

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North County Fire Protection
District of Monterey County
Castroville, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the North County Fire Protection District of Monterey County (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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditors' 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 opinion.

Opinion

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 North County Fire Protection District of Monterey County as of June 30, 2016, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

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

Bianchi, Kasavan & Pope, LLP

Salinas, California
February 10, 2017

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

The District provides fire protection services in Monterey County. 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, governmental funds, and notes to the financial statements) and required supplementary information.

The basic government-wide and governmental funds 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 report 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.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

Description of the Basic Financial Statements (Continued)

The GASB 34 fund financial statements 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 Position. The Statement of Plan Assets shows all current assets of the Plan.

The Statement of Changes in Plan Net Position reports all revenue and expenses during the year and the change in the Plan Net Position.

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.

Special Revenue Fund – This fund accounts for fire mitigation revenue which is to be used for fire equipment acquisition and maintenance and EMS revenue used for EMS program expenses.

Condensed Government-Wide Financial Data

| | <u>2016</u> |
|--|---------------------|
| Current assets | \$ 3,132,005 |
| Station and equipment, net of accumulated depreciation | 1,893,126 |
| Deferred outflows | <u>1,482,230</u> |
| Total assets and deferred outflows | <u>\$ 6,507,361</u> |
| Current liabilities | \$ 2,313,419 |
| Noncurrent liabilities – long-term debt | 9,771,651 |
| Deferred outflows | 2,602,631 |
| Net position: | |
| Net investment in capital assets | 1,893,126 |
| Unrestricted net position | <u>(10,073,466)</u> |
| Total liabilities, deferred outflows and net position | <u>\$ 6,507,361</u> |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

Condensed Government-Wide Financial Data (Continued)

| | |
|--|---------------------|
| Expenditures governmental activities, net of program resources | <u>\$ 4,951,021</u> |
| General resources: | |
| Property taxes | \$ 4,049,612 |
| Use of money and property (interest income) | 10,761 |
| Aid from other government agencies | 717,971 |
| Other revenue – miscellaneous | 482,762 |
| Fire capital facilities fees | <u>5,766</u> |
| Change in net position | <u>\$ 315,851</u> |

Financial Analysis of the District as a Whole

The District's Net Position increased by \$315,851 for the fiscal year ended June 30, 2016, or approximately 3%, to a total of (\$8,180,340). Of the (\$8,180,340) in Net Position, \$1,893,126 is invested in capital assets and other noncurrent assets (net of accumulated depreciation and related debt).

Financial Analysis of the District's Funds

Governmental fund balances decreased by \$59,528 or approximately 3%. The main reason for the difference between the \$315,851 increase in District Net Position and the \$59,528 decrease in fund balances is the depreciation of fixed assets which are deductions in the governmental funds financial statements, timing of payments for compensated absences which are deductions only when paid in the governmental funds financial statements, and long-term debt payments. There is a reconciliation between the two statements on pages 14 and 16 of these statements.

Budgetary Highlights

The District is required, pursuant to the Health and Safety Code Section 13895, to adopt its final budget on, or before, October 1st of each year. The District adopted a final budget at its regular meeting in September of 2015. Modifications to the budget normally occur throughout the fiscal year taking into consideration unanticipated expenses utilizing unanticipated revenues or transfers from Contingency or Reserves.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

Budgetary Highlights (Continued)

The District has had difficulty recovering from the economic downturn of 2008. Revenue from all tax and fee sources in fiscal year 2015/2016 (\$5,306,591) was less than it was in fiscal year 2014/2015 (\$5,368,652). The County Assessor met with the District's Staff and explained that even though the assessed value of all properties in the District has increased, the value of the Moss Landing Power Plant had decreased an equal amount, wiping away any net increase in revenues. The power plant's value has stabilized for now, and revenue should increase slightly from year to year.

The District saw one unexpected retirement in fiscal year 2016. The position was filled with a person enrolled in the lower, less costly PERS tier, which will result in a long term savings. The District paid a previous retiree for unused accrued benefits of the retiree at a cost of \$146,146.

CalPERS implemented a 30 year cash assessment to fill the funding gap created in part by the economic downturn of 2008 and now must be reported in their financials. The district paid \$303,360 toward this assessment in this fiscal year. The amount will taper up over the next three years to approximately \$600,000 per year then continue at that amount for 20 years and then taper down over a five year period.

The dissolution of Redevelopment Agency by the State resulted in a portion of those monies returning to the Fire District. In fiscal year 2015/2016, the District received \$438,879 in this category.

The District's responses to large forest fires around the state generated \$671,545 of unanticipated revenue.

Capital Assets

As of June 30, 2016, the District had invested \$6,680,907 in a broad range of capital assets including land, structures and improvements and equipment. There were no major additions during the 2016 fiscal year.

Long-Term Liabilities

In accordance with GASB 45 requirements, the District is required to disclose its postemployment benefits (OPEB) expense and liabilities on annual financial statements. The District has a net OPEB obligation of \$140,766 as of June 30, 2016.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

Long-Term Liabilities (Continued)

During fiscal year 2011, the District paid off the CalPERS side fund liability by obtaining funding from Santa Cruz County Bank. The outstanding loan balance was \$2,580,019 as of June 30, 2016. The loan balance decreased \$187,680 due to payment of scheduled principal payments.

Economic Factors and Next Year's Budget

The District is a defendant in two lawsuits from 2014, one of which will be resolved in the next fiscal year.

