

Aptos/La Selva Fire Protection District

Basic Financial Statements and Independent Auditors'
Report

For the Year Ended June 30, 2018

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 and each major fund of the Aptos/ La Selva Fire Protection District (District), as of and for the year ended June 30, 2018, 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 and each major fund of the District, as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our Opinion is not modified with respect to this matter.

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, OPEB information, and budgetary comparison information on pages 3-6 and 39-45 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.

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
June 7, 2019

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2018

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, 2018.

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 GASB 75 Pension schedules) 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, 2018

Condensed government-wide financial data

	<u>2018</u>	<u>2017</u>
Current assets	\$ 7,839,046	\$ 6,236,872
Deferred outflow of resources	5,849,621	6,177,697
Station and equipment, net of accumulated depreciation	<u>4,885,832</u>	<u>5,089,500</u>
Total assets and deferred outflows of resources	<u>\$ 18,574,499</u>	<u>\$ 17,504,069</u>
Current liabilities	\$ 458,841	\$ 437,303
Non current liabilities	19,839,231	16,601,562
Deferred inflow of resources	<u>596,150</u>	<u>1,388,766</u>
Total liabilities and deferred inflows of resources	<u>20,894,222</u>	<u>18,427,631</u>
Net position		
Net investment in capital assets	4,885,832	5,089,500
Unrestricted	<u>(7,205,555)</u>	<u>(6,013,062)</u>
Total net position	<u>(2,319,723)</u>	<u>(923,562)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,574,499</u>	<u>\$ 17,504,069</u>
	<u>2018</u>	<u>2017</u>
Expenditures, net of program revenue	<u>\$ 11,708,661</u>	<u>\$ 8,784,195</u>
General revenues		
Property tax	11,588,384	11,049,953
Other taxes - fire protection tax	131,015	131,104
Use of money and property (interest income)	55,354	26,962
Aid from other government agencies	70,029	71,780
Other revenue	<u>13,718</u>	<u>12,996</u>
Change in net position	<u>\$ 149,839</u>	<u>\$ 2,508,600</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2018

Financial Analysis of the District as a Whole

Net Position. The District's net position decreased by \$1,396,161 for the fiscal year ended June 30, 2018, or approximately 151 percent, to a total of (\$2,319,723). Of the (\$2,319,723) in net position, \$4,885,832 is invested in capital assets.

Financial Analysis of the District's General Fund

General fund balance increased by \$1,574,747. The reasons for the difference between the \$1,396,161 change in net position and the \$1,574,747 change in fund balance is due to employer contributions made during the fiscal year of \$1,424,686 offset by pension expense of \$2,697,813. 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 to obtain copies.

Capital Assets

As of June 30, 2018, the District had invested \$8,349,843 in a broad range of capital assets including land, structures and improvements, and equipment.

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

Mobile radios	\$ 45,000
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APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2018

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 4% for the fiscal year ending June 30, 2019 compared to 2018 actual.

The budget for 2018-2019 expenditures, as amended, totals \$12,798,916. Significant budget increases over 2018 actual include:

- Pension Cost: \$350,000 due to CalPERS lowering their discount rate (expected rate of return) from 7.5% to 7%
- Overtime: \$250,000 due to strike team overtime (emergency assistance for out of county fires)
- Equipment: \$250,000 to upgrade self-contained breathing apparatus (SCBA)

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, 2018 (With Comparative Totals for 2017)

