating transfers out of capital outlay	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources Over expenditures	909,254	270,202	265,511	169,008	1,613,975
Beginning fund balance	<u>5,923,553</u>	<u>1,378,465</u>	<u>610,660</u>	<u>39,336</u>	<u>7,952,014</u>
Ending 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>

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, 2014

	2014				Totals (Memorandum Only) 2014
	Governmental Funds				
	General	Vehicle Replacement	Capital Outlay	Fleet Maintenance	
<b>Revenues</b>					
Property taxes	\$ 12,732,496	\$ -	\$ -	\$ -	\$ 12,732,496
Use of money and property	15,451	4,507	2,556	1	22,515
Aid from other government agencies	313,138	-	-	-	313,138
Charges for services	214,982	-	-	107,976	322,958
Other revenue	37,264	-	-	-	37,264
Total revenues	<u>13,313,331</u>	<u>4,507</u>	<u>2,556</u>	<u>107,977</u>	<u>13,428,371</u>
<b>Expenditures</b>					
Salaries and employee benefits	9,516,482	-	-	180,887	9,697,369
Services and supplies	1,039,352	-	-	258,679	1,298,031
Other charges	1,085,517	-	-	-	1,085,517
Fixed assets	689,314	-	-	7,797	697,111
Total expenditures	<u>12,330,665</u>	<u>-</u>	<u>-</u>	<u>447,363</u>	<u>12,778,028</u>
Excess (deficiency) of revenues over expenditures	982,666	4,507	2,556	(339,386)	650,343
<b>Other financing sources</b>					
Insurance proceeds	47,607	-	-	-	47,607
Sale of fixed assets	4,317	-	-	-	4,317
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	(356,472)	-	-	356,472	-
Operating transfers out of Vehicle replacement for:					-
mobile equipment	65,000	(65,000)	-	-	-
fire engine in prior year	549,455	(549,455)	-	-	-
Operating transfers out of capital outlay	<u>322,160</u>	<u>-</u>	<u>(322,160)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources Over expenditures	1,002,813	(260,328)	(57,304)	17,086	702,267
Beginning fund balance	<u>4,920,740</u>	<u>1,638,793</u>	<u>667,964</u>	<u>22,250</u>	<u>7,249,747</u>
Ending fund balance	<u>\$ 5,923,553</u>	<u>\$ 1,378,465</u>	<u>\$ 610,660</u>	<u>\$ 39,336</u>	<u>\$ 7,952,014</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, 2015 and 2014

	2015	2014
Net change in Fund Balances - total Governmental Funds	\$ 1,613,975	\$ 702,267
<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	107,889	697,111
Less current year depreciation expense	(464,005)	(457,019)
<p>Reimbursements related to Strike Team Activity which will not be received in a timely manner to be considered current financial resources are not considered revenue in the Governmental Funds but are considered revenue for Government - Wide. Changes in accounts receivable at June 30 were:</p>		
	(32,354)	32,354
<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>		
CalPER's Side Fund Liability	845,000	773,000
Capital improvements and equipment long-term debt	62,878	60,417
<p>In the Governmental Funds sales of fixed assets are measured by the amount of financial resources provided, which is the amounts actually received in cash. In the Government - Wide statement of activities sales of fixed assets are measured by the amount received less the basis in the assets sold or disposed of during the year.</p>		
	-	(40,279)
<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>		
Amortization of CalPERS's side fund net pension asset	-	(753,802)
Change in compensated absences	(33,152)	(55,753)
Change in other post-employment benefits	(432,520)	(780,668)
Change in pension liability	195,310	-
<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>		
	1,634	1,493
Change in net position of Governmental Activities	\$ 1,864,655	\$ 179,121

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

GASB 45 TRUST FUND FINANCIAL STATEMENT

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Statement of Plan Position and Changes in Plan Net Position  
For the Year Ended June 30, 2015 and 2014

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STATEMENT OF PLAN POSITION

	2015	2014
Assets		
Cash and short-term investments	\$ 479,979	\$ 59,514
Net position held in trust for other post employment benefits	\$ 479,979	\$ 59,514

STATEMENT OF CHANGES IN PLAN NET POSITION

Additions		
Operating transfers	\$ 413,896	\$ 32,549
Investment income	6,936	5,843
Total additions	420,832	38,392
Deductions		
Professional services	367	62
Total deductions	367	62
Net increase	420,465	38,330
Net position held in trust for other post employment benefits		
Beginning of year	59,514	21,184
End of year	\$ 479,979	\$ 59,514

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, 2015 and 2014

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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, 2015:

	Term Expires <u>November</u>
Ronald D. Pederson, Chair	2018
Richard Phillips, Vice-Chair	2016
Michael Mitchell	2016
Norman Bruce Bettencourt	2016
Christopher Haas	2018
James Cupples	2018
Charlie Howard	2016

Jeff Maxwell was the Fire Chief at June 30, 2015.