The District's main source of revenue is property taxes which appear to have stabilized after the economic crisis of 2008 and now are growing. Worker's Compensation costs have stabilized. Prop 172 sales tax revenues are increasing slightly each year. Responses out of the county to large fire incidents may continue to generate income in the next several years.

The District is a participant in upgrading the County's radio infrastructure to meet Federal mandates for radio technology. The District's share of the cost is approximately \$500,000. The District entered into a financing agreement to amortize the cost over 15 years resulting in an annual payment of approximately \$30,000.

Contacting the District's Financial Management

These financial statements are designed to provide a general overview of the District's finances. If you have questions about financial statements or need additional financial information, contact the District's office at 11200 Speegle Street, Castroville, California 95012.

FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

STATEMENT OF NET POSITION

JUNE 30, 2016

| | Total |
|--|--------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 2,890,722 |
| Accounts receivable | 206,205 |
| Prepaid expenses | 35,078 |
| TOTAL CURRENT ASSETS | 3,132,005 |
| CAPITAL ASSETS - STATION AND EQUIPMENT - Note 4 | |
| Net of accumulated depreciation: | |
| Land | 126,200 |
| Structures and improvements | 1,211,652 |
| Equipment | 5,343,115 |
| Total station and equipment | 6,680,967 |
| Less - accumulated depreciation | (4,787,841) |
| Station and equipment, net of accumulated depreciation | 1,893,126 |
| DEFERRED OUTFLOWS | 1,482,230 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ 6,507,361 |
| CURRENT LIABILITIES | |
| Accounts payable and accrued expenses | \$ 172,651 |
| Accrued salaries payable | 149,337 |
| Accrued compensated absences | 916,595 |
| Current portion of long term debt - Note 11 | 198,660 |
| Other liabilities - payable to County | 876,176 |
| TOTAL CURRENT LIABILITIES | 2,313,419 |
| Long term debt - net of current portion - Note 11 | 2,381,359 |
| Net pension liability - Note 6 | 7,249,526 |
| Net OPEB obligation - Note 9 | 140,766 |
| TOTAL NONCURRENT LIABILITIES | 9,771,651 |
| DEFERRED INFLOWS | 2,602,631 |
| NET POSITION | |
| Net investment in capital assets | 1,893,126 |
| Unrestricted net position | (10,073,466) |
| General fund | (8,180,340) |
| TOTAL NET POSITION | (8,180,340) |
| TOTAL LIABILITIES AND NET POSITION | \$ 6,507,361 |

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

| | <u>Expenditures</u> | <u>Charges for Services</u> | <u>Strike Team Reimburse- ments</u> | <u>Grant Reimburse- ments</u> | <u>Total</u> |
|--|---------------------|---------------------------------|---|---------------------------------------|-----------------------|
| EXPENDITURES | | | | | |
| Fire protection: | | | | | |
| Salaries and benefits | \$ 4,721,870 | \$ 68,635 | \$ 771,954 | \$ 170,811 | \$ (3,710,470) |
| Services and supplies | 1,240,551 | - | - | - | (1,240,551) |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$ 5,962,421</u> | <u>\$ 68,635</u> | <u>\$ 771,954</u> | <u>\$ 170,811</u> | <u>(4,951,021)</u> |
| REVENUES | | | | | |
| Property tax | | | | | 4,049,612 |
| Use of money and property | | | | | 10,761 |
| Aid from other government agencies: | | | | | |
| Homeowners property tax relief | | | | | 20,980 |
| CSA 74 - zone C/EMS tax | | | | | 35,338 |
| EMS tax | | | | | 63,975 |
| Proposition 172 funds | | | | | 597,678 |
| Other revenue: | | | | | |
| Miscellaneous | | | | | 482,762 |
| Fire capital facilities fees | | | | | 5,766 |
| TOTAL GENERAL REVENUES | | | | | <u>5,266,872</u> |
| CHANGE IN NET POSITION | | | | | 315,851 |
| NET POSITION | | | | | |
| NET POSITION, BEGINNING OF YEAR, AS RESTATED - Note 2 | | | | | (8,496,191) |
| NET POSITION, END OF YEAR | | | | | <u>\$ (8,180,340)</u> |

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

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2016

| ASSETS | Governmental Fund Types | | Total |
|--|--------------------------------|------------------------|---------------------|
| | General | Special Revenue | |
| CURRENT ASSETS | | | |
| Cash | \$ 2,804,649 | \$ 86,073 | \$ 2,890,722 |
| Accounts receivable | 206,205 | - | 206,205 |
| Prepaid insurance | 35,078 | - | 35,078 |
| TOTAL CURRENT ASSETS | \$ 3,045,932 | \$ 86,073 | \$ 3,132,005 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ 172,651 | \$ - | \$ 172,651 |
| Accrued salaries payable | 149,337 | - | 149,337 |
| Other liabilities | 876,176 | - | 876,176 |
| TOTAL LIABILITIES | 1,198,164 | - | 1,198,164 |
| FUND BALANCE | | | |
| Restricted fund balance | | | |
| Reserved | - | 86,073 | 86,073 |
| Assigned fund balance | | | |
| Building fund | 419,000 | - | 419,000 |
| Capital equipment fund | 410,000 | - | 410,000 |
| Land | 410,000 | - | 410,000 |
| NGEN | 45,000 | - | 45,000 |
| Incident software | 7,436 | - | 7,436 |
| Election | 55,000 | - | 55,000 |
| Post retirement benefits | 246,000 | - | 246,000 |
| Unassigned fund balance | | | |
| Unreserved, undesignated | 255,332 | - | 255,332 |
| TOTAL FUND BALANCES | 1,847,768 | 86,073 | 1,933,841 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 3,045,932 | \$ 86,073 | \$ 3,132,005 |

