

Aptos/La Selva Fire Protection District

Basic Financial Statements and Independent Auditors'
Report

For the Year Ended June 30, 2016

Aptos/La Selva Fire Protection District

Table of Contents

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet.....	9
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Position.....	12
Notes to Basic Financial Statements.....	13
Required Supplementary Information:	
Budgetary Comparison Schedules -	
Revenues – Budget to Actual – General Fund.....	35
Expenditures – Budget to Actual – General Fund.....	36
GASB 68 Pension RSI –	
Schedule of Proportionate Share of Net Pension Liability and Related Ratios	38
Schedule of Contributions	39
OPEB RSI–	
Schedule of Funding Progress	40
Other Supplementary Information:	
Organization Structure	42



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, 2016, 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, 2016, 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
Page 2

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.

Prior Year Information

The prior year comparative information has been derived from the District’s 2015 financial statements. The prior year financial statements of the District as of June 30, 2015, were audited by other auditors whose report dated June 22, 2016, expressed an unmodified opinion on those statements.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note 9 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the District other than with respect to the adjustments, and accordingly we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.



Badawi & Associates, CPAs
Oakland, California
June 5, 2017

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2016

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, 2016.

Description of the Basic Financial Statements

The financial statements consist of the following parts: Management's discussion and analysis; the basic financial statements, government-wide 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 (GASB 45 Trust Fund Schedule and 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 GASB 45 trust fund schedules are prepared on the accrual basis of accounting and economic resources focus. The required financial statements are: Statement of Plan Assets and Statement of Changes in Plan Net Assets. The Statement of Plan Assets shows all current assets of the Plan. The Statement of Changes in Plan Net Assets reports all revenue and expenses during the year and the change in the Plan Net Assets.

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, 2016

Condensed government-wide financial data

	<u>2016</u>	<u>2015 (as restated)</u>
Current assets	\$ 4,861,810	\$ 3,824,662
Deferred outflow of resources	2,454,032	2,174,691
Station and equipment, net of accumulated depreciation	<u>5,313,150</u>	<u>5,480,129</u>
Total assets and deferred outflows of resources	<u>\$ 12,628,992</u>	<u>\$ 11,479,482</u>
Current liabilities	\$ 325,174	\$ 305,689
Non current liabilities	13,494,868	13,928,713
Deferred inflow of resources	<u>2,241,112</u>	<u>3,091,413</u>
Total liabilities and deferred inflows of resources	<u>16,061,154</u>	<u>17,325,815</u>
Net position		
Net investment in capital assets	5,313,150	5,480,129
Unrestricted	<u>(8,745,312)</u>	<u>(11,326,462)</u>
Total net position	<u>(3,432,162)</u>	<u>(5,846,333)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,628,992</u>	<u>\$ 11,479,482</u>
	<u>2016</u>	<u>2015</u>
Expenditures, net of program revenue	<u>\$ 8,271,483</u>	<u>\$ 8,329,044</u>
General revenues		
Property tax	10,335,101	9,643,827
Other taxes - fire protection tax	131,372	131,706
Use of money and property (interest income)	18,231	8,844
Aid from other government agencies	71,954	72,155
Other revenue	<u>128,996</u>	<u>142,153</u>
Change in net position	<u>\$ 2,414,171</u>	<u>\$ 1,669,641</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2016

Financial Analysis of the District as a Whole

Net Position. The District's net position increased by \$2,414,171 for the fiscal year ended June 30, 2016, or approximately 41 percent, to a total of (\$3,432,162). Of the (\$3,432,162) in net position, \$5,313,150 is invested in capital assets.

Financial Analysis of the District's General Fund

General fund balance increased by \$1,006,412. The reasons for the difference between the \$2,414,171 change in net position and the \$1,006,412 change in fund balance are due to an increase in revenue 5% above the amount budgeted, expenditures that were not necessary, and delays in large equipment purchases including:

- \$300,000 Self Contained Breathing Apparatus
- \$75,000 Hurst extrication tools for engines
- \$130,000 budgeted for anticipated retiree payouts of uncompensated absences
- \$200,000 training expenses (overtime, registration, travel and materials)

Budgetary Highlights

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

Capital Assets

As of June 30, 2016, the District had invested \$8,455,750 in a broad range of capital assets including land, structures and improvements, and equipment.