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, 2015 and 2014

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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, 2015 and 2014

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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.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

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2. Summary of Significant Accounting Policies (continued)

Financial statement presentation (continued)

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.
- 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.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2015 and 2014

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2. Summary of Significant Accounting Policies (continued)

Cash in county treasury

The Districts cash is held in County Treasury Pools and are considered cash. See Note 3 to the financial statements for information regarding the Pools investments, interest rate risk, concentration of credit risk and custodial credit risk for the largest County.

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.

Inventory, materials and supplies

The inventory on hand at any time is small. Accordingly, purchases are charged directly to fixed assets or to maintenance costs, as applicable.

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, as applicable.

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 has set capitalization thresholds for reporting capital assets at the following:

General capital assets	\$1,500
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Depreciation is recorded on the straight-line method (with no depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

Buildings	20 - 30 years
Equipment	3 - 10 years

Depreciation is recorded on the straight-line method over the useful lives of the assets.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2015 and 2014

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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, 2015 and 2014, the liability for compensated absences was \$1,324,713 and \$1,291,561, respectively.

Fund balance designated

Fund balance designated indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

District special expense

Because 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."

Unrealized gains and losses

Governmental Accounting Standards Board (GASB) has established GASB-31 which requires public agencies to report the financial effect of all unrealized gains and losses on invested funds. As of June 30, 2015 and 2014, the unrealized gains/losses for Central Fire Protection District of Santa Cruz County were immaterial to the financial statements taken as a whole, and accordingly, have not been reflected in the financial statements.

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.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
For the Year Ended June 30, 2015

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3. Pooled Cash and Investments

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, 2014 was distributed on the second business day during July 2014, and is shown as part of receivables on the financial statements.

The following is a summary of cash and investments at June 30, 2014:

Government-Wide Statement of Net Position			
	Primary Governments		Component Unit
	Governmental Activities	Business-Type Activities	Total
			Santa Cruz County Sanitation District
Cash and investments	\$ 202,008,269	\$ 9,119,550	\$ 211,127,819
Restricted cash and investments	16,017,627	6,048,411	22,066,038
Total cash and investments	\$ 218,025,896	\$ 15,167,961	\$ 233,193,857
Fiduciary Funds			
	Agency Funds	Investment Trust Fund	Private Purpose Fund
			County Total
Cash and investments	\$ 40,952,844	\$ 337,236,911	\$ 13,455,690
Restricted cash and investments	-	-	11,681,324
Total cash and investments	\$ 40,952,844	\$ 337,236,911	\$ 25,137,014

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements  
For the Year Ended June 30, 2015

3. Pooled Cash and Investments (continued)

	<u>Cash and Investments</u>	<u>Restricted Cash &amp; Investments</u>	<u>Total</u>
Primary government and fiduciary funds			
Cash on hand or imprest cash	\$ 732,618	\$ -	\$ 732,618
Cash deposits in Treasury Pool	20,371,403	-	20,371,403
Investments in Treasury Pool	581,669,243	-	581,669,243
Restricted investments in other pools	-	27,715,378	27,715,378
Restricted cash deposits in Treasury Pool	-	-	-
Davenport County Sanitation District	-	-	-
County Disposal Sites CSA 9C	-	6,031,984	6,031,984
Total	<u>602,773,264</u>	<u>33,747,362</u>	<u>636,520,626</u>
Component unit			
Investments in Treasury Pool	27,648,822	261,705	27,910,527
Restricted investments in other banks	-	969,937	969,937
Total	<u>27,648,822</u>	<u>1,231,642</u>	<u>28,880,464</u>
Total cash and investments	<u>\$ 630,422,086</u>	<u>\$ 34,979,004</u>	<u>\$ 665,401,090</u>

At June 30, 2014, 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	\$ 93,087	\$ 680,548	\$ 773,635
Deposits	20,330,386	-	20,330,386
Investments	587,539,012	27,877,593	615,416,605
Total primary government	<u>607,962,485</u>	<u>28,558,141</u>	<u>636,520,626</u>
Component unit			
Investments	27,910,527	969,937	28,880,464
Total component unit	<u>27,910,527</u>	<u>969,937</u>	<u>28,880,464</u>
Total reporting unit	<u>\$ 635,873,012</u>	<u>\$ 29,528,078</u>	<u>\$ 665,401,090</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements  
For the Year Ended June 30, 2015

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3. Pooled Cash and Investments (continued)

The carrying amounts of the County's cash deposits were \$20,371,403 at June 30, 2014. Bank balances at June 30, 2014 were \$20,367,836, which 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local agency bonds	5 Years	10%	None
U.S. Treasury obligations	5 Years	100%	None
U.S. Government Agency obligations	5 Years	100%	25%
Bank 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	\$50 Million	None
Joint Powers Authority investment funds	N/A	25%	None

