

Aptos/La Selva Fire Protection District

Basic Financial Statements and Independent Auditors'
Report

For the Year Ended June 30, 2017

Aptos/La Selva Fire Protection District

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Aptos/ La Selva Fire Protection District
Aptos, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Aptos/ La Selva Fire Protection District, (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

To the Board of Directors
of the Aptos/ La Selva Fire Protection District
Aptos, California
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information, the OPEB schedule of funding progress, and budgetary comparison information on pages 3-6 and 34-40 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Aptos/La Selva Fire Protection District basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The organizational structure schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates, CPAs
Oakland, California
March 2, 2018

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2017

The District provides fire protection and emergency medical services for the Aptos and La Selva Beach areas. This section of the District's financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017.

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 and governmental fund financial statements; notes to the financial statements, and required supplementary information (budgetary comparison schedules, GASB 68 Pension schedules, and OPEB Funding Schedule) and supplementary information (Organization Structure).

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 long-term liabilities are included. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.

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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2017

Condensed government-wide financial data

	<u>2017</u>	<u>2016</u>
Current assets	\$ 6,236,872	\$ 4,861,810
Deferred outflow of resources	6,177,697	2,454,032
Station and equipment, net of accumulated depreciation	<u>5,089,500</u>	<u>5,313,150</u>
Total assets and deferred outflows of resources	<u>\$ 17,504,069</u>	<u>\$ 12,628,992</u>
Current liabilities	\$ 437,303	\$ 325,174
Non current liabilities	16,601,562	13,494,868
Deferred inflow of resources	<u>1,388,766</u>	<u>2,241,112</u>
Total liabilities and deferred inflows of resources	<u>18,427,631</u>	<u>16,061,154</u>
Net position		
Net investment in capital assets	5,089,500	5,313,150
Unrestricted	<u>(6,013,062)</u>	<u>(8,745,312)</u>
Total net position	<u>(923,562)</u>	<u>(3,432,162)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,504,069</u>	<u>\$ 12,628,992</u>
	<u>2017</u>	<u>2016</u>
Expenditures, net of program revenue	<u>\$ 8,784,195</u>	<u>\$ 8,271,483</u>
General revenues		
Property tax	11,049,953	10,335,101
Other taxes - fire protection tax	131,104	131,372
Use of money and property (interest income)	26,962	18,231
Aid from other government agencies	71,780	71,954
Other revenue	<u>12,996</u>	<u>128,996</u>
Change in net position	<u>\$ 2,508,600</u>	<u>\$ 2,414,171</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2017

Financial Analysis of the District as a Whole

Net Position. The District's net position increased by \$2,508,597 for the fiscal year ended June 30, 2017, or approximately 272 percent, to a total of (\$923,565). Of the (\$923,565) in net position, \$5,089,500 is invested in capital assets.

Financial Analysis of the District's General Fund

General fund balance increased by \$1,264,451. The reasons for the difference between the \$2,508,597 change in net position and the \$1,264,451 change in fund balance is due to employer contributions made during the fiscal year of \$2,164,221 offset by pension expense of \$684,549. Other reconciling differences include capital asset acquisitions, depreciation expense, and changes in compensated absences.

Budgetary Highlights

Each budget includes multi-year forecasts. Contact the District of Business Services to obtain copies.

Capital Assets

As of June 30, 2017, the District had invested \$8,452,276 in a broad range of capital assets including land, structures and improvements, and equipment.

This year's major capital asset additions included the following:

E-Hydraulic (Hurst) extrication tools	\$ 73,445
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APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2017

Long-Term Liabilities

Other than compensated absences and the District's net pension liability, the District did not have any other long-term liabilities.

Economic Factors and Next Year's Budget

The District's main source of revenue is property taxes. The District expects property tax revenue to increase 5.2% for the fiscal year ending June 30, 2018 compared to 2017 actual.