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

S-1 Training Structure	\$ 90,005
------------------------	-----------

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Management's Discussion and Analysis
June 30, 2016

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 5.5% for the fiscal year ending June 30, 2017 compared to 2016 actual.

The budget for 2016-2017 expenditures, as amended, totals \$12,809,405 Significant budget increases

- Overtime: \$400,000 largest contributor in training
- Employee Insurance & Benefits: \$375,000 to reduce OPEB liability
- Workers Compensation Insurance: 20% increase due to large (recent) claim, this is expected to increased by 30% in FY 17/18
- 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, 2016 (With Comparative Totals for 2015)

	2016	2015 (as restated)
<u>ASSETS</u>		
Current assets:		
Cash in county treasury	4,693,647	\$ 3,739,089
Accounts receivable	93,309	53,037
Prepaid expenses	74,854	32,536
Total current assets	4,861,810	3,824,662
Noncurrent assets:		
Capital assets:		
Non-depreciable - Land	45,953	45,953
Depreciable - Structures and improvements	4,476,280	4,458,240
Depreciable - Equipment	3,933,517	3,827,588
Total depreciable	8,409,797	8,285,828
Less accumulated depreciation	(3,142,600)	(2,851,652)
Total capital assets, net	5,313,150	5,480,129
Total assets	10,174,960	9,304,791
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflow of resources		
Contributions to CalPERS pension plan in current fiscal year	2,080,361	1,785,932
Deferred outflows - pension actuarial	373,671	388,759
Total deferred outflow of resources	2,454,032	2,174,691
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	15,262	\$ 13,602
Accrued salaries and benefits	238,413	209,337
Accrued compensated absences	71,499	82,750
Total current liabilities	325,174	305,689
Noncurrent liabilities		
Accrued compensated absences	646,798	588,533
Net pension liability	12,848,070	13,340,180
Total noncurrent liabilities	13,494,868	13,928,713
Total liabilities	13,820,042	14,234,402
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflow of resources		
Deferred inflows - pension actuarial	2,241,112	3,091,413
Total deferred inflow of resources	2,241,112	3,091,413
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	5,313,150	5,480,129
Unrestricted net position	(8,745,312)	(11,326,462)
Total net position	(3,432,162)	(5,846,333)

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, 2016 (With Comparative Totals for 2015)

	Program Revenues			
Expenditures	Charges for services and grants	2016 Total	2015 Total (as restated)	
Expenditures				
Fire protection				
Salaries and benefits	\$ 7,604,883	\$ 224,507	\$ 7,380,376	\$ 7,254,639
Services and supplies	833,831	248,754	585,077	757,317
Contributions to other agencies	12,274	-	12,274	13,096
Depreciation	293,756	-	293,756	303,992
	8,744,744	473,261	8,271,483	8,329,044
Total governmental activities				
General revenues				
Property tax			10,335,101	9,643,827
Other taxes - fire protection tax			131,372	131,706
Use of money and property			18,231	8,844
Aid From other government				
Government agencies				
State homeowners' property tax relief			71,954	72,155
Other revenue			129,228	142,130
Contribution from other agency			20	23
Gain (loss) on disposal of capital assets			(252)	-
			10,685,654	9,998,685
Total general revenues				
Change in net position			2,414,171	1,669,641
Net position				
Beginning of the year, as restated			(5,846,333)	(7,515,974)
End of the year			\$ (3,432,162)	\$ (5,846,333)

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Balance Sheet - Governmental Fund
 June 30, 2016 (With Comparative Totals for 2015)

ASSETS

	General Fund	
	2016	2015
Assets		
Cash - cash in county treasury	4,693,647	\$ 3,739,089
Accounts receivable	93,309	53,037
Prepaid expenses	74,854	32,536
Total assets	\$ 4,861,810	\$ 3,824,662