	2018	2017
<u>ASSETS</u>		
Current assets:		
Cash in county treasury	\$ 7,139,215	\$ 5,832,881
Accounts receivable	152,520	351,135
Prepaid expenses	547,311	52,856
Total current assets	7,839,046	6,236,872
Noncurrent assets:		
Capital assets:		
Non-depreciable - Land	45,953	45,953
Depreciable - Structures and improvements	4,484,391	4,476,280
Depreciable - Equipment	3,865,452	3,975,996
Total depreciable	8,349,843	8,498,229
Less accumulated depreciation	(3,509,964)	(3,408,729)
Total capital assets, net	4,885,832	5,089,500
Total assets	12,724,878	11,326,372
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflow of resources		
Contributions to CalPERS pension plan in current fiscal year	1,424,686	2,164,224
Deferred outflows - pension actuarial	4,253,935	4,013,473
Deferred outflows - OPEB	171,000	-
Total deferred outflow of resources	5,849,621	6,177,697
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	\$ 105,752	\$ 110,491
Accrued salaries and benefits	285,961	253,795
Accrued compensated absences	67,128	73,017
Total current liabilities	458,841	437,303
Noncurrent liabilities		
Accrued compensated absences	604,155	657,156
Net pension liability	17,530,076	15,944,406
Net OPEB liability	1,705,000	-
Total noncurrent liabilities	19,839,231	16,601,562
Total liabilities	20,298,072	17,038,865
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflow of resources		
Deferred inflows - pension actuarial	577,150	1,388,766
Deferred inflows - OPEB	19,000	-
Total deferred inflow of resources	596,150	1,388,766
<u>NET POSITION</u>		
Net position		
Investment in capital assets	4,885,832	5,089,500
Unrestricted net position	(7,205,555)	(6,013,062)
Total net position	\$ (2,319,723)	\$ (923,562)

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Statement of Activities
For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Program Revenues		2018 Total	2017 Total
	Expenditures	Charges for services and grants		
Expenditures				
Fire protection				
Salaries and benefits	\$ 10,320,631	\$ 332,560	\$ 9,988,071	\$ 7,784,636
Services and supplies	1,804,817	422,421	1,382,396	688,741
Contributions to other agencies	47,833	-	47,833	13,807
Depreciation	290,361	-	290,361	297,011
Total governmental activities	<u>12,463,642</u>	<u>754,981</u>	<u>11,708,661</u>	<u>8,784,195</u>
General revenues				
Property tax			11,588,384	11,049,953
Other taxes - fire protection tax			131,015	131,104
Use of money and property			55,354	26,962
Aid From other government agencies:				
State homeowners' property tax relief			70,029	71,780
Other revenue			38,900	8,891
Contribution from other agency			-	2,250
Gain (loss) on disposal of capital assets			<u>(25,182)</u>	<u>1,855</u>
Total general revenues			<u>11,858,500</u>	<u>11,292,795</u>
Change in net position			149,839	2,508,600
Net position				
Beginning of the year			(923,562)	(3,432,162)
Prior period adjustment			<u>(1,546,000)</u>	<u>-</u>
Beginning of year, as restated			<u>(2,469,562)</u>	<u>(3,432,162)</u>
End of the year			<u>\$ (2,319,723)</u>	<u>\$ (923,562)</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Balance Sheet - Governmental Fund
 June 30, 2018 (With Comparative Totals for 2017)

ASSETS

	General Fund	
	2018	2017
Assets		
Cash - cash in county treasury	\$ 7,139,215	\$ 5,832,881
Accounts receivable	152,520	351,135
Prepaid expenses	547,311	52,856
Total assets	\$ 7,839,046	\$ 6,236,872

LIABILITIES AND FUND BALANCE

Liabilities		
Accrued payroll	\$ 105,752	\$ 110,491
Accounts payable	285,961	253,795
Total liabilities	391,713	364,286
Fund balance		
Nonspendable	547,311	52,856
Unassigned	6,900,022	5,819,730
Total fund balance	7,447,333	5,872,586
Total liabilities and fund balance	\$ 7,839,046	\$ 6,236,872

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position
For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018	2017
Total fund balances - governmental funds	\$ 7,447,333	\$ 5,872,586
<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	8,395,796	8,498,229
Less accumulated depreciation	(3,509,964)	(3,408,729)
<p>In the government wide financial statements, employer contributions made subsequent to the measurement date for pension and OPEB, certain differences between actuarial amounts and actual results for pension are deferred and amortized or applied to the net pension liability or net OPEB liability in future periods, however these items do not impact the governmental funds balance sheet:</p>		
Deferred outflows of resources - pension	5,678,621	6,177,697
Deferred outflows of resources - OPEB	171,000	-
Deferred inflows of resources - pension	(577,150)	(1,388,766)
Deferred inflows of resources - OPEB	(19,000)	-
<p>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.</p>		
	(671,283)	(730,173)
<p>Net pension liability and net OPEB liability are reported on the government wide financial statements; as the liabilities will be paid out of future resources the amounts are not shown on the government fund financial statements. Total pension and net OPEB liabilities as of June 30:</p>		
Net OPEB liability	(1,705,000)	
Net pension liability	(17,530,076)	(15,944,406)
Net position	\$ (2,319,723)	\$ (923,562)