The budget for 2017-2018 expenditures, as amended, totals \$12,798,916 Significant budget increases over 2017 actual include:

- Overtime: \$400,000 largest contributor is strike team overtime (emergency assistance for out of county fires)
- Workers Compensation Insurance: 20% increase due to large claim, this is expected to increase by 30% in FY17/18
- Inventoriable items: \$50,000 portable radio purchase
- Legal services: \$100,000 due to several issues facing the district
- Professional services: \$100,000 for labor negotiator and \$65,000 for district evaluation and master
- Mobile equipment: \$680,000 for fire engine purchase

Contacting the District's Financial Management

This financial statement is designed to provide a general overview of the District's finances. If you have questions about this financial statement or need additional financial information, contact the District's office at 6934 Soquel Drive, Aptos, California 95003.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Statement of Net Position
June 30, 2017 (With Comparative Totals for 2016)

	2017	2016
<u>ASSETS</u>		
Current assets:		
Cash in county treasury	\$ 5,832,881	\$ 4,693,647
Accounts receivable	351,135	93,309
Prepaid expenses	52,856	74,854
Total current assets	6,236,872	4,861,810
Noncurrent assets:		
Capital assets:		
Non-depreciable - Land	45,953	45,953
Depreciable - Structures and improvements	4,476,280	4,476,280
Depreciable - Equipment	3,975,996	3,933,517
Total depreciable	8,452,276	8,455,750
Less accumulated depreciation	(3,408,729)	(3,142,600)
Total capital assets, net	5,089,500	5,313,150
Total assets	11,326,372	10,174,960
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflow of resources		
Contributions to CalPERS pension plan in current fiscal year	2,164,224	2,080,361
Deferred outflows - pension actuarial	4,013,473	373,671
Total deferred outflow of resources	6,177,697	2,454,032
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	110,491	\$ 15,262
Accrued salaries and benefits	253,795	238,413
Accrued compensated absences	73,017	71,499
Total current liabilities	437,303	325,174
Noncurrent liabilities		
Accrued compensated absences	657,156	646,798
Net pension liability	15,944,406	12,848,070
Total noncurrent liabilities	16,601,562	13,494,868
Total liabilities	17,038,865	13,820,042
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflow of resources		
Deferred inflows - pension actuarial	1,388,766	2,241,112
Total deferred inflow of resources	1,388,766	2,241,112
<u>NET POSITION</u>		
Net position		
Investment in capital assets	5,089,500	5,313,150
Unrestricted net position	(6,013,062)	(8,745,312)
Total net position	(923,562)	(3,432,162)

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Statement of Activities
For the Year Ended June 30, 2017 (With Comparative Totals for 2016)

	Program Revenues			
		Charges for services and grants	2017 Total	2016 Total
Expenditures				
Expenditures				
Fire protection				
Salaries and benefits	\$ 8,048,879	\$ 264,243	\$ 7,784,636	\$ 7,380,376
Services and supplies	1,032,063	343,322	688,741	585,077
Contributions to other agencies	13,807	-	13,807	12,274
Depreciation	297,011	-	297,011	293,756
	9,391,760	607,565	8,784,195	8,271,483
Total governmental activities				
General revenues				
Property tax			11,049,953	10,335,101
Other taxes - fire protection tax			131,104	131,372
Use of money and property			26,962	18,231
Aid From other government agencies:				
State homeowners' property tax relief			71,780	71,954
Other revenue			8,891	129,228
Contribution from other agency			2,250	20
Gain (loss) on disposal of capital assets			1,855	(252)
			11,292,795	10,685,654
Total general revenues				
Change in net position			2,508,600	2,414,171
Net position				
Beginning of the year			(3,432,162)	(5,846,333)
End of the year			\$ (923,562)	\$ (3,432,162)

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Balance Sheet - Governmental Fund
 June 30, 2017 (With Comparative Totals for 2016)

ASSETS

	General Fund	
	2017	2016
Assets		
Cash - cash in county treasury	5,832,881	\$ 4,693,647
Accounts receivable	351,135	93,309
Prepaid expenses	52,856	74,854
Total assets	\$ 6,236,872	\$ 4,861,810

LIABILITIES AND FUND BALANCE

Liabilities		
Accrued payroll	110,491	\$ 15,262
Accounts payable	253,795	238,413
Total liabilities	364,286	253,675
Fund balance		
Nonspendable	52,856	75,054
Unassigned	5,819,730	4,533,081
Total fund balance	5,872,586	4,608,135
Total liabilities and fund balance	\$ 6,236,872	\$ 4,861,810

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2017 (With Comparative Totals for 2016)