LIABILITIES AND FUND BALANCE

Liabilities		
Accrued payroll	15,262	\$ 209,337
Accounts payable	238,413	13,602
Total liabilities	253,675	222,939
Fund balance		
Nonspendable	75,054	32,736
Unassigned	4,533,081	3,568,987
Total fund balance	4,608,135	3,601,723
Total liabilities and fund balance	\$ 4,861,810	\$ 3,824,662

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, 2016 (With Comparative Totals for 2015)

	2016	2015 (as restated)
Total fund balances - governmental funds	\$ 4,608,135	\$ 3,601,723
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	8,455,750	8,331,781
Less accumulated depreciation	(3,142,600)	(2,851,652)
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, 2016 the amount includes the cash payments to the PERS pension plan during fiscal year ended June 30, 2016 of \$2,080,361 plus miscellaneous actuarial adjustments of \$373,671.		
	2,454,032	2,174,691
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.		
	(718,297)	(671,283)
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:		
	(2,241,112)	(3,091,413)
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>(12,848,070)</u>	<u>(13,340,180)</u>
Net position	<u>\$ (3,432,162)</u>	<u>\$ (5,846,333)</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, 2016 (With Comparative Totals for 2015)

	General Fund	
	2016	2015
Revenues		
Property taxes	\$ 10,335,101	\$ 9,643,827
Other taxes	131,372	131,706
Use of money and property	18,231	8,844
Aid From other government agencies	306,324	194,154
Other revenue	129,248	142,130
Current services	238,891	286,350
Total revenues	11,159,167	10,407,011
Expenditures		
Salaries and employee benefits	9,179,621	8,665,791
Services and supplies	835,691	802,848
Other charges	12,274	13,096
Fixed assets	125,169	52,971
Appropriations for contingencies	-	-
Total expenditures	10,152,755	9,534,706
Change in fund balance	1,006,412	872,305
Beginning fund balance	3,601,723	2,729,418
Ending fund balance	\$ 4,608,135	\$ 3,601,723

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

	2016	2015 (as restated)
Net Change in Fund Balances - Total Governmental Funds	\$ 1,006,412	\$ 872,305
<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	127,029	52,971
Less: Current Year Depreciation Expense	(293,756)	(303,992)
<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>		
	(47,014)	61,027
<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>		
	1,621,752	987,330
<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>		
	(252)	-
Change in Net Position of Governmental Activities	\$ 2,414,171	\$ 1,669,641

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

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. Budgetary procedure

The annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. These budgets are revised by the District's governing board and district administrator during the fiscal year to give consideration to unanticipated income and expenditures.

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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. New Accounting Guidance

In 2016, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 72, *Fair Value Measurement and Application*— This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no impact on beginning net position as part of implementation of this accounting standard.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*— The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments 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 with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no impact on beginning net position as part of implementation of this accounting standard.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*— The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact on beginning net position as part of implementation of this accounting standard.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. New Accounting Guidance, Continued

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. There was no impact on beginning net position as part of implementation of this accounting standard.

C. Basis of Accounting and Measurement Focus

The accounts of the District are organized on the basis of funds, 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, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. 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 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, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Financial Statement Presentation, Continued

Governmental fund financial statements, 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, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. 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.

F. Cash in county treasury

Pooled cash and investment accounts, which essentially operate as demand deposit accounts, are maintained by the Santa Cruz County Treasury Office. Available cash balances are controlled and invested by the County Treasurer in pooled investment funds in order to provide safety, liquidity and high investment returns for all funds. Interest earnings from these funds are generally credited to the District's account on a monthly basis.

The Santa Cruz County Treasurer's investment policy is in compliance with Section 53601 of the Government Code of the State of California, which permits investments in certain securities and participation in certain investment trading techniques or strategies.

G. 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.

H. 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.

I. 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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Liability for compensated absences

The District is required to recognize a liability for employees' rights to receive compensation for future absences. On June 30, 2016, the liability for compensated absences was \$608,897. 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.

K. Non-current Liabilities

In the government-wide financial statements non-current liabilities are reported as a liability in the Statement of Net Position.

L. Capital assets

Capital assets, which include land, buildings, improvements, and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. 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 statement of activities. 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	50 years
Equipment	5 - 20 years

M. 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. The District currently has two items which qualify for reporting as deferred outflows of resources; both are related to GASB 68 Pension accounting and are reported on the government-wide financial statement. See note 6 for more information.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. 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.