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION**

JUNE 30, 2016

| | |
|--|-----------------------|
| Fund Balances of Governmental Funds | \$ 1,933,841 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds | 1,893,126 |
| Certain liabilities, including long-term debt, compensated absences and accrued interest are not due and payable in the current period and therefore are not reported in the funds | (3,496,614) |
| Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds | (7,249,526) |
| Net OPEB obligation is not due in the current period and therefore is not reported in the governmental funds | (140,766) |
| Deferred outflows not reported in the government-wide financial statements | 1,482,230 |
| Deferred inflows not reported in the government-wide financial statements | <u>(2,602,631)</u> |
| Net position of governmental activities | <u>\$ (8,180,340)</u> |

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2016

| | Governmental Fund Types | | Total |
|---|--------------------------------|------------------------|---------------------|
| | General | Special Revenue | |
| REVENUES | | | |
| Property taxes | \$ 4,049,612 | \$ - | \$ 4,049,612 |
| Use of money and property | 10,761 | - | 10,761 |
| Aid from other governmental agencies | 717,972 | - | 717,972 |
| Charges for current services | 68,635 | - | 68,635 |
| Other revenues | 1,431,293 | - | 1,431,293 |
| Fire capital facilities fee | - | 5,766 | 5,766 |
| TOTAL REVENUES | 6,278,273 | 5,766 | 6,284,039 |
| EXPENDITURES | | | |
| Salaries and benefits | 4,985,950 | - | 4,985,950 |
| Services and supplies | 1,011,103 | 5,766 | 1,016,869 |
| Debt service: | | | |
| Principal | 187,680 | - | 187,680 |
| Interest | 153,068 | - | 153,068 |
| TOTAL EXPENDITURES | 6,337,801 | 5,766 | 6,343,567 |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | (59,528) | - | (59,528) |
| OTHER FINANCING SOURCES | - | - | - |
| DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER USES | (59,528) | - | (59,528) |
| BEGINNING FUND BALANCE | 1,907,296 | 86,073 | 1,993,369 |
| FUND BALANCE, END OF YEAR | \$ 1,847,768 | \$ 86,073 | \$ 1,933,841 |

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds \$ (59,528)

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

| | |
|--|-----------|
| Depreciation expense | (229,448) |
| Net effect of disposal of capital assets | - |

In the governmental funds compensated absences (sick pay and vacation time) are measured by the amount of financial resources used which is the actual amount paid. In the government-wide statement of activities, compensated absences are measured by the amounts earned during the year. Vacation and sick leave earned was more or less than paid. (121,937)

Net other postemployment benefits obligation is not a current period expense and therefore is not reported as a liability in the governmental funds. Net expense for the year was: (92,618)

Repayments of long-term debt are reported as an expense in the fund financial statements but as a reduction of debt in the statement of net position 187,680

Change in net position of governmental activities \$ (315,851)

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

GASB 45 TRUST FUND FINANCIAL STATEMENTS

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

STATEMENT OF PLAN ASSETS AND CHANGES IN PLAN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

| | 2016 |
|--|-------------------|
| ASSETS | |
| Cash and short term investments | \$ 434,533 |
| NET POSITION HELD IN TRUST FOR OTHER POST EMPLOYMENT BENEFITS | \$ 434,533 |

STATEMENT OF CHANGES IN PLAN NET POSITION

| | |
|---|-------------------|
| ADDITIONS | |
| Investment income | \$ 10,892 |
| TOTAL ADDITIONS | 10,892 |
| NET INCREASE | 10,892 |
| Net position held in trust for other post employment benefits | 10,892 |
| BEGINNING OF YEAR | 423,641 |
| END OF YEAR | \$ 434,533 |

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

1. GENERAL INFORMATION

Organization

The North County Fire Protection District of Monterey County is a rural district covering approximately 125 square miles. Three fire stations located within the District are staffed on a 24 hour a day basis.

District Officials

The District is governed by a board of five directors. The following were in office at June 30, 2016:

| | <u>Term Expires</u> <u>November</u> |
|---------------------------------|--|
| Don Chapin, President | 2019 |
| Frank Balesteri, Vice President | 2017 |
| Don Champion, Secretary | 2017 |
| Jacqueline C. Simon, Director | 2017 |
| Stanley Silva | 2019 |

Accounting Records

The official accounting records of the District are maintained in the District's headquarters station.

Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

Budgetary Procedure

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles

The District follows Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement No. 34 establishes certain reporting requirements that are designed to make governmental annual reports more comprehensive. Statement No. 34 also requires that management’s discussion and analysis, an overview to the District’s financial activities, be presented before the financial statements as required supplementary information.

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.

Financial Statement Presentation

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized until that time.

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.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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 Government-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.

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. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-Wide Financial Statements.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Governmental 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 spent 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 District taking the same formal action that imposed the constraint originally.
- **Assigned** – Includes amounts intended to be used by the District 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.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Unassigned – Includes amounts that are technically available for any purpose and includes all amounts not contained in other classifications.

Recently Issued and Adopted Accounting Pronouncements

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The provisions of this statement are effective for reporting periods beginning after June 15, 2015. Management has adopted this Statement in fiscal year 2016, which had no significant impact on the District's financial statements.