	2017	2016
Total fund balances - governmental funds	\$ 5,872,586	\$ 4,608,135
Capital assets used in governmental funds are not financial resources and therefore, are not reported as assets in the		
Total historical cost of capital assets	8,498,229	8,455,750
Less accumulated depreciation	(3,408,729)	(3,142,600)
Deferred outflow of resources represent amounts related to PERS pension liability in the current year that are allocated to next year based on GASB 68. Under GASB 68 the net pension plan liability is determined using a measurement date one year earlier than the financial statement date. The cash payments made to the plan after the measurement date are treated as deferred outflows of resources. As of June 30, 2017 the amount includes the cash payments to the PERS pension plan during fiscal year ended June 30, 2017 of \$2,164,221 plus miscellaneous actuarial adjustments of \$4,013,473.		
	6,177,697	2,454,032
Compensated absences are reported in the government-wide statement of net position, but they do not require the use of current financial resources. Therefore, the liability is not reported in the governmental funds.		
	(730,173)	(718,297)
Deferred inflow of resources represent amounts related to PERS pension liability in the current year that are allocated to the future based on GASB 68. Under GASB 68 the net difference between projected and actual earnings on pension plan investments are amortized over time to smooth out swings in pension expense recognition that would otherwise result from large movements in the net pension liability from year to year. The amounts on the balance sheet have been allocated to current and long term based on the GASB 68 Accounting Valuation Report. Total deferred inflow of resources as of June 30:		
	(1,388,766)	(2,241,112)
Net pension liability is reported on the government wide financial statements; as the liability will be paid out of future resources the amount is not shown on the government fund financial statements.		
Total pension liability as of June 30:	<u>(15,944,406)</u>	<u>(12,848,070)</u>
Net position	<u>\$ (923,562)</u>	<u>\$ (3,432,162)</u>

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Fund
 For the Year Ended June 30, 2017 (With Comparative Totals for 2016)

	General Fund	
	2017	2016
Revenues		
Property taxes	\$ 11,049,953	\$ 10,335,101
Other taxes	131,104	131,372
Use of money and property	26,962	18,231
Aid From other government agencies	398,706	306,324
Other revenue	11,141	129,248
Current services	280,639	238,891
Total revenues	11,898,505	11,159,167
Expenditures		
Current:		
Salaries and employee benefits	9,516,678	9,179,621
Services and supplies	1,032,063	835,691
Other charges	13,807	12,274
Capital outlay	76,967	125,169
Total expenditures	10,639,515	10,152,755
Excess (deficiency) of revenues over expenditures	1,258,990	1,357,407
Other financing sources (uses)		
Proceeds from sale of capital assets	5,461	-
Change in fund balance	1,264,451	1,006,412
Beginning fund balance	4,608,135	3,601,723
Ending fund balance	\$ 5,872,586	\$ 4,608,135

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities

	2017	2016
Net Change in Fund Balances - Total Governmental Funds	\$ 1,264,451	\$ 1,006,412
<p>Amounts reported for governmental activities in the Statement of Activities are different as follows:</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>		
Current Year Capital Outlays	76,967	127,029
Less: Current Year Depreciation Expense	(297,011)	(293,756)
<p>In the governmental funds, compensated absences (sick pay and vacations) are measured by the amount of financial resources used, which is the amounts actually paid. In the government-wide Statement of Activities compensated absences are measured by the amounts earned during the year. This is the net change in compensated absences for the period.</p>		
	(11,876)	(47,014)
<p>In the government funds, pension expense is measured by the amount of financial resources used which are the amounts actually paid to CalPERS based on a percentage of payroll. In the government-wide Statement of Activities pension expense is recognized as calculated under the guidance of GASB 68. This is the difference between the two amounts.</p>		
	1,479,675	1,621,752
<p>In the governmental funds sales and disposals of capital 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 and disposals of capital assets are measured by the amount received less the basis in the assets sold or disposed of during the year.</p>		
	(3,606)	(252)
Change in Net Position of Governmental Activities	\$ 2,508,600	\$ 2,414,171

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

1. GENERAL INFORMATION

A. Organization

The Aptos/La Selva Fire Protection District was organized July 1, 1986, from the consolidation of the Aptos Fire Protection District and the La Selva Fire Protection District, under the authority Section 56000 et seq of the California Government Code. The District operates under the provisions of the Fire Protection District Law of 1987 (beginning with Health and Safety Code Section 13800), and provides fire protection services to the land areas covered by the former Aptos Fire Protection District and the La Selva Fire Protection District.

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.

B. District Officers

The District is governed by an elected board of five directors. The following were in office at June 30, 2017:

	Term Expires
	<u>November</u>
Bob Spisak, President	2020
Vincent Hurley, Vice President	2018
Jim Abendschan, Director	2018
Joe Foster, Director	2020
George Lucchesi, Director	2020

The other officials of the Aptos/La Selva Fire Protection District at June 30, 2017 were:

Ron Prince, Interim Fire Chief
Tracy New, Director of Business Services

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

1. GENERAL INFORMATION, Continued

C. Accounting Records

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

D. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

E. Budgetary procedure

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The District's financial statements are prepared in conformance 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.