O. 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. CASH IN COUNTY TREASURY

The District maintains cash as summarized below:

Imprest Cash	\$ 200
Equity in County Pool	4,693,447
Total cash and investments	<u>\$ 4,693,647</u>

A. Investment with Santa Cruz County Investment Pool

\$4,693,447 at June 30, 2016 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. Investments' fair value measurements at June 30, 2016 are described below:

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

3. POOLED CASH AND INVESTMENTS, Continued

A. Investment with Santa Cruz County Investment Pool, Continued

Investment Type	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Santa Cruz County Investment Pool	\$ 4,693,447	\$ -	\$ 4,693,447	\$ -
Total	\$ 4,693,447	\$ -	\$ 4,693,447	\$ -

The County pool includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The District categorized its investments in the pool based on the lowest significant input used to determine the fair market value of the total pool.

B. Concentration of Credit Risk

At June 30, 2016, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds or medium-term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

The following schedule is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2016.

Investment Type	Standard & Poor's	Moody's	% of Portfolio
U.S Treasury Securities	AA+	Aaa	31.31%
Federal Agency Securities	AA+	Aaa	38.19%
Supranational	AAA	Aaa	4.11%
Medium Term Notes	AA/AAA	Aaa/Aa1-Aa3	7.13%
Money Market Mutual Funds	Unrated	Unrated	1.37%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	5.21%
Certificates of Deposit	A1+	P1	9.58%
Checking Account	Unrated	Unrated	1.46%
Investment Agreements	Unrated	Unrated	1.64%
Total			100.00%

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

4. CAPITAL ASSETS

Capital assets at June 30, 2016, consisted of the following:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
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	3,827,588	108,989	(3,060)	3,933,517
Structures and improvements	4,458,240	18,040	-	4,476,280
Total capital assets being depreciated	8,285,828	127,029	(3,060)	8,409,797
Less accumulated depreciation	(2,851,652)	(293,756)	2,808	(3,142,600)
Total capital assets, being depreciated, net	5,434,176	(166,727)	(252)	5,267,197
Total capital assets, net	\$ 5,480,129	\$ (166,727)	(252)	\$ 5,313,150

As of June 30, 2016 equipment consisted of the following:

Automotive	\$ 359,023
Rescue and firefighting	3,208,569
Firehouse	269,052
Communication	64,583
Office	32,290
Total	\$ 3,933,517

5. NON CURRENT LIABILITIES

A summary of changes in non-current liabilities of Aptos/La Selva Fire Protection District for the year ended June 30, 2016 follows:

	Balance June 30, 2015	Additions	Deletion	Balance June 30, 2016
Accumulated Unpaid				
Compensated Absences				
Due in one year	\$ 82,750	\$ 71,499	\$ (82,750)	\$ 71,499
Due in more than one year	588,533	109,400	(51,135)	646,798
Accumulated Unpaid				
Compensated Absences	\$ 671,283	\$ 180,899	\$ (133,885)	\$ 718,297

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

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.

The rate plan provisions and benefits in effect at June 30, 2016 are summarized as follows:

Hire Date	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	11.718%	6.250%
Required UAL payment	\$54,741	\$0.00

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

6. DEFINED BENEFIT PENSION PLAN, Continued

B. Benefits Provided, Continued

Hire Date	Prior to 1/1/2013	On or after 1/1/2013
	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>
Benefit formula	3% @ 55	2.7% @ 57
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%	3%
Required employee contribution rates	9.000%	11.500%
Required employer contribution rates	16.523%	11.500%
Required UAL payment	\$1,262,917	\$0.00

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 year ended June 30, 2015 was \$1,785,932.