Future Accounting Pronouncements

Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" - The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2016.

Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" - The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

Statement No. 77 "Tax Abatement Disclosures" - The provisions of this statement are effective for financial statements for reporting periods beginning after December 15, 2015.

Statement No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" - The provisions of this statement are effective for fiscal years beginning after December 15, 2015.

Statement No. 79 "Certain External Investment Pools and Pool Participants" - The provisions of this statement are effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015.

Statement No. 80 "Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14" - The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Pronouncements (Continued)

Statement No. 81 "Irrevocable Split-Interest Agreements" - The provisions of this statement are effective for reporting periods beginning after December 15, 2016.

Statement No. 82 "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73" - The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB 45 Trust Funds Postretirement Welfare Benefits

The District provides postretirement welfare benefits to retired employees through a defined benefit healthcare plan. The District had been making contributions into a government fund to be used for future postemployment welfare benefits. At June 30, 2016, the District holds those funds in a Trust at ICMA. See Note 9 for further explanations of the plan.

Capital Assets

Capital assets, which include land, buildings, improvements, and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District has set capitalization thresholds for reporting capital assets at the following:

| | |
|------------------------|----------|
| General Capital Assets | \$ 1,000 |
|------------------------|----------|

Depreciation is recorded on the straight-line method (with a full year of depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

| | |
|--------------------|-------------|
| Buildings | 18-40 years |
| Equipment – Mobile | 12-20 years |
| Equipment – Other | 5-15 years |

District Special Expense

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Allowance for Doubtful Accounts

Management believes the District's accounts receivable to be fully collectable and, accordingly, no allowance for doubtful accounts is considered necessary.

Employee Retirement Plans

Qualified employees are covered under contributory retirement plans maintained by an agency of the State of California. Contributions to these plans are paid or accrued based upon a percentage of qualified employee salaries.

Restatement – Government-Wide Financial Statements

Beginning Net Position was increased by \$117,933 for expenses overstated in prior year. The adjustment was necessary to properly classify equipment purchases as capital assets in the Government-Wide financial statements.

Fund Balance Assigned

Fund Balance Assigned includes amounts intended to be used by the District for specific purposes. As of June 30, 2016, assigned (reserved) fund balances consisted of the following:

| | <u>Beginning of Year</u> | <u>Additions</u> | <u>Deletions</u> | <u>End of Year</u> |
|-----------------------------|------------------------------|------------------|------------------|------------------------|
| Building fund | \$ 419,000 | \$ - | \$ - | \$ 419,000 |
| Election | 55,000 | - | - | 55,000 |
| Capital equipment | 410,000 | - | - | 410,000 |
| Land | 410,000 | - | - | 410,000 |
| NGEN | 45,000 | - | - | 45,000 |
| Incident software | 7,436 | - | - | 7,436 |
| Post retirement Benefits | \$ 246,000 | \$ - | \$ - | \$ 246,000 |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plans

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's CalPERS Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

For the year ended June 30, 2016:

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2014 |
| Measurement Date (MD) | June 30, 2015 |
| Measurement Period (MP) | July 1, 2014 to June 30, 2015 |

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has two items that qualify for reporting in this category. These items are related to the pension plan. The deferred outflow on the Statement of Net Position represents the net effect of the District's contributions to the pension system subsequent to the measurement date and not included in pension expense. The second item is related to the pension plan's changes in proportions.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The District has five items that qualify for reporting in this category. These items are related to the pension plan.

The deferred inflow on the Statement of Net Position represents the net differences between projected and actual earnings on pension plan's investments, changes in pension plan's assumptions, changes in pension plan's proportions for the District, differences between estimated and actual pension plan experience, and differences between employer contributions and the pension plan's proportionate share of contributions.

Subsequent Events

Subsequent events were evaluated through February 10, 2017, the date the financial statements were available to be issued.

3. CASH AND CASH EQUIVALENTS

Investments Authorized by the California Government Code and the District's Investment Policy

The California Government Code authorizes investments in U.S. Treasury obligations, U.S. Agency securities, municipal securities, negotiable certificates of deposits, commercial paper, bankers' acceptances, medium-term corporate bonds ("A" or better), asset-backed securities, repurchase agreements, money market funds and local government investment pools. The District currently invests its funds in the local government investment pool administered by Monterey County. As of June 30, 2016, the investment policy and the investments of the Monterey County pool are in compliance with the California Government Code.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk of changes in market interest rates adversely affecting the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2016, the weighted average maturity of the Monterey County investment portfolio is 491 days.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

3. CASH AND CASH EQUIVALENTS (Continued)

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Monterey County investment pool does not have a rating provided by a nationally recognized statistical rating organization. Approximately 78% of the investment portfolio is comprised of U.S. Treasuries, Federal Agency securities, Negotiable CDs and other liquid funds.

All of those assets have an investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. The corporate debt (14%) is rated in the higher levels of investment grade. All federal agency securities have AA ratings or are guaranteed by the U.S. Treasury.