B. New Accounting Guidance

In 2017, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*– The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement did not apply to the District for the current fiscal year.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. New Accounting Guidance, Continued

GASB Statement No. 77, *Tax Abatement Disclosure*— This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. The requirements of this statement did not apply to the District for the current fiscal year.

GASB Statement No. 78, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*— The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement did not apply to the District for the current fiscal year.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*— An Amendment of GASB Statement No. 14 - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. There was no effect on net position as a result of implementation of this statement.

C. 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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Summarized Financial Information

The financial statements include certain prior-year summarized, comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016 from which the summarized information was derived.

E. 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, including capital assets and long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period the liability is incurred. 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 fund financial statements

The District's Government Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all major governmental funds and non-major funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide financial statements.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Financial Statement Presentation, Continued

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 Fund financial statements to the Government-Wide Financial Statements is provided to explain the differences created by the different measurement focus and basis of accounting.

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

Nonspendable

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

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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Property tax

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 January 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.

G. Cash in county treasury

The District's cash is held in the County of Santa Cruz Treasury Pool 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.

H. 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.

I. 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.

J. 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.

K. Liability for compensated absences

The District is required to recognize a liability for employees' rights to receive compensation for future absences. On June 30, 2017, the liability for compensated absences was \$730,173. None of the liability for compensated absences is expected to be liquidated with expendable available financial resources; accordingly, compensated absences are accrued as a liability only in the government-wide financial statements.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Long-term debt

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Position.

M. 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 acquisition value on the date donated. Normal maintenance and repairs are charged to operations as incurred. Major additions, improvements and replacements are capitalized. Gains and losses from sales or retirements of fixed assets are included in operations. The District has set capitalization thresholds for reporting capital assets at the following:

General Capital Assets	<u>\$2,000</u>
------------------------	----------------

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	40 years
Equipment	5 - 20 years

N. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Services and supplies expense

Because fire hose couplings, nozzles, hydrants, and the like are peculiar to fire districts, the manual of the State Controller provides that purchases of such items be charged to the expense account "Services and Supplies Expense".

P. Estimates

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

Q. 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.

R. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. POOLED CASH AND INVESTMENTS

The District maintains cash and investments as summarized below:

	Total
County of Santa Cruz Investment Pool	\$ 5,832,881
Total cash and investments	\$ 5,832,881

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

3. POOLED CASH AND INVESTMENTS, Continued

A. Investment with Santa Cruz County Investment Pool

\$5,832,681 at June 30, 2017 is part of the common investment pool of the Santa Cruz County Investment Pool. It is the policy of the Treasurer-Tax Collector of Santa Cruz County to invest public funds in a manner which provides for the safety of the funds on deposit, the cash flow demands, or liquidity needs of the treasury pool participants, and the highest possible yield after first considering the first two objectives of safety and liquidity. In addition, it is the Treasurer-Tax Collectors' policy to invest all funds in strict conformance with all state statutes governing the investment of public monies.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment in the Santa Cruz County Investment Pool was not subject to the levelling disclosure.

B. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One of the ways that an agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

At June 30, 2017, the District had the following investment maturities.

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	1 - 2 years	2- 3 years	3 - 4 years	5 years or More
Santa Cruz County Investment Pool	\$ 5,832,881	\$ 5,832,881	\$ -	\$ -	\$ -	\$ -
Total	\$ 5,832,881	\$ 5,832,881	\$ -	\$ -	\$ -	\$ -

C. Concentration of Credit Risk

The District does not have an investment policy that contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Excluding external investment pools, the District did not have any investments in any one issuer that represent 5% or more of the total District investments for the year ended June 30, 2017.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