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements  
For the Year Ended June 30, 2015

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, 2014, 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	\$ 232,410,950	\$ 64,138,040	\$ 61,057,610	\$ 92,413,300	\$ 14,802,000	\$ -
Federal agency securities	226,231,521	20,007,080	80,300,380	96,236,661	29,687,400	-
Corporate bonds and notes	41,856,380	-	41,856,380	-	-	-
Medium term notes - other	16,000,000	16,000,000	-	-	-	-
Money market mutual funds	25,000,000	25,000,000	-	-	-	-
Local Agency Investment	-	-	-	-	-	-
Fund (LAIF)	40,023,755	40,023,755	-	-	-	-
Certificates of deposit	50,017,677	50,017,677	-	-	-	969,937
Investment agreements	969,937	-	-	-	-	-
Total investments	<u>\$ 632,510,220</u>	<u>\$ 215,186,552</u>	<u>\$ 183,214,370</u>	<u>\$ 188,649,961</u>	<u>\$ 44,489,400</u>	<u>\$ 969,937</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements  
For the Year Ended June 30, 2015

3. Pooled Cash and Investments (continued)

Concentration of credit risk

At June 30, 2014, 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 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, 2014.

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>	<u>% of Portfolio</u>
U.S. Treasury Securities	AA+	Aaa	35.49%
Federal Agency Securities	AA+	Aaa	34.55%
Corporate Notes and Bonds	AA+/AA-	AAA/Aa3/Aa2	6.39%
Medium Term Notes - Other	Unrated	Unrated	7.64%
Money Market Mutual Funds	Unrated	Unrated	7.23%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	2.44%
Certificates of Deposit	A1+	Aa3	6.11%
Investment Agreements	AAA	Aa3	0.15%
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  
For the Year Ended June 30, 2015

---

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, 2014, 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, 2014, the County had \$40,023,755 invested in LAIF, which had invested 0.21% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.33% in the previous year. LAIF provided a fair value factor of 1.00029875 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, 2015 and 2014

---

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:

	<u>Balance June 30, 2014</u>	<u>Additions/Adjust to Inventory</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2015</u>
Land	\$ 2,845,037	\$ -	\$ -	\$ 2,845,037
Structures and improvements	7,076,155	2,231	-	7,078,386
Equipment	<u>6,293,252</u>	<u>105,658</u>	<u>(5,500)</u>	<u>6,393,410</u>
Total	<u>\$16,214,444</u>	<u>\$ 107,889</u>	<u>\$ (5,500)</u>	<u>\$16,316,833</u>
Accumulated depreciation	<u>\$ (6,054,825)</u>	<u>\$(464,005)</u>	<u>\$ 5,500</u>	<u>\$ (6,513,330)</u>

  

	<u>Balance June 30, 2013</u>	<u>Additions/Adjust to Inventory</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2014</u>
Land	\$ 2,845,037	\$ -	\$ -	\$ 2,845,037
Structures and improvements	6,450,419	625,736	-	7,076,155
Equipment	<u>6,792,444</u>	<u>71,376</u>	<u>(570,568)</u>	<u>6,293,252</u>
Total	<u>\$16,087,900</u>	<u>\$ 697,112</u>	<u>\$(570,568)</u>	<u>\$16,214,444</u>
Accumulated depreciation	<u>\$ (6,128,094)</u>	<u>\$(457,019)</u>	<u>\$ 530,288</u>	<u>\$ (6,054,825)</u>

5. Net Pension Asset

During the fiscal year ended June 30, 2012, the District prepaid the unfunded CalPERs Side Fund in the amount of \$6,065,432. This prepayment has been recorded on the statement of net position as a net pension asset.

In accordance with GASB Statement No. 27, the net pension asset will be 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, 2015 and 2014

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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 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 and 2014 is as follows:

<u>Fiscal Year Ended</u>	<u>Beginning Balance</u>	<u>Amortization</u>	<u>Ending Balance</u>
June 30, 2014	\$4,557,828	\$ 753,802	\$3,804,026
June 30, 2015	\$3,804,026	\$3,804,026 <sup>(1)</sup>	\$ -

(1) Recorded as a prior period adjustment, see note 13.