Concentration of Credit Risk

The Monterey County or the District investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Monterey County pool does not include any investments by any one issuer (other than the State of California Local Agency Investment Fund and the California Asset Management Program – external governmental investment pools) that represents 5% or more of total investments.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provisions which requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure districts' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

3. CASH AND CASH EQUIVALENTS (Continued)

Investments

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

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|--|-----------------------------|--|---|
| Local Agency Investment Fund (LAIF) | N/A | None* | 5% |
| California Asset Management Program CalTrust | N/A | 20% | None |
| U.S. Treasury Notes, Bonds, Bills | 5 Years | 20% | None |
| Registered Warrants, Notes and Bonds Including Revenue Bonds, of the State of California and all other 49 States | 5 Years | None | 10% |
| Bonds, Notes, Warrants Issued by Any Local Agency Within California, Including Revenue Bonds | 5 Years | None | 10% |
| Obligations of Fed Agencies and US Gov't | 5 Years | None | None |
| Bankers Acceptances | 180 Days | 40% | None |
| Prime Commercial Paper of Domestic Issuers With Assets in Excess of \$500 Million | 270 Days | 40% | None |
| Certificates of Deposits | 5 Years | 30% | None |
| Reverse Repurchase Agreements | 92 Days | None | None |
| Repurchase Agreements | 1 Year | None | None |
| Medium Term Notes | 5 Years | 30% | None |
| Money Market Mutual Funds | None | ** | None |
| Pass-Through Instruments | 5 Years | 20% | None |
| U.S. Dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and eligible for purchase and sale within the U.S. | 5 Years | 30% | None |

* The investment policy limits the pool's investments in LAIF to \$50,000,000 per account, or as approved by the State Treasurer for bond/note proceeds.

** 20% Total all funds and 10% any one fund

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

3. CASH AND CASH EQUIVALENTS (Continued)

Local Agency Investment Fund

The County Treasurer's Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the State in addition to those deposited in LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office.

This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute.

Investment Trust of California Joint Powers Authority Pool

The County Treasurer's Pool maintains an investment in the Investment Trust of California Joint Powers Authority Pool (CalTRUST). CalTRUST is not registered with the Securities and Exchange Commission as an investment company, but is overseen by a Board of Trustees composed of officials of the public agencies that participate in CalTRUST. The fair value of the County's position in the pool is approximately the same as the value of the pool shares.

California Asset Management Program Joint Powers Authority Pool

The County Treasurer's Pool maintains an investment in the California Asset Management Program Joint Powers Authority Pool (CAMP). CAMP is not registered with the Securities and Exchange Commission as an investment company, but is overseen by a Board of Trustees composed of officials of the public agencies that participate in CAMP. CAMP's investments are limited to those permitted by Government Code Section 53601. The fair value of the County's position in the pool is approximately the same as the value of the pool shares.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2016, to support the value of shares in the pool.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

4. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

| | <u>July 1, 2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2016</u> |
|----------------------------------|---------------------|---------------------|------------------|----------------------|
| <u>Capital Assets</u> | | | | |
| <u>Not Depreciated:</u> | | | | |
| Land | \$ 126,200 | \$ - | \$ - | \$ 126,200 |
| | <u>126,200</u> | <u>-</u> | <u>-</u> | <u>126,200</u> |
| <u>Capital Assets Being</u> | | | | |
| <u>Depreciated:</u> | | | | |
| Structure and improvements | 1,211,652 | - | - | 1,211,652 |
| Equipment | <u>5,215,910</u> | <u>127,205</u> | <u>-</u> | <u>5,343,115</u> |
| | <u>6,427,562</u> | <u>127,205</u> | <u>-</u> | <u>6,554,767</u> |
| Total Capital Assets | 6,553,762 | 127,205 | - | 6,680,967 |
| Less accumulated depreciation | <u>(4,558,393)</u> | <u>(229,448)</u> | <u>-</u> | <u>(4,787,841)</u> |
| | <u>\$ 1,995,369</u> | <u>\$ (102,243)</u> | <u>\$ -</u> | <u>\$ 1,893,126</u> |

5. TEMPORARY TRANSFERS OF FUNDS

The District requires financial assistance for the period July to April due to the flow of property tax revenue. The Board of Supervisors of the County of Monterey, by resolution, approved its intention to provide needed "Tax Anticipation Funds" to the District. During the fiscal year ending June 30, 2016, the District borrowed \$3,000,000 in Tax Anticipation Funds. The balance was fully paid as of June 30, 2016.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS

General Information about the Pension Plan

Plan Description – The District has three pension plans (Plans); Safety First Tier Plan (Tier 1) for employees hired prior to the year 2012, Safety Second Tier Plan (Tier 2) for employees hired after the year 2012, and Public Employees Pension Reform Act of 2013 (PEPRA).

The Tier 1 and Tier 2 Plans are closed to new participants that were not CalPERS participants prior to January 1, 2013, under the Public Employees' Pension Reform Act of 2013 (PEPRA). Any new participants that were not previously CalPERS participants would be required to join the PEPRA Safety Plan.