4. CAPITAL ASSETS

Capital assets at June 30, 2017, consisted of the following:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets not being depreciated:				
Land	\$ 45,953	\$ -	\$ -	\$ 45,953
Total capital assets not being depreciated	<u>45,953</u>	<u>-</u>	<u>-</u>	<u>45,953</u>
Capital Assets being depreciated:				
Equipment	3,933,517	76,967	(34,488)	3,975,996
Structures and improvements	4,476,280	-	-	4,476,280
Total capital assets being depreciated	<u>8,409,797</u>	<u>76,967</u>	<u>(34,488)</u>	<u>8,452,276</u>
Less accumulated depreciation	<u>(3,142,600)</u>	<u>(297,011)</u>	<u>30,882</u>	<u>(3,408,729)</u>
Total capital assets, being depreciated, net	<u>5,267,197</u>	<u>(220,044)</u>	<u>(3,606)</u>	<u>5,043,547</u>
Total capital assets, net	<u>\$ 5,313,150</u>	<u>\$ (220,044)</u>	<u>(3,606)</u>	<u>\$ 5,089,500</u>

As of June 30, 2017 equipment consisted of the following:

Automotive	\$ 327,847
Rescue and firefighting	3,278,702
Firehouse	272,574
Communication	64,583
Office	32,290
Total	<u>\$ 3,975,996</u>

5. COMPENSATED ABSENCES

A summary of long-term debt transactions of Aptos/La Selva Fire Protection District for the year ended June 30, 2017 follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Accumulated Unpaid Compensated Absences				
Current	\$ 71,499	\$ 73,017	\$ (71,499)	\$ 73,017
Long Term	646,798	307,323	(296,965)	657,156
Accumulated Unpaid Compensated Absences	<u>\$ 718,297</u>	<u>\$ 380,340</u>	<u>\$ (368,464)</u>	<u>\$ 730,173</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

7. DEFINED BENEFIT PENSION PLAN

A. Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other.) Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous risk pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

B. 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 credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

6. DEFINED BENEFIT PENSION PLAN, Continued

B. Benefits Provided, Continued

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

	Prior to 1/1/2013	On or after 1/1/2013
	<u>Misc Tier 1</u>	<u>Misc Tier 2</u>
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 year's service	5 year's service
Benefit payment	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits as of % of eligible compensation	3%	2%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	12.657%	6.555%
Required UAL payment	\$ 17,216	\$ 18
	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Benefit formula	3% @ 55	2.7% @ 55
Benefit vesting schedule	5 year's service	5 year's service
Benefit payment	monthly for life	monthly for life
Retirement age	55	57
Monthly benefits as of % of eligible compensation	3%	2.7%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	17.689%	11.500%
Required UAL payment	\$ 1,377,954	\$ -

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an actuarial basis, annually and is effective on July 1 following notice of a change in the rate. Funding contributions for the Plan 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.

The District's contributions to the Plan for the measurement period ended June 30, 2016 was \$2,080,361.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

6. DEFINED BENEFIT PENSION PLAN, Continued

C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$15,944,406.

The District's net pension liability for the Plan is measured as the proportionate share of the total net pension liability of the Plan. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportionate share of the net pension liability was based on the District's plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The District's proportionate share of the net pension liability for the Plan as of the measurement dates June 30, 2015 and 2016 were as follows:

Proportion - June 30, 2015	0.18718%
Proportion - June 30, 2016	0.18426%
Change - Increase (Decrease)	-0.00292%

For the year ended June 30, 2017, the District recognized pension expense of \$684,549 in the government wide statement of activities. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,164,221	\$ -
Changes of assumptions	-	710,534
Differences between expected and actual experience	-	153,238
Changes in employer's proportion	1,559	524,994
Differences between the employer's contribution and the employer's proportionate share of contributions	511,962	-
Net differences between projected and actual earnings on plan investments	3,499,952	-
Total	\$ 6,177,694	\$ 1,388,766

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

6. DEFINED BENEFIT PENSION PLAN, Continued

C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

The \$2,164,221 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:		
2018	\$	41,100
2019		50,130
2020		1,622,552
2021		910,925

Actuarial assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return (1)	7.50%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan administrative expenses

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

6. DEFINED BENEFIT PENSION PLAN, Continued

C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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. 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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

6. DEFINED BENEFIT PENSION PLAN, Continued

C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	<u>100.00%</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:

1% Decrease	6.65%
Net Pension Liability	\$ 24,481,678
Current Discount Rate	7.65%
Net Pension Liability	\$ 15,944,406
1% Increase	8.65%
Net Pension Liability	\$ 8,934,528

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

6. DEFINED BENEFIT PENSION PLAN, Continued

C. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2017 the District reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

8. 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.

A. 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 County 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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

7. RISK MANAGEMENT, Continued

A. Workers' Compensation Coverage, Continued

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 CSACEIA 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.