6. Defined Benefit Pension Plan

Plan description

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous Plans, 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, 2015, are summarized as follows:

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 year's service	5 year's service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	14.66%	6.25%

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

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6. Defined Benefit Pension Plan (continued)

Benefits provided (continued)

	<b>Safety Tier 1</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 year's service	5 year's service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	26.15%	11.50%

	<b><u>Safety Tier 2</u></b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 year's service	5 year's service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	50 - 57
Monthly benefits, as a % of eligible	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	11.50%
Required employer contribution rates	21.37%	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, 2015 and 2014

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6. Defined Benefit Pension Plan (continued)

Contributions (continued)

For the year ended June 30, 2014, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Total</u>
Contributions - employer	\$60,349	\$1,722,397	\$ 1,618	\$1,784,364
Contributions – employee (paid by employer)	\$85,183	\$ 702,763	\$21,844	\$806,790

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Total</u>
Contributions - employer	\$59,902	\$1,244,135	\$ 54,764	\$1,358,801
Contributions – employee (paid by employer)	\$32,380	\$ 401,657	\$23,041	\$457,078

Net pension liability

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of net pension liability</u>
Miscellaneous	\$ 456,168
Safety Tier 1	13,884,459
Safety Tier 2	<u>13,045</u>
Total net pension liability	<u>\$14,353,672</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 of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Proportion – June 30, 2013	\$ 623,290	\$18,385,322	\$17,274
Proportion – June 30, 2014	<u>456,168</u>	<u>13,884,459</u>	<u>13,045</u>
Change – increase/ (decrease)	(167,122)	(4,500,863)	(4,229)

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

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6. Defined Benefit Pension Plan (continued)

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

For the year ended June 30, 2015, the District recognized pension expense of \$1,163,491 in the government wide statement of activities. At June 30, 2015, 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	\$1,358,801	\$ -
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(4,349,410)
Adjustment due to differences in proportions	<u>324,886</u>	<u>(26,817)</u>
Total	<u>\$1,683,687</u>	<u>(\$4,376,227)</u>

The \$1,358,801 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows of resources</u>	<u>Deferred Inflows of resources</u>
2016	\$ 116,031	\$1,096,930
2017	116,031	1,096,930
2018	92,824	1,095,013
2019	-	1,087,354
2020	-	-
Thereafter	-	-
Total	<u>\$ 324,886</u>	<u>\$4,376,227</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

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6. Defined Benefit Pension Plan (continued)

Actuarial assumptions

The total pension liabilities in the June 30, 2013 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, 2013	June 30, 2013	June 30, 2013
Measurement date	June 30, 2014	June 30, 2014	June 30, 2014
Actuarial cost method	Entry-age normal cost method		
Actuarial Assumptions:			
Discount rate	7.5%	7.5%	7.5%
Inflation	2.75%	2.75%	2.75%
Payroll Growth	3.0%	3.0%	3.0%
Projected salary increase	Varies <sup>(1)</sup>	Varies <sup>(1)</sup>	Varies <sup>(1)</sup>
Investment rate of return	7.5% <sup>(2)</sup>	7.5% <sup>(2)</sup>	7.5% <sup>(2)</sup>
Mortality <sup>(3)</sup>	Derived using CalPERS' Membership Data for all funds.		
Post Retirement Benefit Increase	Contract Cost-of-Living-Adjustment (COLA) up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.		

<sup>(1)</sup> Depending on age, service and type of employment.

<sup>(2)</sup> Net of pension plan investment and administrative expenses, including inflation.

<sup>(3)</sup> 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, 2013 valuation were based on the results of a January 2014 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.

Discount rate

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for 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 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% 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.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2015 and 2014

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6. Defined Benefit Pension Plan (continued)

Discount rate (continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% 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, 2015 and 2014

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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 <sup>(a)</sup></u>	<u>Real Return Years 11+ <sup>(b)</sup></u>
Global equity	47.0%	5.25%	5.71%
Global fixed income	19.0%	.099%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	12.0%	6.83%	6.95%
Real estate	11.0%	4.50%	5.13%
Infrastructure and forestland	3.0%	4.50%	5.09%
Liquidity	<u>2.0%</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 Tier 1</u>	<u>Safety Tier 2</u>
1% decrease	6.50%	6.50%	6.50%
Net pension liability	\$812,751	\$23,893,356	\$22,449
Current discount rate	7.50%	7.50%	7.50%
Net pension liability	\$456,168	\$13,884,459	\$13,045
1% increase	8.50%	8.50%	8.50%
Net pension liability	\$160,238	\$ 5,637,559	\$ 5,297

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

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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, 2013</u>	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Total pension liability	\$2,536,918	\$71,265,140	\$66,957
Fiduciary net position	\$1,913,628	\$52,879,818	\$49,683
Net pension liability	\$ 623,290	\$18,385,322	\$17,274
Total plan liability %	0.02050%	0.42170%	0.00040%
Fiduciary net position%	0.02103%	0.43649%	0.00041%
<u>Valuation date: June 30, 2014</u>	<u>Miscellaneous</u>	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Total pension liability	\$2,687,889	\$74,722,525	\$70,205
Additional side fund payment during 2013-2014	\$ -	\$ -	\$ -
Fiduciary net position	\$2,231,721	\$60,838,066	\$ 57,160
Net pension liability	\$ 456,168	\$13,884,459	\$ 13,045
Net pension liability %	0.01846%	0.37016%	0.00035%

Payable to the pension plan

At June 30, 2015, there is no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