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Fund
For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	General Fund	
	2018	2017
Revenues		
Property taxes	\$ 11,588,385	\$ 11,049,953
Other taxes	131,015	131,104
Use of money and property	55,353	26,962
Aid From other government agencies	481,540	398,706
Other revenue	38,900	11,141
Current services	343,470	280,639
Total revenues	12,638,663	11,898,505
Expenditures		
Current:		
Salaries and employee benefits	9,099,391	9,516,678
Services and supplies	1,266,837	1,032,063
Other charges	47,833	13,807
Capital outlay	651,855	76,967
Total expenditures	11,065,916	10,639,515
Excess (deficiency) of revenues over expenditures	1,572,747	1,258,990
Other financing sources (uses)		
Proceeds from sale of capital assets	2,000	5,461
Change in fund balance	1,574,747	1,264,451
Beginning fund balance	5,872,586	4,608,135
Ending fund balance	\$ 7,447,333	\$ 5,872,586

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

	2018	2017
Net Change in Fund Balances - Total Governmental Funds	\$ 1,574,747	\$ 1,264,451

Amounts reported for governmental activities in the Statement of Activities are different as follows:

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.

Current Year Capital Outlays	113,875	76,967
Less: Current Year Depreciation Expense	(290,361)	(297,011)

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.

	58,890	(11,876)
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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.

	(1,273,130)	1,479,675
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In the government funds, OPEB expense is measured by the amount of financial resources used which are the amounts actually paid to the plan. In the government-wide Statement of Activities OPEB expense is recognized as calculated under the guidance of GASB 75. This is the difference between the two amounts.

	(7,000)	-
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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.

	(27,182)	(3,606)
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Change in Net Position of Governmental Activities

	\$ 149,839	\$ 2,508,600
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APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

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, 2018:

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

The other officials of the Aptos/La Selva Fire Protection District at June 30, 2018 were:

Aaron Lowe, Fire Chief
Tracy New, Director of Business Services

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

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 2018, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The objective of this statement is to address reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The District restated its beginning net position as part of implementation of this statement.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. New Accounting Guidance, Continued

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement did not apply to the District for the current fiscal year.

GASB Statement No. 85, *Omnibus 2017* – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). There was no effect on net position as a result of implementation of this statement.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* – The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement did not apply to the District for the current fiscal year.

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, 2018

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, 2017 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, 2018

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, 2018

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, 2018, the liability for compensated absences was \$671,283. 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, 2018

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, 2018

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.

S. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

3. POOLED CASH AND INVESTMENTS

The District maintains cash and investments as summarized below:

	Total
Petty cash	\$ 200
County of Santa Cruz Investment Pool	7,139,015
Total cash and investments	\$ 7,139,215

A. Investment with Santa Cruz County Investment Pool

\$7,139,015 at June 30, 2018 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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

3. POOLED CASH AND INVESTMENTS, Continued

B. Interest Rate Risk, Continued

At June 30, 2018, 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	\$ 7,139,215	\$ 7,139,215	\$ -	\$ -	\$ -	\$ -
Total	\$ 7,139,215	\$ 7,139,215	\$ -	\$ -	\$ -	\$ -

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, 2018.

4. CAPITAL ASSETS

Capital assets at June 30, 2018, consisted of the following:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets not being depreciated:				
Land	\$ 45,953	\$ -	\$ -	\$ 45,953
Total capital assets not being depreciated	45,953	-	-	45,953
Capital Assets being depreciated:				
Equipment	3,975,996	81,873	(192,417)	3,865,452
Structures and improvements	4,476,280	32,002	(23,891)	4,484,391
Total capital assets being depreciated	8,452,276	113,875	(216,308)	8,349,843
Less accumulated depreciation	(3,408,729)	(290,361)	189,126	(3,509,964)
Total capital assets, being depreciated, net	5,043,547	(176,486)	(27,182)	4,839,879
Total capital assets, net	\$ 5,089,500	\$ (176,486)	(27,182)	\$ 4,885,832

As of June 30, 2018 equipment consisted of the following:

Automotive	\$ 327,847
Rescue and firefighting	3,159,803
Firehouse	269,228
Communication	80,450
Office	28,124
Total	\$ 3,865,452