B. 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 a purchased stop loss insurance policy.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

7. RISK MANAGEMENT, Continued

C. Excess Workers' Compensation

Insurance coverage at June 30, 2017 is as follows:

	<u>Deductible</u>	<u>Amount</u>
Property:		
Property (buildings)	\$ 1,000	Guaranteed Repl Cost
Repl cost subject to scheduled limit		
Business personal property (including theft)	\$ 1,000	Repl Cost
Earthquake:		
Buildings		Guaranteed Repl Cost
Business personal property		Repl Cost
Deductible		5% per Building and BPP
Flood:		
Buildings		Guaranteed Repl Cost
Business personal property		Repl Cost
Deductible		\$1000 per premises
Portable equipment insurance		
Blanket portable equipment		Guaranteed Repl Cost
Business personal property		\$50,000
General liability:		
General aggregate		\$10,000,000
Personal injury		\$1,000,000
Each occurrence		\$1,000,000
Auto - liability		\$1,000,000 (Each Accident)
Auto - uninsured motorist		\$1,000,000 (Each Accident)
Auto - physical damage (comprehensive)		Agreed value, actual cash value, or cost of repairs, whichever is less minus \$1,000 deductible
Auto - physical damage (collision)		Agreed value, actual cash value, or cost of repairs, whichever is less minus \$1,000 deductible
Management practices liability insurance:		
General aggregate		\$10,000,000
Each wrongful act		\$1,000,000

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

9. COMMITMENTS AND CONTINGENCIES

The District is party to legal proceedings and litigation arising in the ordinary course of business. Management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material adverse effect on the financial statements.

10. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Employees' Retirement 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 The Aptos/La Selva Fire Protection District's post-retirement welfare benefit plan is a defined benefit healthcare plan, which is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. The Plan provides retiree health benefit coverage under the Public Employees' Medical and Hospital Care Act (PEMHCA). For all qualified retirees that opt onto the District health plan CalPERS requires the employer pay \$125 per month (mandatory employer contribution, amount may change from year to year).

A. Funding Policy

For the Defined Contribution portion of the Plan, the District is required to make monthly contributions into the participant's Retirement Health Savings (RHS) account managed by ICMA of \$350 per month until the participant terminates, reaches age 65, dies, or retires. Employees are able to make contributions and all amounts accumulated from employee contributions are fully vested to the employee. PEMCHA/CalPERS requires the employer pay an additional \$122 per month for all qualified retirees that opt on to the Districts health plan.

B. Actuarial Methods

Actuarial cost method: Entry age normal, the allocation of OPEB cost is based on years of service. Amortization methods, level percentage of payroll method to allocate amortization cost by year, closed 30 year amortization period for the initial Unfunded Actuarial Accrued Liability "UAAL" and an open 30 year amortization period for any residual UAAL.

C. Economic assumptions

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 economic assumptions included (a) inflation at 2.75% per year, (b) investment return/discount rate, 7% per year, (c) payroll increase assumed 2.75% per year, (d) actuarial asset valuation used a 5 year smoothing formula with a 20% corridor around market value.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

9. OTHER POST EMPLOYMENT BENEFITS, Continued

C. Economic Assumptions, Continued

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employer in comparison to the Annual Required Contribution (ARC) an amount that is actuarially determined in accordance with the parameters of GASB. 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. Current ARC of \$79,114 is the total of normal cost for active employees of \$21,722 plus initial UAAL amortization of \$75,303 less residual UAAL amortization credit of \$17,911.

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:

Annual required contribution (ARC)	\$ 79,114
Interest on net OPEB obligation (none due to investments) held in Trust Fund)	-
Annual OPEB cost (expense)	79,114
Transfer to OPEB Trust Fund	-
Contribution	(79,114)
(Increase) decrease in net asset	-
Net OPEB obligation (asset) - beginning of year	-
Net OPEB obligation (asset) - end of year	\$ -

D. Funded Status of Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll
7/1/2015	\$ 627,166	\$ 1,432,092	\$ 804,926	43.79%	\$ 2,430,416

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2017

9. OTHER POST EMPLOYMENT BENEFITS, Continued

E. Schedules of Employer Contributions

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>
June 30, 2015	\$ 76,117	100%
June 30, 2016	79,114	100%
June 30, 2017	79,114	100%

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Revenues - Budget and Actual - General Fund
 June 30, 2017