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, 2015 and 2014

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

Current accounting and funding policy of the plan

The District finances the plan on a pay-as-you-go basis. For the years ended June 30, 2015 and 2014, expenditures of approximately \$1,094,153 and \$752,020, 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 <sup>th</sup> of Expected Value plus 1/5 <sup>th</sup> 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, 2015 and 2014

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)	\$1,529,000
Interest on net OPEB obligation	225,473
Adjustments to ARC	<u>(227,800)</u>
Annual OPEB cost	1,526,673
Contributions made (payments for current Retirees and payment to irrevocable trust)	<u>(1,094,153)</u>
Increase in OPEB obligation	432,520
Net OPEB obligation - beginning of the year	<u>4,294,723</u>
Net OPEB obligation - end of the year	<u>\$4,727,243</u>

Required supplementary information

Schedule of Funding Progress

<u>Funded Status</u>						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
June 30, 2013	\$ -	\$19,372,300	\$19,350,600	0%	\$6,331,300	306%
June 30, 2015	\$ -	\$17,073,500 <sup>(1)</sup>	\$16,576,700	3%	\$6,591,000	252%

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

<u>Employer Contributions District Service Benefit</u>				
Date	Annual Required Contribution	Actual Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2010	\$1,094,900	\$592,602	54%	\$ 502,298
June 30, 2011	\$1,094,900	\$495,273	45%	607,327
June 30, 2012	\$1,896,000	\$678,898	35%	1,202,739
June 30, 2013	\$1,896,000	\$676,409	36%	1,201,691
June 30, 2014	\$1,529,000	\$752,020	49%	780,668
June 30, 2015	\$1,529,000	\$1,094,153	72%	<u>432,520</u>
				<u>\$4,727,243</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Notes to Financial Statements  
June 30, 2015 and 2014

8. Changes in Debt

A summary of debt transactions of Central Fire Protection District of Santa Cruz County for the year ended June 30, 2015 and 2014 follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Adjustments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Accumulated unpaid				
Compensated absences	\$1,291,561	\$ -	\$ 33,152	\$1,324,713
CalPER's Side Fund Liability	\$3,914,000	\$ -	\$(845,000)	\$3,069,000
Land and building debt	\$ 430,942	\$ -	\$(62,878)	\$ 368,064

  

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Adjustments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Accumulated unpaid				
Compensated absences	\$1,235,808	\$ -	\$ 55,753	\$1,291,561
CalPER's Side Fund Liability	\$4,687,000	\$ -	\$(773,000)	\$3,914,000
Land and building debt	\$ 491,359	\$ -	\$ (60,417)	\$ 430,942

Debt - notes payable consist of the following items:

	<u>2015</u>	<u>2014</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.	\$3,069,000	\$3,914,000
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 due September 1, 2020.	<u>368,064</u>	<u>430,942</u>
	<u>\$3,437,064</u>	<u>\$4,344,942</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, 2016	\$ 988,440	\$147,058	\$1,135,498
June 30, 2017	1,071,106	100,071	1,171,177
June 30, 2018	1,160,881	49,145	1,210,026
June 30, 2019	126,768	6,864	133,632
June 30, 2020	76,774	2,197	78,971
June 30, 2021	<u>13,095</u>	<u>66</u>	<u>13,161</u>
	<u>\$3,437,064</u>	<u>\$305,401</u>	<u>\$3,742,465</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2015 and 2014

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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 \$1,500,000. The balance is due and payable by April 30, 2014. As of June 30, 2015 and 2014, no amount was outstanding.

During the fiscal year ended June 30, 2015 and 2014, 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 policy period and only if a sixty day written advance notice 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, 2015 and 2014

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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 \$292,764 and \$277,629, including the District's payment for workers' compensation portfolio transfer for workers' compensation to the Group for the years ended June 30, 2015 and 2014, 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, 2015, 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, 2015 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, 2015 and 2014

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, 2015 and 2014

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11. Fund Balance - Designated

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

	<u>June 30, 2014</u>	<u>Amounts Made Available</u>	<u>Increase New Designations</u>	<u>June 30, 2015</u>
Capital improvements	\$ 330,060	\$ -	\$152,131	\$ 482,191
Equipment	\$ 280,600	\$ -	\$113,380	\$ 393,980
Compensated absences	\$ 313,364	\$ -	\$ -	\$ 313,364
Mobile vehicle replacement	\$1,378,465	\$(91,692)	\$361,894	\$1,648,667

Designated capital improvements reserve

The District uses a Capital Outlay Fund to account for building improvements and equipment. The amount of \$876,171 (\$482,191 for capital improvements and \$393,980 for equipment) as of June 30, 2015, and is in recognition that District fire stations need capital improvements and equipment.

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 \$1,648,667.