All Plans are cost-sharing multiple-employer defined benefit pension plans, administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plans' benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014, Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2014, actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

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 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

General Information about the Pension Plan (Continued)

The Plan's provisions and benefits in effect are summarized as follows at June 30:

| | 2016 | |
|--------------------------------------|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 3.0% @ 55 | 2.0% @ 50 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 - 67 |
| Monthly benefits, as a % of eligible | 3.0% | 2.0% |
| Required employee contribution rates | 8.981% | 8.925% |
| Required employer contribution rates | 19.334% | 14.785% |

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 annual basis by the actuary and shall be effective on the July 1, following notice of a change in the rate. Funding contributions for Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

General Information about the Pension Plan (Continued)

The contributions recognized as part of the pension expense for the Plans were as follows for the year ended June 30:

| | 2016 |
|---------------|-------------|
| Contributions | \$655,335 |

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

The District reported net pension liabilities for its proportionate share of the net pension liability of the Plans as follows at June 30:

| | 2016 |
|--|-------------|
| Proportionate Share of Net Pension Liability (Asset) | \$7,249,526 |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015, was as follows:

| | |
|----------------------------|----------|
| Proportion - June 30, 2014 | 0.19066% |
| Proportion - June 30, 2015 | 0.21748% |
| Change - Increase | 0.26820% |

For the year ended June 30, 2016, the District recognized pension expense of \$87,734.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2016 | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$ 478,290 | \$ - |
| Differences in proportions | 9,923 | 95,524 |
| Changes in assumptions | - | 399,436 |
| Difference in employer's contributions and the employer's proportionate share of contributions | - | 401,369 |
| Difference in experience | - | 86,846 |
| Net differences between projected and actual earnings on plan investments | 994,017 | 1,619,455 |
| Total | \$ 1,482,230 | \$ 2,602,630 |

At June 30, 2016, the District reported \$478,290 as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending 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 (benefit) as follows:

| <u>Fiscal Year</u> <u>Ended June 30,</u> | |
|---|--------------|
| 2017 | \$ (652,303) |
| 2018 | (644,800) |
| 2019 | (550,091) |
| 2020 | 248,504 |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2014, 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% |
| Salary Increases | Varies by entry age and service |
| Mortality Rate Table | Derived using CalPERS membership data for all funds (1) |
| Post Retirement Benefit Increases | Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter |
| <p>(1) The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.</p> | |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

All other actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumption – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015, measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 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.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

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. Such cash flows were developed assuming that both members and employer will make their required contributions on time and as scheduled in all future years. Using historical expected compound (geometric) 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.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------|-----------------------------|--------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | (0.55)% | (1.05)% |
| Total | 100% | | |

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

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each plan, calculated using the discount rate for each plan, as well as what the District's proportionate share of the 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:

| | 2016 |
|--|-----------------------|
| 1% Decrease Net Pension Liability (Asset) | 6.50% \$13,435,834 |
| Current Discount Rate Net Pension Liability (Asset) | 7.50% \$ 7,249,526 |
| 1% Increase Net Pension Liability (Asset) | 8.50% \$3,847,171 |

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

7. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until death, retirement, termination, disability or certain unforeseeable emergencies.

All amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights remain solely the property and rights of the District, without being restricted to the provisions of benefits under the Plan, subject only to the claims of the District's general creditors.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

7. DEFERRED COMPENSATION PLAN (Continued)

Each participant's rights under the Plan are equivalent to those of general creditors of the District, in an amount equal to the fair market value of their individual deferred account.

In accordance with the Plan's governing ordinance, neither the District nor the Plan's administrator shall be liable for any losses resulting from investments or funding under the Plan, but they do have the duty of due care that would be required of an ordinary prudent investor.

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 commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

The District has entered into a Joint Exercise of Powers Agreement pursuant to the provisions of the California Government Code, Section 989, 990, 990.4, 990.8, 6500.6515 and Labor Code, Section 3700 (b).

The local agencies under the agreement have formed the Monterey County Local Agencies Insurance Authority, as an Administrator, to establish, operate, and maintain insurance programs for workers' compensation, group insurance programs, including property and casualty benefits and risk management programs.

The purpose of these joint protection programs is to reduce the amount and frequency of losses, pool self-insured losses and jointly purchase general liability insurance.

For the year ended June 30, 2016, the District has contributed \$63,250 to the program for the purpose of maintaining general liability and \$273,881 for workers' compensation programs.

Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through a commercial insurer.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

8. RISK MANAGEMENT (Continued)

Coverage was in effect for specific occurrences exceeding \$250,000 and aggregate retention of \$2,000,000.

Insurance coverage as of June 30, 2016, is as follows:

| | <u>Limits</u> | <u>Deductible</u> |
|--|---------------------------------|-------------------|
| General liability: | | |
| General liability – per occurrence | \$ 1,000,000 | \$ 1,000 |
| Per location – aggregate | \$ 3,000,000 | \$ 1,000 |
| Auto liability: | \$ 1,000,000 | \$ 1,000 |
| Combined single limit physical damage | Value per Policy Schedule | |
| Other coverage: | | |
| Uninsured motorist/bodily injury | \$ 1,000,000 | \$ 1,000 |
| Commercial umbrella liability coverage – Per occurrence/aggregate | \$ 10,000,000 | \$ 1,000 |
| Emergency service management liability: | | |
| Per claim | \$ 1,000,000 | \$ 1,000 |
| Aggregate | \$ 3,000,000 | \$ 1,000 |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

8. RISK MANAGEMENT (Continued)

| | <u>Building Contents</u> | <u>Building Replacement Cost</u> | <u>Deductible</u> |
|--|------------------------------|--|-------------------|
| Firehouse – 11200 Speegle Street | \$ 169,339 | \$ 2,764,468 | \$ 1,000 |
| Firehouse – 11200 Speegle Street | \$ 115,461 | \$ 1,630,524 | \$ 1,000 |
| Firehouse – 17639 Pesante Road | \$ 115,461 | \$ 1,574,978 | \$ 1,000 |
| Firehouse – 310 Elkhorn Road | \$ 115,461 | \$ 2,879,654 | \$ 1,000 |
| Electronic data processing | \$ 33,955 | \$ 250,000 | \$ 1,000 |
| | | <u>Limits</u> | <u>Deductible</u> |
| Equipment floater – Miscellaneous portable equipment | | \$ 3,000,000 | \$ 1,000 |
| Personnel – Workers' compensation (self-insured through the Monterey County Local Agencies Insurance Authority) | | Statutory | |