	2017 Final budget	2017 Amended final budget	2017 Actual	Variance favorable (unfavorable)
Revenues				
Property taxes				
Current secured	\$ 10,462,173	\$ 10,462,173	10,645,316	\$ 183,143
Current unsecured - general	209,872	209,872	215,439	5,567
Prior unsecured - general	10,000	10,000	21,087	11,087
Penalties for delinquent taxes	-	-	935	935
Redemption penalties for delinquent taxes	-	-	1,410	1,410
Supplemental - current secured	100,000	100,000	149,133	49,133
Supplemental - current unsecured	-	-	5,663	5,663
Supplemental - prior	-	-	10,970	10,970
Total property taxes	10,782,045	10,782,045	11,049,953	267,908
Other taxes				
Fire protection tax	130,972	130,972	131,104	132
In-lieu taxes other	-	-	-	-
Total other taxes	130,972	130,972	131,104	132
Use of money and property				
Interest	12,141	12,141	26,962	14,821
Aid from other government agencies				
Homeowner's property tax relief	68,976	68,976	71,780	2,804
State - other	147,101	147,101	326,926	179,825
Other governmental agencies	-	-	-	-
Total aid from other government agencies	216,077	216,077	398,706	182,629
Other revenue				
Contributions and donations	-	-	2,250	2,250
Other revenue	5,200	5,200	8,891	3,691
Total other revenue	5,200	5,200	11,141	5,941
Current services				
Emergency response recovery	220,000	220,000	221,162	1,162
Medical charges - employee	3,706	3,706	8,166	4,460
Other charges current services	30,000	30,000	43,081	13,081
Weeds/lot clearing	10,000	10,000	8,230	(1,770)
Total current services	263,706	263,706	280,639	16,933
Other financing sources and uses				
Proceeds from the sale of fixed assets	-	-	5,461	5,461
Total other financing sources and uses	-	-	5,461	5,461
Total Revenue	11,410,141	11,410,141	11,903,966	493,825

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2017

	2017 Final budget	2017 Amended final budget	2017 Actual	Variance favorable (unfavorable)
Expenditures				
Salaries and employee benefits				
Regular pay - permanent	\$ 4,614,223	\$ 4,614,223	4,662,889	\$ (48,666)
Overtime pay - permanent	911,194	911,194	612,273	298,921
Regular pay - call back	20,000	20,000	171,914	(151,914)
Regular pay - holiday	348,033	348,033	296,965	51,068
Regular pay - differential	20,000	20,000	7,781	12,219
OASDI	104,533	104,533	85,264	19,269
Retirement (PERS)	2,174,036	2,174,036	2,152,907	21,129
Employee group insurance	1,282,448	1,282,448	918,726	363,722
Workers' compensation insurance	435,811	435,811	435,811	-
Sick leave reserve	292,378	292,378	172,148	120,230
Other benefits misc.	-	-	-	-
Total salaries and employee Benefits	<u>10,202,656</u>	<u>10,202,656</u>	<u>9,516,678</u>	<u>685,978</u>
Services and supplies				
Clothing and personal supplies	92,700	92,700	60,399	32,301
Radio	-	-	(3,131)	3,131
Telephone and telegraph	22,700	22,700	21,905	795
Food	9,500	9,500	6,262	3,238
Inventoriable items	97,534	97,534	57,342	40,192
Other household expense	17,612	17,612	9,358	8,254
Other insurance	37,000	37,000	32,662	4,338
Maintenance - building	-	-	495	(495)
Maintenance - mobile equipment	85,000	85,000	87,731	(2,731)
Maintenance - office equipment	970	970	582	388
Maintenance - other equipment services	39,150	39,150	16,775	22,375
Maintenance - other equipment supplies	-	-	1,041	(1,041)
Facilities Maintenance - supplies	-	-	0	-
Maintenance - Radio	7,000	7,000	50	6,950
Maintenance - Grds other svc	17,600	17,600	31,868	(14,268)
Maintenance - structures and improvements supplies	-	-	133	(133)
Medical, dental and lab supplies	12,000	12,000	5,556	6,444
Employee certificates and licenses	4,750	4,750	894	3,856
Memberships	2,630	2,630	2,584	46
Miscellaneous expense	-	-	677	(677)
PC software purchases	27,903	27,903	13,801	14,102
Postage	2,075	2,075	1,021	1,054
Supplies	50,125	50,125	29,844	20,281
Inventoriable items < \$5,000	-	-	808	(808)
Accounting and auditing	131,500	131,500	130,684	816
Directors' fees	10,570	10,570	10,117	453