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

As of June 30, 2016, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$12,848,070

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, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2014 rolled forward to June 30, 2015 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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

6. DEFINED BENEFIT PENSION PLAN, Continued

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

The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 were as follows:

Proportion - June 30, 2014	0.21439%
Proportion - June 30, 2015	0.18718%
Change - Increase (Decrease)	-0.02720%

For the year ended June 30, 2016, the District recognized pension expense of \$427,935 in the government wide statement of activities. At June 30, 2016, 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	\$ 2,080,361	\$ -
Changes of assumptions	-	1,039,048
Differences between expected and actual experience	-	208,593
Changes in employer's proportion	3,507	467,169
Differences between the employer's contribution and the employer's proportionate share of contributions	370,164	-
Net differences between projected and actual earnings on plan investments	-	526,302
Total	\$ 2,454,032	\$ 2,241,112

The \$2,080,361 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:	
2017	\$ (820,948)
2018	(848,542)
2019	(845,381)
2020	647,430

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

6. DEFINED BENEFIT PENSION PLAN, Continued

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

Actuarial assumptions

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
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⁾	7.65%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 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.

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.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

6. DEFINED BENEFIT PENSION PLAN, Continued

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

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.

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	19.00%	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	2.00%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

6. DEFINED BENEFIT PENSION PLAN, Continued

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

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	\$	20,992,420
Current Discount Rate		7.65%
Net Pension Liability	\$	12,848,070
1% Increase		8.65%
Net Pension Liability	\$	6,168,307

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

There is no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

7. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, 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

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’

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

7. OTHER POST EMPLOYMENT BENEFITS, Continued

Medical and Hospital Care Act (PEMHCA). For all qualified retirees that opt into the District health plan CalPERS requires the employer pay \$125 per month (mandatory employer contribution, amount may change from year to year).

B. Funding Policy

For the Defined Contribution portion of the Plan, the District and employees contribute small amount per month while employed (\$5 per employer & \$5 per employee if hired prior to 3/31/2005, \$17.50 per employer and \$8.75 per employee if hired after 4/1/2005). Once participants retired, the District makes monthly contribution of \$350 into participants' Retirement Health Savings (RHS) accounts until they reach the age of 65 or death if hired prior to 3/31/2005. Retirees hired after 4/1/2005 will not receive any monthly contributions from the District.

C. 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.

D. 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.

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:

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

7. OTHER POSTEMPLOYMENT BENEFITS, Continued

Annual required contribution	\$ 79,114
Interest on net OPEB obligation	-
Adjustment to net OPEB obligation	-
Annual OPEB cost	79,114
Contribution made	(79,114)
Increase (decrease) in net OPEB obligation	-
Net OPEB obligation - beginning of the year	-
Net OPEB obligation - end of the year	\$ -

E. Funded Status of Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
7/1/2015	\$ 627,166	\$ 1,432,092	\$ 804,926	43.79%	\$ 2,430,416	33.12%

F. Schedules of Employer Contributions

Fiscal Year	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net OPEB Obligation
6/30/2014	\$ 74,664	\$ 74,664	100%	\$ -
6/30/2015	76,717	76,717	100%	-
6/30/2016	79,114	79,114	100%	-

G. Trust Fund – Other Postemployment Retirement benefits

The District established a California Employers' Retirement Benefit Trust (CERBT) Fund with the California Public Employees Retirement System (CalPERS) in order to prefund the District's OPEB liability. The assets of the Trust are held under a Trust Agreement with CalPERS acting as Trustee. Any contributions to the Plan are deemed Plan assets and can only be used for the benefit of eligible employees. The value of the assets under the Trust at June 30, 2016 was \$637,960.

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2016

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.

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, 2016

8. RISK MANAGEMENT, Continued

C. Excess Workers' Compensation

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

Insurance coverage at June 30, 2016 is as follows:

	<u>Deductible</u>	<u>Amount</u>
Property:		
Property (buildings)	\$ 1,000.00	Guaranteed Repl Cost
Repl cost subject to scheduled limit		
Business personal property (including theft)	\$ 1,000.00	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, 2016

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. PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment to account for a difference between actual pension employer contributions and the District's proportionate share of total employers' aggregate plan contributions related to the 2014 measurement period. The effect of the restatement was to increase the change in net position the year ended June 30, 2015 by \$380,852 as follows:

Net Position, July 1, 2014	\$	(7,515,974)
Changes in the statement of activities as previously reported		1,288,379
Change in Deferred Outflow		<u>380,852</u>
Change in the statement of activities as restated		<u>1,669,231</u>
Net Position, June 30, 2015	\$	<u><u>(5,846,743)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Revenues - Budget and Actual - General Fund
 June 30, 2016

	2016 Final budget	2016 Amended final budget	2016 Actual	Variance favorable (unfavorable)
Revenues				
Property taxes				
Current secured	\$ 9,796,000	\$ 9,796,000	9,910,900	\$ 114,900
Current unsecured - general	192,234	192,234	198,931	6,697
Prior unsecured - general	20,584	20,584	31,359	10,775
Penalties for delinquent taxes	-	-	4,315	4,315
Redemption penalties for delinquent taxes	-	-	7,405	7,405
Supplemental - current secured	76,848	76,848	156,855	80,007
Supplemental - current unsecured	-	-	10,983	10,983
Supplemental - prior	-	-	14,353	14,353
Total property taxes	<u>10,085,666</u>	<u>10,085,666</u>	<u>10,335,101</u>	<u>249,435</u>
Other taxes				
Fire protection tax	131,064	131,064	130,972	(92)
In-lieu taxes other	-	-	400	400
Total other taxes	<u>131,064</u>	<u>131,064</u>	<u>131,372</u>	<u>308</u>
Use of money and property				
Interest	3,182	3,182	18,231	15,049
Aid from other government agencies				
Homeowner's property tax relief	72,155	72,155	71,954	(201)
State - other	20,000	20,000	234,370	214,370
Other governmental agencies	15,000	15,000	-	(15,000)
Total aid from other government agencies	<u>107,155</u>	<u>107,155</u>	<u>306,324</u>	<u>199,169</u>
Other revenue				
Contributions and donations	-	-	20	20
Other revenue	89,221	89,221	129,228	40,007
Total other revenue	<u>89,221</u>	<u>89,221</u>	<u>129,248</u>	<u>40,027</u>
Current services				
Emergency response recovery	229,097	229,097	185,247	(43,850)
Medical charges - employee	5,623	5,623	3,706	(1,917)
Other charges current services	25,111	25,111	39,260	14,149
Weeds/lot clearing	12,500	12,500	10,678	(1,822)
Total current services	<u>272,331</u>	<u>272,331</u>	<u>238,891</u>	<u>(33,440)</u>
Other financing sources and uses				
Proceeds from the sale of fixed assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>10,688,619</u>	<u>10,688,619</u>	<u>11,159,167</u>	<u>470,548</u>

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2016

	2016 Final budget	2016 Amended final budget	2016 Actual	Variance favorable (unfavorable)
Expenditures				
Salaries and employee benefits				
Regular pay - permanent	\$ 4,609,595	\$ 4,609,595	4,608,380	\$ 1,215
Overtime pay - permanent	836,372	836,372	549,788	286,584
Regular pay - call back	35,000	35,000	172,253	(137,253)
Regular pay - holiday	338,189	338,189	321,118	17,071
Regular pay - differential	20,000	20,000	11,026	8,974
OASDI	95,856	95,856	76,995	18,861
Retirement (PERS)	2,014,263	2,014,263	2,071,439	(57,176)
Employee group insurance	907,705	907,705	902,975	4,730
Workers' compensation insurance	366,428	366,428	366,428	-
Sick leave reserve	228,995	228,995	96,381	132,614
Other benefits misc.	-	-	2,838	(2,838)
Total salaries and employee Benefits	<u>9,452,403</u>	<u>9,452,403</u>	<u>9,179,621</u>	<u>272,782</u>
Services and supplies				
Clothing and personal supplies	109,000	109,000	78,488	30,512
Radio	76,610	76,610	76,522	88
Telephone and telegraph	21,420	21,420	21,859	(439)
Food	3,150	3,150	4,228	(1,078)
Inventoriable items	36,475	36,475	73,581	(37,106)
Other household expense	20,830	20,830	13,065	7,765
Other insurance	33,600	33,600	32,867	733
Maintenance - mobile equipment	84,400	84,400	65,825	18,575
Maintenance - office equipment	250	250	1,047	(797)
Maintenance - other equipment services	32,550	32,550	14,593	17,957
Maintenance - other equipment supplies	-	-	3,438	(3,438)
Facilities Maintenance - supplies	-	-	8	(8)
Maintenance - Radio	5,000	5,000	-	5,000
Maintenance - Grds other svc	24,900	24,900	34,165	(9,265)
Maintenance - structures and improvements supplies	-	-	1,279	(1,279)
Medical, dental and lab supplies	12,000	12,000	5,957	6,043
Memberships	8,380	8,380	5,604	2,776
Miscellaneous expense	-	-	368	(368)
PC software purchases	13,739	13,739	8,486	5,253
Postage	1,625	1,625	1,900	(275)
Supplies	13,525	13,525	17,454	(3,929)
Accounting and auditing	131,500	131,500	124,484	7,016
Directors' fees	10,570	10,570	11,023	(453)