9. OTHER POST RETIREMENT BENEFITS

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

Plan Description

The District provides post-retirement health care benefits, in accordance with the District's Memorandum of Understanding, to all employees who retire from the District on or after attaining age 50 with at least 20 years of service. Monthly benefits are not to exceed \$600 per retiree, and shall continue for a maximum period of 15 years or until attaining age 65, whichever comes first. Currently, ten retirees meet the eligibility requirements. The District pays for vision and dental care directly, and reimburses each retiree for medical premiums withheld from the retiree's retirement paycheck.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

9. OTHER POST RETIREMENT BENEFITS (Continued)

Funding Policy

The District finances the plan on a pay-as-you-go basis. For the year ended June 30, 2016, the District expended \$40,346 for post-retirement health care.

Annual OPEB Cost and Net OPEB Obligation

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

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|---------------------------------|
| | <u>District Service Benefit</u> |
| Valuation Date | June 30, 2016 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Dollar |
| Remaining Amortization Period | 28 years |
| Asset Valuation Method | N/A (no dedicated assets) |
| Investment Rate of Return | 5.00% |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

9. OTHER POST RETIREMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan at June 30, 2016:

| | | |
|---|----|-----------------------|
| Annual required contribution | \$ | 112,800 |
| Interest on net OPEB obligation | | 8,300 |
| Amortization of net OPEB obligation | | <u>(10,900)</u> |
| Annual OPEB cost (expense) | | 110,200 |
| Contributions not recognized in prior years | | (69,854) |
| Estimated contributions – current year | | <u>(66,482)</u> |
| Decrease in net OPEB obligation | | (26,136) |
| Net OPEB obligation – beginning of year | | <u>166,902</u> |
| Net OPEB obligation – end of year | \$ | <u><u>140,766</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years is as follows:

| <u>Actuarial Valuation Date</u> | <u>Annual OPEB Cost</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> | <u>Net OPEB Obligation at End of Year</u> |
|---|---------------------------------|--------------------------------|-----------------------------------|---|
| 6/30/2014 | \$ 112,500 | \$ 42,560 | 41% | \$ 90,861 |
| 6/30/2015 | \$ 112,500 | \$ 67,810 | 60% | \$ 166,902 |
| 6/30/2016 | \$ 110,200 | \$ 66,482 | 60% | \$ 140,766 |

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

9. OTHER POST RETIREMENT BENEFITS (Continued)

Funding Status and Funding Progress

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and healthcare costs trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations, and new estimates are made about the future.

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 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.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. The actuarial assumptions included (a) demographic assumptions affected by mortality, turnover, disability and retirement based on the June 30, 2016, CalPERS pension valuation and (b) economic assumptions including a 5% investment rate of return, compensation increases (if applicable), self-pay increases (if applicable) and health care trend.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

10. GASB 45 CASH AND INVESTMENTS

Cash and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Fiduciary Funds:

| | |
|----------------------|-------------------|
| Cash and investments | \$ <u>434,533</u> |
|----------------------|-------------------|

| | |
|----------------------------|-------------------|
| Total Cash and Investments | \$ <u>434,533</u> |
|----------------------------|-------------------|

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes the investment in an ICMA trust. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk and concentrations of credit risk.

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 to changes in market interest rates.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. ICMA does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2016, the District's funds are held in four funds each representing more than 5% or more of total District investments.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

10. GASB 45 CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

Plan assets were held in the following as of June 30, 2016:

| <u>Investment type</u> | <u>Fair Market Value</u> |
|------------------------|--------------------------|
| Bond funds | \$ 315,607 |
| Asset allocation fund | <u>118,926</u> |
| | <u>\$ 434,533</u> |

11. LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2016, is as follows:

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2016</u> | <u>Due Within One Year</u> |
|---|-------------------------|------------------|---------------------|-------------------------|--------------------------------|
| <u>Long-term debt:</u> | | | | | |
| Santa Cruz County Bank | \$ 2,767,699 | \$ - | \$ (187,680) | \$ 2,580,019 | \$ 198,660 |
| Total long-term debt | 2,767,699 | <u>\$ -</u> | <u>\$ (187,680)</u> | 2,580,019 | <u>\$ 198,660</u> |
| Less current portion | <u>(187,549)</u> | | | <u>(198,660)</u> | |
| Total long-term debt, net of current portion | <u>\$ 2,580,150</u> | | | <u>\$ 2,381,359</u> | |

On June 29, 2011, the District entered into a commercial security agreement with Santa Cruz County Bank. The note payable is due in twenty (20) semi-annual payments starting December 15, 2011. Initial semi-annual payment is \$170,574, including interest at 5.625% per annum. The interest rate will be adjusted for the payments due beginning December 15, 2021 to an interest rate based on the 10-Year Treasury Constant Maturity (nominal), as published weekly in the Federal Reserve Statistical Release plus a margin of 2.750. Final payment is due June 15, 2026.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