12. New Accounting Pronouncements

Implemented accounting pronouncement

The following Government Accounting Standards Board (GASB) Statement has been implemented in the current financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is to improve accounting and financial reporting by state and local governments for pensions. Application of the statement is effective for the District's fiscal year ended June 30, 2015.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY

Notes to Financial Statements

June 30, 2015 and 2014

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12. New Accounting Pronouncements (continued)

Upcoming accounting pronouncement

The following GASB Statements will become effective for fiscal years subsequent to June 30, 2015, the District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the GASB Statements.

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.

13. Prior period adjustments

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>

14. 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.

15. Subsequent events

The District's management has evaluated events and transactions subsequent to June 30, 2015 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through April 25, 2016, 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, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Schedule of Proportionate Share of Net Pension Liability and Related Ratios  
June 30, 2015  
Last 10 Years\*

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

	Miscellaneous June 30, 2014**	Safety Tier 1 June 30, 2014**	Safety Tier 2 June 30, 2014**
Proportion of the net pension liability	0.00733%	0.22313%	0.00021%
Proportionate share of the net pension liability	\$ 456,168	\$ 13,884,459	\$ 13,045
Covered employee payroll	\$ 356,733	\$ 5,011,549	\$ 232,563
Proportionate share of the net pension liability as a percentage of covered-employee payroll	127.87%	277.05%	5.61%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	83.03%	81.42%	81.42%
Plan's proportionate share of aggregate employer contributions	\$ 60,349	\$ 1,722,397	\$ 1,618

Notes to schedule

\* Fiscal year 2014-2015 was the 1st year of implementation; therefore only one year is shown. Additional years presented as they become available.

\*\*Measurement date is June 30, 2014

Benefit changes

The figures above do not include any liability impact that may have resulted from Plan changes, which may have occurred after June 30, 2013.

Changes in assumptions

There were no changes in assumptions.

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
Schedule of Contributions  
June 30, 2015  
Last 10 Years\*

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**Schedule of Contributions**

	Miscellaneous 2013-2014	Safety Tier 1 2013-2014	Safety Tier 2 2013-2014
Contractually required contribution (actuarially determined)	\$ 51,060	\$ 1,204,253	\$ 49,756
Contributions in relation to the actuarially determined contributions	<u>(51,060)</u>	<u>(1,204,253)</u>	<u>(49,756)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 356,733	\$ 5,011,549	\$ 232,563
Contributions as a percentage of covered-employee payroll	14.31%	24.03%	21.39%

Notes to Schedule

Valuation date is June 30, 2013.

\* Fiscal year 2014-2015 was the 1st year of implementation; therefore only one year is shown. 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, 2015

	Final Budget	Adjusted Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes				
Current secured	\$ 12,626,561	\$ 13,194,120	\$ 13,188,246	\$ (5,874)
Residual distribution	-	-	69,470	69,470
Current unsecured	275,500	290,264	271,487	(18,777)
Current supplemental - unsecured	7,000	7,000	29,357	22,357
Penalties and costs of delinquent taxes	3,500	3,500	8,712	5,212
Current supplemental - secured	60,000	60,000	157,461	97,461
Prior year	7,500	7,500	6,625	(875)
In-lieu taxes - other	4,000	4,000	4,934	934
Total property taxes	<u>12,984,061</u>	<u>13,566,384</u>	<u>13,736,292</u>	<u>169,908</u>
<b>Use of money and property</b>				
Interest general fund	11,000	11,000	23,386	12,386
Total use of money and property	<u>11,000</u>	<u>11,000</u>	<u>23,386</u>	<u>12,386</u>
<b>Aid from other government agencies</b>				
Contributions other government agencies				
Homeowners' property tax relief	101,308	98,091	101,942	3,851
State - other	-	157,756	127,441	(30,315)
Federal grants	-	-	10	10
RDA's	60,000	60,000	186,615	126,615
Total aid from other government agencies	<u>161,308</u>	<u>315,847</u>	<u>416,008</u>	<u>100,161</u>
<b>Charges for current services</b>				
Emergency response recovery	15,486	15,486	17,750	2,264
Retiree charges - retirees	22,168	22,168	25,696	3,528
Computer services	46,500	46,500	49,145	2,645
Copy charges/other revenue	300	300	591	291
Cost recovery - other	-	-	413	413
Charges for current services	100,000	100,000	133,608	33,608
SCHMIT recovery	3,900	3,900	3,900	-
Total charges for current services	<u>188,354</u>	<u>188,354</u>	<u>231,103</u>	<u>42,749</u>
<b>Other revenue</b>				
Insurance proceeds	-	-	65,631	65,631
Other revenue	5,000	5,000	43,412	38,412
Total other revenue	<u>5,000</u>	<u>5,000</u>	<u>109,043</u>	<u>104,043</u>
Total revenues	<u>\$ 13,349,723</u>	<u>\$ 14,086,585</u>	<u>\$ 14,515,832</u>	<u>\$ 429,247</u>
<b>Other financing sources</b>				
Operating transfers in	\$ -	\$ -	\$ 91,692	\$ 91,692
Sale of fixed assets	-	-	-	-
Total other financing sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,692</u>	<u>\$ 91,692</u>