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule
 Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2016

	2016 Final budget	2016 Amended final budget	2016 Actual	Variance favorable (unfavorable)
Expenditures (continued)				
Services and supplies (continued)				
Legal services	\$ 20,000	\$ 20,000	25,012	\$ (5,012)
Medical services	-	-	2,735	(2,735)
Medical services - other	25,000	25,000	13,672	11,328
Professional and special services	63,200	63,200	33,049	30,151
Legal notices	1,250	1,250	2,470	(1,220)
Equipment lease and rent	54,448	54,448	47,290	7,158
Small tools and instruments	250	250	1,009	(759)
Education and/or training	56,279	56,279	19,265	37,014
Special district expense	67,210	67,210	18,696	48,514
Subscriptions books and ed materials	14,500	14,500	13,133	1,367
Education and training	44,673	44,673	3,406	41,267
Gas, oil, fuel	40,320	40,320	26,974	13,346
Travel - other	850	850	6,062	(5,212)
Utilities	24,300	24,300	26,677	(2,377)
Total services and supplies	1,051,804	1,051,804	835,691	216,113
Other charges				
Contribution to other agencies	13,751	13,751	12,274	1,477
Total other charges	13,751	13,751	12,274	1,477
Fixed assets				
Buildings and improvements	-	-	18,040	(18,040)
Equipment/mobile equipment	453,800	453,800	107,129	346,671
Total fixed assets	453,800	453,800	125,169	328,631
Appropriations for contingencies	100,000	100,000	-	100,000
Total expenditures general fund	11,071,758	11,071,758	10,152,755	919,003
Net change in fund balance	\$ (383,139)	\$ (383,139)	1,006,412	\$ 1,389,551
Fund Balance:				
Beginning of year			3,601,723	
End of year			\$ 4,608,135	

APTOS/LA SELVA FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability and Related Ratios
June 30, 2016
Last 10 Years*

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement date	6/30/2015	6/30/2014
Proportion of the net pension liability	0.18718%	0.21439%
Proportionate share of the net pension liability	\$ 12,848,067	\$ 13,340,180
Covered employee payroll	\$ 4,219,669	\$ 4,667,442
Proportionate share of the net pension liability as a percentage of covered-employee payroll	304.48%	285.81%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Notes to schedule

* Fiscal year 2014-2015 was the 1st year of implementation; therefore only two 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, 2016
Last 10 Years*

Schedule of Contributions

	2015-2016	2014-2015
Contractually required contribution (actuarially determined)	\$ 2,080,361	\$ 1,785,932
Contributions in relation to the actuarially determined contributions	(2,080,361)	(1,785,932)
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 \$ 4,219,669	 \$ 4,667,442
 Contributions as a percentage of covered-employee payroll	 49.30%	 38.26%

Notes to Schedule

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

APTOS/LA SELVA FIRE PROTECTION DISTRICT
 Schedule of Funding Progress - OPEB
 June 30, 2016

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, 2016

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, 2016

	Term Expires
	<u>November</u>
Michael Weatherford, President	2016
Vincent Hurley, Vice President	2018
Jim Abendschan, Director	2018
Bob Spisak, Director	2016
Joe Foster, Director	2016

The other officials of the Aptos/La Selva Fire Protection District at June 30, 2016 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.