11. LONG-TERM DEBT (Continued)

Future debt service requirements for the years ending June 30 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|-------------------|---------------------|
| Current | \$ 198,660 | \$ 142,488 | \$ 341,148 |
| 2017 | 209,992 | 131,156 | 341,148 |
| 2018 | 221,970 | 119,178 | 341,148 |
| 2019 | 234,349 | 106,799 | 341,148 |
| 2020 | 247,999 | 93,149 | 341,148 |
| 2021-2025 | <u>1,467,049</u> | <u>240,566</u> | <u>1,707,615</u> |
| | <u>\$ 2,580,019</u> | <u>\$ 833,336</u> | <u>\$ 3,413,355</u> |

12. LITIGATION

The District has litigation arising from the normal course of business. In management's opinion, the outcome of any such litigation will not materially affect the District's financial condition, and management intends to vigorously pursue their positions in these matters. Certain of these matters were tendered to the District's insurance carriers for defense. Nevertheless, due to uncertainties in the settlement process, it is at least reasonably possible that management's view of the outcome could change in the near term.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

JUNE 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| EXPENDITURES/EXPENSES | | | | |
| Salaries and benefits | \$ 4,928,567 | \$ 4,928,567 | \$ 4,985,950 | \$ (57,383) |
| Services and supplies | 829,320 | 829,320 | 1,016,869 | (187,549) |
| Debt Service: | | | | |
| Principal | - | - | 187,680 | (187,680) |
| Interest | - | - | 153,068 | (153,068) |
| TOTAL EXPENDITURES/EXPENSES | <u>5,757,887</u> | <u>5,757,887</u> | <u>6,343,567</u> | <u>(585,680)</u> |
| PROGRAM REVENUES: | | | | |
| Property taxes | 5,075,069 | 5,078,069 | 4,049,612 | (1,028,457) |
| Use of money and property | - | - | 10,761 | 10,761 |
| Aid from other governmental agencies | 834,097 | 834,097 | 717,972 | (116,125) |
| Charges for current services | - | - | 68,635 | 68,635 |
| Other revenues | - | - | 1,431,293 | 1,431,293 |
| Fire capital facilities fee | - | - | 5,766 | (5,766) |
| TOTAL PROGRAM REVENUES | <u>5,909,166</u> | <u>5,912,166</u> | <u>6,284,039</u> | <u>366,105</u> |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | <u>\$ 151,279</u> | <u>\$ 154,279</u> | <u>\$ (59,528)</u> | <u>\$ 951,786</u> |

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

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Last 10 Years***

FOR THE YEARS ENDED JUNE 30, 2016

| Fiscal Year | Proportion of the Net Pension Liability | Proportionate Share of the Plan's Pension Liability | Covered Employee Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | Proportionate Share of the Plan's Fiduciary Net Position | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------|---|---|--------------------------|--|--|--|
| 2015 | 0.19066% | \$38,487,490 | \$2,892,884 | 7.50% | \$31,335,992 | 81.40% |
| 2016 | 0.21748% | \$39,432,852 | \$2,694,977 | 6.83% | \$32,183,326 | 81.61% |

Notes to Schedule:

Benefit Changes: For 2016, the figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014, valuation date. This applies for voluntary benefit changes as well as offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

In 2016, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expense.

*Fiscal year 2015 was the first of implementation, therefore only two years are shown.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

SCHEDULE OF PLAN CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2016

| Fiscal Year | Contractually Required Contribution (Actuarially Determined) | Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Covered Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|-------------|--|---|----------------------------------|--------------------------|---|
| 2015 | \$655,335 | \$655,335 | - | \$2,892,884 | 22.60% |
| 2016 | \$478,290 | \$478,290 | - | \$2,694,977 | 17.74% |

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year 2014 - 2015 were derived from the June 30, 2012, funding valuation report, those used for the fiscal year 2015 - 2016 were derived from the June 30, 2013, funding valuation report.

| | |
|----------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | Level Percentage of Payroll |
| Asset Valuation Method | Market Value |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Payroll Growth | 3.00% |
| Investment Rate of Return | 7.50% Net of Pension Plan Investment and Administrative Expenses, includes Inflation |
| Retirement Age | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

*Fiscal year 2015 was the first of implementation, therefore only two years are shown.

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS – GASB 45**

FOR THE YEAR ENDED JUNE 30, 2016

| Actuarial Covered Valuation Date | Actuarial Valuation of Assets (a) | Actuarial Valued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Payroll ((b-a)/c) |
|---|---|--|------------------------------------|--------------------------|---------------------------|--|
| 6/30/13 | \$ 424,400 | \$ 1,691,500 | \$ 1,267,100 | 25% | \$ 2,865,600 | 44% |
| 6/30/16 | \$ 434,500 | \$ 1,701,400 | \$ 1,266,900 | 26% | \$ 2,592,200 | 49% |

1. This information is intended to help users assess the OPEB funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits and make comparison with other public employers.

SUPPLEMENTARY INFORMATION

**NORTH COUNTY FIRE PROTECTION DISTRICT
OF MONTEREY COUNTY**

**NOTES TO OTHER SUPPLEMENTARY
INFORMATION - BUDGET**

FOR THE YEAR ENDED JUNE 30, 2016

BUDGETARY BASIS OF ACCOUNTING

Budgets for the operating fund are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; expenditures are budgeted in the year that the applicable warrant requisitions are expected to be issued. The budget and actual financial statements are reported on the above basis, with no material differences between them.

Annual budget requests are submitted by the District's staff to the District Board of Directors for preliminary review and approval. After public hearing, a final budget is approved by the District Board of Directors, with a resolution adopting said budget. Copies of the approved budget are sent to all required agencies.