CENTRAL FIRE PROTECTION DISTRICT OF SANTA CRUZ COUNTY  
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund  
 For the Year Ended June 30, 2015

	Final Budget	Adjusted Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures</b>				
<b>Salaries and employee benefits</b>				
Salaries	\$ 6,331,794	\$ 6,428,985	\$ 6,534,800	\$ (105,815)
Retirement (Social Security and PERS)	1,357,446	1,360,935	1,357,124	3,811
Employee insurance and benefits	2,158,345	2,240,615	2,147,905	92,710
Unemployment insurance	18,323	18,895	9,922	8,973
Workers' compensation insurance	279,764	279,764	279,764	-
Sick leave reserve	108,157	108,157	102,265	5,892
Total salaries and employee benefits	<u>10,253,829</u>	<u>10,437,351</u>	<u>10,431,780</u>	<u>5,571</u>
<b>Services and supplies</b>				
Clothing and personal supplies	7,669	7,669	3,858	3,811
Uniform replacement	13,129	13,129	7,827	5,302
Radio	138,557	138,557	136,805	1,752
Telephone and telegraph	31,279	31,279	25,544	5,735
Food	1,500	1,500	1,270	230
Other household expenses	39,716	41,166	35,229	5,937
Other insurance	34,795	34,795	27,826	6,969
Maintenance - mobile equipment	7,700	7,700	3,698	4,002
Maintenance - office equipment	2,230	2,230	2,527	(297)
Maintenance - other equipment	32,144	32,364	12,517	19,847
Maintenance - structure and grounds	49,768	47,698	33,061	14,637
Medical, dental and lab supplies	17,900	17,900	16,110	1,790
Memberships	3,268	3,268	2,644	624
PC software	32,310	32,310	26,654	5,656
Supplies	23,364	23,464	24,063	(599)
Accounting (County PR) and auditing fees	26,150	26,150	24,887	1,263
Directors' fees	22,271	22,271	20,870	1,401
Laundry services	11,000	11,000	6,151	4,849
Medical services - other	46,990	46,990	30,314	16,676
Professional and special services	268,104	443,287	336,510	106,777
Legal notices	2,000	2,300	2,952	(652)
Equipment lease and rent	2,924	2,924	2,989	(65)
Small tools and instruments	27,080	28,780	24,055	4,725
Education and/or training	19,215	19,215	5,355	13,860
Special district expense	91,789	91,989	17,127	74,862
Subscriptions, books and educational materials	5,723	5,873	5,639	234
Education and training	22,863	36,763	19,331	17,432
Gas, oil, and fuel	83,562	83,562	54,555	29,007
Travel - other	500	500	109	391
Utilities	53,370	53,370	46,115	7,255
Total services and supplies	<u>1,118,870</u>	<u>1,310,003</u>	<u>956,592</u>	<u>353,411</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, 2015

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Expenditures</b>				
<b>Other charges</b>				
Principal on long-term debt	\$ 907,878	\$ 907,878	\$ 907,878	\$ -
Interest on long-term debt	190,253	190,253	190,246	7
Contributions to other agencies	<u>18,867</u>	<u>18,867</u>	<u>18,867</u>	<u>-</u>
Total other charges	<u>1,116,998</u>	<u>1,116,998</u>	<u>1,116,991</u>	<u>7</u>
<b>Fixed assets</b>				
Buildings and improvements	5,450	7,520	2,231	5,289
Computer equipment	1,500	14,641	12,471	2,170
Equipment	5,000	12,000	6,283	5,717
Mobile equipment	<u>-</u>	<u>80,492</u>	<u>81,783</u>	<u>(1,291)</u>
Total fixed assets	<u>11,950</u>	<u>114,653</u>	<u>102,768</u>	<u>11,885</u>
Appropriations for contingencies	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 12,601,647</u>	<u>\$ 12,979,005</u>	<u>\$ 12,608,131</u>	<u>\$ 370,874</u>
<b>Other financing uses</b>				
Operating transfers out to vehicle replacement	\$ 349,620	\$ 349,620	\$ 349,620	\$ -
Operating transfers out to:				
Capital outlay	150,000	150,000	150,000	-
Capital outlay - equipment	112,300	112,300	112,300	-
Operating transfers out to fleet maintenance charges	<u>429,392</u>	<u>478,219</u>	<u>478,219</u>	<u>-</u>
Total financing uses	<u>\$ 1,041,312</u>	<u>\$ 1,090,139</u>	<u>\$ 1,090,139</u>	<u>\$ -</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, 2015