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

5. COMPENSATED ABSENCES

A summary of long-term debt transactions of Aptos/La Selva Fire Protection District for the year ended June 30, 2018 follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Accumulated Unpaid Compensated Absences				
Current	\$ 73,017	\$ 67,128	\$ (73,017)	\$ 67,128
Long Term	657,156	243,964	(296,965)	604,155
Accumulated Unpaid Compensated Absences	<u>\$ 730,173</u>	<u>\$ 311,092</u>	<u>\$ (369,982)</u>	<u>\$ 671,283</u>

6. 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, 2018

6. DEFINED BENEFIT PENSION PLAN, Continued

B. Benefits Provided, Continued

The rate plan provisions and benefits in effect at June 30, 2018 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	12.698%	6.533%
Required UAL payment	\$ 21,018	\$ 50
	<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	17.875%	11.990%
Required UAL payment	\$ 641,160	\$ 52

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, 2017 were \$2,164,224.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

6. DEFINED BENEFIT PENSION PLAN, Continued

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

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$17,530,076.

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, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2016 rolled forward to June 30, 2017 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, 2016 and 2017 were as follows:

Proportion - June 30, 2016	0.18426%
Proportion - June 30, 2017	0.17676%
Change - Increase (Decrease)	-0.00750%

For the year ended June 30, 2018, the District recognized pension expense of \$2,697,813 in the government wide statement of activities. At June 30, 2018, 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	\$ 1,424,686	\$ -
Changes of assumptions	2,908,872	223,130
Differences between expected and actual experience	182,545	-
Changes in employer's proportion	-	304,047
Differences between the employer's contribution and the employer's proportionate share of contributions	527,464	-
Net differences between projected and actual earnings on plan investments	635,054	49,973
Total	\$ 5,678,621	\$ 577,150

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

6. DEFINED BENEFIT PENSION PLAN, Continued

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

The \$1,424,686 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, 2019. 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:		
2019	\$	841,327
2020		1,978,360
2021		1,228,883
2022		(371,784)
Thereafter		-

Actuarial assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return ⁽¹⁾	7.15%
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, 2016 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, 2018

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 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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, 2018

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	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100%		

(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	6.15%
Net Pension Liability	\$ 27,139,061
Current Discount Rate	7.15%
Net Pension Liability	\$ 17,530,076
1% Increase	8.15%
Net Pension Liability	\$ 9,671,690

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

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, 2018 the District reported a payable of \$0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

7. 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, 2018

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, 2018

7. RISK MANAGEMENT, Continued

C. Excess Workers' Compensation

Insurance coverage at June 30, 2018 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, 2018

8. 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.

9. 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.

A. Plan Description

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).

B. Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB plan:

Active employees	37
Inactive employees currently receiving benefits	<u>26</u>
Total	63

C. Contributions

The District primarily finances the plan on a pay-as-you-go basis. The annual contribution is based on the actuarially determined contribution. For the measurement period ended June 30, 2017, the District contributed \$160,000.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

9. OTHER POST EMPLOYMENT BENEFITS, Continued

D. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 that, was based on the following actuarial methods and assumptions:

Actuarial Assumption	
Contribution Policy	District contributes full actuarially determined contribution (ADC)
Discount Rate and Long Term Expected Rate of Return on Assets	6.75% at June 30, 2017 and 2016 Expected District contributions projected to keep sufficient plan assets to pay all benefits from trust.
General Inflation	2.75%
Mortality, Retirement, Disability, Termination	CalPERS 1997-2011 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-2017
Salary Increases	Aggregate - 3% Merit - CalPERS 1997-2011 Experience Study
Healthcare Trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years
Medical Participation at Retirement	Receiving additional benefit Pre-65: 90% Post 65: 75% 60% of employees receiving PEMHCA minimum only

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

9. OTHER POST EMPLOYMENT BENEFITS, Continued

D. Net OPEB Liability, Continued

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation* CERBT-Strategy 1	Expected Real Rate of Return
Global Equity	57.00%	4.82%
Fixed Income	27.00%	1.47%
TIPS	5.00%	1.29%
Commodities	3.00%	0.84%
REITs	8.00%	3.76%
Assumed Long-Term Rate of Inflation		2.75%
Expected Long-Term Net Rate of Return, Rounded		6.75%