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2017

	2017 Final budget	2017 Amended final budget	2017 Actual	Variance favorable (unfavorable)
Expenditures (continued)				
Services and supplies (continued)				
911 dispatch services	\$ 83,043	\$ 83,043	\$ 83,920	\$ (877)
Legal services	20,000	20,000	60,646	(40,646)
Medical services	-	-	-	-
Medical services - other	19,000	19,000	17,978	1,022
Personnel services	-	-	14,483	(14,483)
Professional and special services	288,602	288,602	206,483	82,119
Legal notices	7,250	7,250	5,917	1,333
Equipment lease and rent	11,100	11,100	2,727	8,373
Small tools and instruments	2,750	2,750	2,239	511
Education and/or training	104,915	104,915	26,622	78,293
Special district expense	17,060	17,060	3,639	13,421
Subscriptions books and ed materials	14,400	14,400	10,606	3,794
Education and training	30,690	30,690	57	30,633
Gas, oil, fuel	40,320	40,320	32,181	8,139
Travel - other	100	100	15,487	(15,387)
Utilities	24,700	24,700	29,620	(4,920)
Total services and supplies	<u>1,332,249</u>	<u>1,332,249</u>	<u>1,032,063</u>	<u>300,186</u>
Other charges				
Contribution to other agencies	14,000	14,000	13,807	193
Total other charges	<u>14,000</u>	<u>14,000</u>	<u>13,807</u>	<u>193</u>
Capital outlay				
Buildings and improvements	103,000	103,000	0	103,000
Equipment/mobile equipment	1,057,500	1,057,500	76,967	980,533
Total capital outlay	<u>1,160,500</u>	<u>1,160,500</u>	<u>76,967</u>	<u>1,083,533</u>
Appropriations for contingencies	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total expenditures general fund	<u>12,809,405</u>	<u>12,809,405</u>	<u>10,639,515</u>	<u>2,169,890</u>
Net change in fund balance	<u>\$ (1,399,264)</u>	<u>\$ (1,399,264)</u>	1,264,451	<u>\$ 2,663,715</u>
Fund Balance:				
Beginning of year			4,608,135	
End of year			<u>\$ 5,872,586</u>	

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability and Related Ratios
June 30, 2017
Last 10 Years*

**Schedule of Aptos/La Selva Fire Protection District's Proportionate
Share of Net Pension Liability and Related Ratios**

	June 30, 2016	June 30, 2015	June 30, 2014
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Measurement date			
Proportion of the net pension liability	0.18426%	0.18718%	0.20648%
Proportionate share of the net pension liability	\$ 15,944,406	\$ 12,848,067	\$ 12,848,070
Covered payroll	\$ 4,219,669	\$ 4,667,442	\$ 4,531,497
Proportionate share of the net pension liability as a percentage of covered payroll	377.86%	275.27%	283.53%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

Notes to schedule

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

Changes in assumptions

There was a change in discount rate for the measurement period ended June 30, 2015 to 7.65%
from 7.50%

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Schedule of Contributions
June 30, 2017
Last 10 Years*

Schedule of Contributions

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 2,164,221	\$ 2,080,361	\$ 1,785,932
Contributions in relation to the actuarially determined contributions	<u>(2,164,221)</u>	<u>(2,080,361)</u>	<u>(1,785,932)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$ 5,208,644	 \$ 4,219,669	 \$ 4,667,442
 Contributions as a percentage of covered payroll	 41.55%	 49.30%	 38.26%

Notes to Schedule

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Schedule of Funding Progress - OPEB
 June 30, 2017

Schedule of Funding Progress - OPEB

Actuarial Valuation Date	Actuarial Vale of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll
6/30/2013	\$ 524,547	\$ 1,298,442	\$ 773,895	0.40398	\$ 4,414,049
7/1/2015	627,166	1,432,092	804,926	0.43794	2,430,416

OTHER SUPPLEMENTARY INFORMATION

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Organization Structure
June 30, 2017

1. GENERAL INFORMATION

A. District Officers

The District is governed by an elected board of five directors. The following were in office at June 30, 2017

	Term Expires
	<u>November</u>
Joe Foster, President	2020
George Lucchesi, Vice President	2020
Vincent Hurley, Director	2018
Jim Abendschan, Director	2018
Bob Spisak, Director	2020

The other officials of the Aptos/La Selva Fire Protection District at June 30, 2017 were:

Jon Jones, Fire Chief
Tracy New, Director of Business Services

B. Accounting Records

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