	<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	\$ 2,500	\$ 2,500	\$ 6,774	\$ 4,274
Total use of money and property	<u>2,500</u>	<u>2,500</u>	<u>6,774</u>	<u>4,274</u>
Other revenue				
Other revenue	-	-	-	-
Total other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources				
Sale of fixed assets-nontaxable	-	-	5,500	5,500
Operating transfers in	349,620	349,620	349,620	-
Total other financing sources	<u>349,620</u>	<u>349,620</u>	<u>355,120</u>	<u>5,500</u>
 Total revenues	 <u>\$ 352,120</u>	 <u>\$ 352,120</u>	 <u>\$ 361,894</u>	 <u>\$ 9,774</u>
Fixed assets				
Mobile equipment	\$ -	\$ -	\$ -	\$ -
Other financing uses				
Operating transfers out	-	-	91,692	91,692
Total financing uses	<u>-</u>	<u>-</u>	<u>91,692</u>	<u>91,692</u>
 Total expenditures	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 91,692</u>	 <u>\$ 91,692</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, 2015

	<u>Final Budget</u>	<u>Adjusted Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Use of money and property				
Interest	\$ -	\$ -	\$ 3,211	\$ 3,211
Total use of money and property	<u>-</u>	<u>-</u>	<u>3,211</u>	<u>3,211</u>
<b>Other revenue</b>				
Donations	-	-	-	-
Other revenue	-	-	-	-
Total other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other financing sources</b>				
Operating transfers in capital outlay	150,000	150,000	150,000	-
Operating transfers in equipment	112,330	112,330	112,300	(30)
Sales of fixed assets	-	-	-	-
Total other financing sources	<u>262,330</u>	<u>262,330</u>	<u>262,300</u>	<u>(30)</u>
Total revenues	<u>\$ 262,330</u>	<u>\$ 262,330</u>	<u>\$ 265,511</u>	<u>\$ 3,181</u>
<b>Services and supplies</b>				
Professional and special services	\$ -	\$ -	\$ -	\$ -
Total service and supplies	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fixed assets</b>				
Land purchase	-	-	-	-
Building and improvements	-	-	-	-
Total fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other financing uses</b>				
Operating transfers out	-	-	-	-
Total financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2015

	Final Budget	Adjusted Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Use of money and property				
Interest	\$ -	\$ -	\$ 313	\$ 313
Charges for current services				
Service center charges	100,721	100,721	161,161	60,440
Total use of money and property	<u>100,721</u>	<u>100,721</u>	<u>161,474</u>	<u>60,753</u>
Other financing sources				
Operating intra transfers in	429,392	478,219	478,219	-
Total other financing sources	<u>429,392</u>	<u>478,219</u>	<u>478,219</u>	<u>-</u>
Total revenues	<u>\$ 530,113</u>	<u>\$ 578,940</u>	<u>\$ 639,693</u>	<u>\$ 60,753</u>
<b>Expenditures</b>				
Salaries and employee benefits				
Salaries	\$ 136,077	\$ 167,847	\$ 139,076	\$ 28,771
Retirement (Social Security and PERS)	14,879	16,830	15,516	1,314
Employee insurance and benefits	24,391	37,206	24,213	12,993
Unemployment insurance	543	543	540	3
Workers' compensation insurance	13,000	15,291	13,000	2,291
Sick leave reserve	11,130	11,130	6,633	4,497
Total salaries and employee benefits	<u>200,020</u>	<u>248,847</u>	<u>198,978</u>	<u>49,869</u>
Services and supplies				
Telephone and telegraph	2,748	2,748	2,632	116
Other household expenses	8,960	8,960	6,556	2,404
Other insurance	9,800	9,800	9,800	-
Maintenance - mobile equipment	243,000	243,000	199,665	43,335
Maintenance - other equipment	2,000	2,000	1,550	450
Maintenance - structure and grounds	19,095	19,095	4,644	14,451
Memberships	100	100	70	30
PC software	5,071	5,071	4,600	471
Supplies	1,626	1,626	1,458	168
Medical services - other	630	630	-	630
Small tools and instruments	2,000	2,000	2,213	(213)
Special district expense	4,200	(922)	1,893	(2,815)
Education and training	2,810	2,810	1,716	1,094
Gas, oil, and fuel	18,850	18,850	21,036	(2,186)
Utilities	9,203	9,203	8,753	450
Total services and supplies	<u>330,093</u>	<u>324,971</u>	<u>266,586</u>	<u>58,385</u>
Fixed assets				
Equipment	-	5,122	5,121	1
Total fixed assets	<u>-</u>	<u>5,122</u>	<u>5,121</u>	<u>1</u>
Total expenditures	<u>\$ 530,113</u>	<u>\$ 578,940</u>	<u>\$ 470,685</u>	<u>\$ 108,255</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, 2015, 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 April 25, 2016.

### **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".

Armanino<sup>LLP</sup>  
Santa Cruz, California

April 25, 2016

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, 2015 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 60 and 61 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.

A handwritten signature in blue ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
Santa Cruz, California

April 25, 2016

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).