* Policy target effective October 13, 2014

E. Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

9. OTHER POST EMPLOYMENT BENEFITS, Continued

F. Changes in the OPEB Liability

The changes in the net OPEB liability for the OPEB Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 (Measurement Date June 30, 2016)	\$ 2,345,000	\$ 639,000	\$ 1,706,000
Changes recognized for the measurement period:			
Service cost	66,000	-	66,000
Interest	157,000	-	157,000
Difference between expected and actual experience	-	-	-
Changes in Assumption	-	-	-
Contributions - employer	-	160,000	(160,000)
Net investment income	-	67,000	(67,000)
Benefit payment	(157,000)	(157,000)	-
Administrative expenses	-	(3,000)	3,000
Net Changes	66,000	67,000	(1,000)
Balance at June 30, 2018 (Measurement Date June 30, 2017)	\$ 2,411,000	\$ 706,000	\$ 1,705,000

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

9. OTHER POST EMPLOYMENT BENEFITS, Continued

G. Sensitivity of the Net OPEB Liability to Changes in Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net OPEB liability	\$ 1,949,000	\$ 1,705,000	\$ 1,500,000

H. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (6.5% - 3.0%)	Current Healthcare Trend Rate (7.5% - 4.0%)	1% Increase (8.5% - 5.0%)
Net OPEB liability	\$ 1,500,000	\$ 1,705,000	\$ 1,954,000

I. Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments.	5 Years
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APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

9. OTHER POST EMPLOYMENT BENEFITS, Continued

J. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$178,000. For the fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	19,000
Employer contributions made subsequent to the measurement date	171,000	-
Total	\$ 171,000	\$ 19,000

The \$171,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year Ending June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (5)
2020	(5)
2021	(5)
2022	(4)
2023	-
Thereafter	-

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

10. PRIOR PERIOD ADJUSTMENTS

The District recorded a prior period adjustment to recognize deferred outflows of resources and net OPEB liability as of June 30, 2017.

	Prior Period Adjustment			
Net Position as Previously Reported	Deferred Outflows of Resources	Net OPEB Liability	Net Position as Restated	
Government-Wide Statements	\$ (923,562)	\$ 160,000	\$ (1,706,000)	\$ (2,469,562)

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Revenues - Budget and Actual - General Fund
 For the Year Ended June 30, 2018

	2018 Final budget	2018 Amended final budget	2018 Actual	Variance favorable (unfavorable)
Revenues				
Property taxes				
Current secured	\$ 11,198,872	\$ 11,198,872	\$ 11,141,895	\$ (56,977)
Current unsecured - general	219,748	219,748	217,972	(1,776)
Prior unsecured - general	21,508	21,508	12,562	(8,946)
Penalties for delinquent taxes	-	-	1,175	1,175
Redemption penalties for delinquent taxes	-	-	2,313	2,313
Supplemental - current secured	158,436	158,436	196,978	38,542
Supplemental - current unsecured	-	-	3,663	3,663
Supplemental - prior	-	-	11,827	11,827
Total property taxes	<u>11,598,564</u>	<u>11,598,564</u>	<u>11,588,385</u>	<u>(10,179)</u>
Other taxes				
Fire protection tax	131,104	131,104	131,015	(89)
In-lieu taxes other	-	-	-	-
Total other taxes	<u>131,104</u>	<u>131,104</u>	<u>131,015</u>	<u>(89)</u>
Use of money and property				
Interest	10,524	10,524	55,353	44,829
Aid from other government agencies				
Homeowner's property tax relief	71,780	71,780	70,029	(1,751)
State - other	-	-	411,511	411,511
Other governmental agencies	-	-	-	-
Total aid from other government agencies	<u>71,780</u>	<u>71,780</u>	<u>481,540</u>	<u>409,760</u>
Other revenue				
Contributions and donations	-	-	-	-
Other revenue	-	-	38,900	38,900
Total other revenue	<u>-</u>	<u>-</u>	<u>38,900</u>	<u>38,900</u>
Current services				
Emergency response recovery	221,162	221,162	239,728	18,566
Medical charges - employee	18,206	18,206	10,910	(7,296)
Other charges current services	43,081	43,081	92,832	49,751
Weeds/lot clearing	-	-	-	-
Total current services	<u>282,449</u>	<u>282,449</u>	<u>343,470</u>	<u>61,021</u>
Other financing sources and uses				
Proceeds from the sale of fixed assets	-	-	2,000	2,000
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Total Revenue	<u>12,094,421</u>	<u>12,094,421</u>	<u>12,640,663</u>	<u>546,242</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2018

	2018 Final budget	2018 Amended final budget	2018 Actual	Variance favorable (unfavorable)
Expenditures				
Salaries and employee benefits				
Regular pay - permanent	4,678,405	4,678,405	4,821,078	\$ (142,673)
Overtime pay - permanent	894,277	894,277	660,749	233,528
Regular pay - call back	20,000	20,000	256,405	(236,405)
Regular pay - holiday	354,734	354,734	334,961	19,773
Regular pay - differential	10,000	10,000	14,532	(4,532)
OASDI	103,166	103,166	88,960	14,206
Retirement (PERS)	1,495,833	1,495,833	1,445,115	50,718
Employee group insurance	919,750	919,750	919,760	(10)
Workers' compensation insurance	470,676	470,676	461,322	9,354
Sick leave reserve	231,954	231,954	94,009	137,945
Other benefits misc.	-	-	2,500	(2,500)
Total salaries and employee Benefits	9,178,795	9,178,795	9,099,391	79,404
Services and supplies				
Clothing and personal supplies	93,800	93,800	86,765	7,035
Radio	-	-	-	-
Telephone and telegraph	25,000	25,000	23,456	1,544
Food	10,280	10,280	11,964	(1,684)
Inventoriable items	221,373	284,073	123,384	160,689
Other household expense	11,012	11,012	10,075	937
Other insurance	41,000	41,000	34,390	6,610
Maintenance - building	-	-	-	-
Maintenance - mobile equipment	85,000	85,000	53,536	31,464
Maintenance - office equipment	831	831	308	523
Maintenance - other equipment services	41,150	41,150	21,276	19,874
Maintenance - other equipment supplies	-	-	204	(204)
Facilities Maintenance - supplies	-	-	-	-
Maintenance - Radio	7,000	14,000	-	14,000
Maintenance - Grds other svc	17,600	17,600	20,607	(3,007)
Maintenance - structures and improvements supplies	-	-	-	-
Medical, dental and lab supplies	11,000	11,000	3,686	7,314
Employee certificates and licenses	5,500	5,500	3,889	1,611
Memberships	12,828	12,828	13,890	(1,062)
Miscellaneous expense	-	-	-	-
PC software purchases	13,685	13,685	11,183	2,502
Postage	4,050	4,050	835	3,215
Supplies	63,110	63,110	47,260	15,850
Inventoriable items < \$5,000	-	-	-	-
Accounting and auditing	148,900	148,900	123,297	25,603
Directors' fees	10,570	10,570	12,382	(1,812)

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2018

	2018 Final budget	2018 Amended final budget	2018 Actual	Variance favorable (unfavorable)
Expenditures (continued)				
Services and supplies (continued)				
911 dispatch services	\$ 94,394	\$ 94,394	\$ 83,777	\$ 10,617
Legal services	75,000	75,000	103,636	(28,636)
Medical services	-	-	-	-
Medical services - other	19,362	19,362	19,989	(627)
Personnel services	-	-	135,561	(135,561)
Professional and special services	283,167	283,167	188,885	94,282
Legal notices	5,500	5,500	1,697	3,803
Equipment lease and rent	12,200	12,200	20,114	(7,914)
Small tools and instruments	6,850	6,850	1,206	5,644
Education and/or training	76,665	76,665	28,233	48,432
Special district expense	8,900	8,900	41	8,859
Subscriptions books and ed materials	16,360	16,360	6,716	9,644
Education and training	50,190	50,190	472	49,718
Gas, oil, fuel	33,600	33,600	35,979	(2,379)
Travel - other	-	-	7,846	(7,846)
Utilities	25,100	25,100	30,298	(5,198)
Total services and supplies	<u>1,530,977</u>	<u>1,600,677</u>	<u>1,266,837</u>	
Other charges				
Contribution to other agencies	58,600	58,600	47,833	10,767
Total other charges	<u>58,600</u>	<u>58,600</u>	<u>47,833</u>	<u>10,767</u>
Capital outlay				
Buildings and improvements	88,000	88,000	32,002	55,998
Equipment/mobile equipment	1,842,545	1,842,545	619,853	1,222,692
Total capital outlay	<u>1,930,545</u>	<u>1,930,545</u>	<u>651,855</u>	<u>1,278,690</u>
Appropriations for contingencies	<u>100,000</u>	<u>30,300</u>	<u>-</u>	<u>30,300</u>
Total expenditures general fund	<u>12,798,917</u>	<u>12,798,917</u>	<u>11,065,916</u>	<u>1,399,161</u>
Net change in fund balance	<u>\$ (704,496)</u>	<u>\$ (704,496)</u>	<u>1,574,747</u>	<u>\$ 2,279,243</u>
Fund Balance:				
Beginning of year			<u>5,872,586</u>	
End of year			<u>\$ 7,447,333</u>	

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability and Related Ratios
June 30, 2018
Last 10 Years*

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

	June 30, 2018 <u>6/30/2017</u>	June 30, 2017 <u>6/30/2016</u>	June 30, 2016 <u>6/30/2015</u>	June 30, 2015 <u>6/30/2014</u>
Measurement date				
Proportion of the net pension liability	0.17676%	0.18426%	0.18718%	0.25624%
Proportionate share of the net pension liability	\$ 17,530,076	\$ 15,944,406	\$ 12,848,067	\$ 15,944,406
Covered payroll	\$ 5,208,644	\$ 4,188,126	\$ 4,667,442	\$ 4,531,497
Proportionate share of the net pension liability as a percentage of covered payroll	336.56%	380.71%	275.27%	351.86%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

Notes to schedule

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

Changes in assumptions

There was a change in discount rate for the measurement period ended June 30, 2017 to 7.15% from 7.65%

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Schedule of Contributions
June 30, 2018
Last 10 Years*

Schedule of Contributions

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 1,424,686	\$ 2,164,221	\$ 2,080,361	\$ 1,785,932
Contributions in relation to the actuarially determined contributions	<u>(1,424,686)</u>	<u>(2,164,221)</u>	<u>(2,080,361)</u>	<u>(1,785,932)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,880,300	\$ 5,208,644	\$ 4,219,669	\$ 4,667,442
Contributions as a percentage of covered payroll	29.19%	41.55%	49.30%	38.26%

Notes to Schedule

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2018

Schedule of Changes in the Net OPEB Liability and Related Ratios

Fiscal Year:	2017/18
Measurement period	FY 2016/17
Total OPEB Liability	
Service cost	\$ 66,000
Interest	157,000
Benefit payments	(157,000)
Net changes	66,000
Total OPEB liability - beginning of year	2,345,000
Total OPEB liability - end of year	\$ 2,411,000
 Changes in Plan Fiduciary Net Position	
Contributions - employer	\$ 160,000
Contributions - employee	-
Net investment income	67,000
Benefit payments	(157,000)
Administrative expenses	(3,000)
Other changes	-
Net changes	67,000
Plan fiduciary net position - beginning of year	639,000
Plan fiduciary net position - end of year	\$ 706,000
 Net OPEB liability/(Asset)	 \$ 1,705,000
Fiduciary net position as a percentage of the total OPEB liability	29.3%
Covered employee payroll	\$ 5,752,000
Net OPEB liability as a percentage of covered employee payroll	29.6%

* Fiscal year 2017-2018 was the 1st year of implementation; therefore only one year is shown. Additional years will be presented as they become available.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Schedule of Employer Contributions
 June 30, 2018
 Last 10 Years*

Schedule of Employer Contributions - Last 10 Fiscal Years

Fiscal Year:	<u>2017/18</u>
Actuarially Determined Contributions (ADC)	\$ 199,000
Contributions in relation to the actuarially determined contribution**	<u>171,000</u>
Contribution deficiency/(excess)	<u>\$ 28,000</u>
Covered employee payroll**	6,088,000
Contributions as a percentage of covered employee payroll	2.8%

* Fiscal year 2017-2018 was the 1st year of implementation; therefore only one year is shown. Additional years will be presented as they become available.

** Actual 2017/18 contribution

*** For the 12 month period ending June 30, 2018 (fiscal year-end).

OTHER SUPPLEMENTARY INFORMATION

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Organization Structure
June 30, 2018

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, 2018:

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

The other officials of the Aptos/La Selva Fire Protection District at June 30, 2018 were:

Aaron Lowe, 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.