

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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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

Report on the Financial Statements

We have audited the accompanying financial statements of each major enterprise fund, and the aggregate remaining fund information of North County Fire Protection District of Monterey County (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of North County Fire Protection District of Monterey County as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-8 and 54, respectively, 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.

Implementation of New Accounting Standards

As described in Note 1 of the financial statements, the District implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards (SEFA), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.


Salinas, California
June 24, 2019

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2018

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, 2018.

Description of the Basic Financial Statements

The financial statements consist of the following parts: management's discussion and analysis, the basic financial statements (government-wide, 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.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2018

Description of the Basic Financial Statements (Continued)

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>2018</u>
Current assets	\$ 3,078,849
Station and equipment, net of accumulated depreciation	1,908,457
Deferred outflows	<u>4,904,604</u>
Total assets and deferred outflows	<u>\$ 9,891,910</u>
Current liabilities	\$ 2,617,800
Noncurrent liabilities	14,909,471
Deferred outflows	2,151,737
Net position:	
Net investment in capital assets	1,908,457
Unrestricted net position	<u>(11,695,555)</u>
Total liabilities, deferred outflows and net position	<u>\$ 9,891,910</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2018

Condensed Government-Wide Financial Data (Continued)

Expenditures within governmental activities, net of program resources	<u>\$ 5,733,659</u>
General resources:	
Property taxes	4,656,224
Use of money and property (interest income)	9,723
Aid from other government agencies	750,286
Other revenue – miscellaneous	3,658
Fire capital facilities fees	<u>23,539</u>
	<u>5,443,430</u>
Change in net position	<u>\$ (290,229)</u>

Financial Analysis of the District as a Whole

The District's Net Position decreased by \$1,620,763 for the fiscal year ended June 30, 2018, or approximately 25%, to a total of (\$9,787,098). The decrease mostly relates to the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018. Of the (\$9,787,098) in Net Position, \$1,908,457 is invested in capital assets, net of accumulated depreciation and related debt.

Financial Analysis of the District's Funds

Governmental fund balances increased by \$7,880 or approximately 0.4%. The main reason for the difference between the \$290,229 decrease in District Net Position and the \$7,880 increase in fund balances is related to the depreciation of fixed assets which are not 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, capital outlays which are deductions in the governmental funds, and long-term debt payments. There is a reconciliation between the change in fund balances and changes in the District's net position on page 17 of these financial 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 2017. 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, 2018

Budgetary Highlights (Continued)

The District continues to have difficulty recovering from the economic downturn of 2008. The primary driver in these challenges is the depreciation of the Dynegy Power Plant. Assessed valuation of the power plant has dropped from \$330 million to \$240 million. This devaluation has essentially negated any rebound in property tax receipts for the District. Revenue from property taxes in FY 2017/2018 of \$4,656,224 was only \$110,269 more than it was in FY 2016/2017 which was \$4,545,955. The power plant's value has stabilized at this point, and property tax revenues should begin to increase slightly from year to year.

CalPERS continues 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 \$444,776 toward this assessment in this fiscal year. This amount is \$91,174 more than FY 2016/2017. This assessment will continue to increase over the next two years to approximately \$600,000 per year then continue at that amount for 20 years and then taper down over a five year period. It is the District's hopes that during the life of this assessment CalPERS evaluates and factors in workforce, revenue and liability impacts to ensure only what is needed is collected.

Capital Assets

As of June 30, 2018, the District had invested \$7,111,592 in a broad range of capital assets including land, structures and improvements and equipment. During FY 2017/18 the District invested in 44 Self Contained Breathing Apparatuses along with extrication equipment to replace equipment which was at the end of the useful lives.

Long-Term Liabilities

In accordance with GASB 75 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 \$1,641,400 as of June 30, 2018.

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 \$2,170,527 as of June 30, 2018. The loan balance decreased \$210,349 due to payment of scheduled principal payments.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2018

Economic Factors and Next Year's Budget

The District was a defendant in two lawsuits from 2014, one of which was dismissed and the second was resolved. Total legal costs of \$15,424 were incurred. Of these costs \$11,157 was paid in FY 2016/2017 and \$4,267 paid in FY 2017/2018.

The District's main source of revenue is property taxes, which appear to have stabilized and are projected to grow at a modest rate. Worker's Compensation costs are stable. 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.

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, 2018

	Total
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,393,577
Accounts receivable	666,366
Prepaid expenses	18,906
TOTAL CURRENT ASSETS	3,078,849
CAPITAL ASSETS - STATION AND EQUIPMENT - Note 4	
Net of accumulated depreciation:	
Land	126,200
Structures and improvements	1,194,789
Equipment	5,790,603
Total station and equipment	7,111,592
Less - accumulated depreciation	(5,203,135)
Station and equipment, net of accumulated depreciation	1,908,457
DEFERRED OUTFLOWS - Notes 6 and 9	4,904,604
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 9,891,910
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 180,889
Accrued salaries payable	142,291
Accrued compensated absences	1,159,376
Current portion of long term debt - Note 11	221,970
Other liabilities - payable to County	913,274
TOTAL CURRENT LIABILITIES	2,617,800
Long term debt - net of current portion - Note 11	1,948,557
Net pension liability - Note 6	11,319,514
Net OPEB obligation - Note 9	1,641,400
TOTAL NONCURRENT LIABILITIES	14,909,471
DEFERRED INFLOWS - Note 6	2,151,737
NET POSITION	
Net investment in capital assets	1,908,457
Unrestricted net position	(11,695,555)
TOTAL NET POSITION	(9,787,098)
TOTAL LIABILITIES AND NET POSITION	\$ 9,891,910

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, 2018

	Program Revenue				
EXPENDITURES	Expenditures	Charges for Services	Strike Team Reimburse- ments	Grant Reimburse- ments	Net (Expenditures) Revenue
Fire protection:					
Salaries and benefits	\$ 6,496,698	\$ 123,590	\$ 1,169,638	\$ 858,582	\$ (4,344,888)
Services and supplies	1,388,771	-	-	-	(1,388,771)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 7,885,469	\$ 123,590	\$ 1,169,638	\$ 858,582	(5,733,659)
GENERAL REVENUES					
Property tax					4,656,224
Use of money and property					9,723
Aid from other government agencies:					
Homeowners property tax relief					21,868
CSA 74 - zone C/EMS tax					36,582
EMS tax					61,061
Proposition 172 funds					630,775
Other revenue:					
Miscellaneous					3,658
Fire capital facilities fees					23,539
TOTAL GENERAL REVENUES					5,443,430
CHANGE IN NET POSITION					(290,229)
NET POSITION, BEGINNING OF YEAR, as restated - Note 12					(9,496,869)
NET POSITION, END OF YEAR					\$ (9,787,098)

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, 2018

	Governmental Fund Types		Total
	General	Special Revenue	
ASSETS			
CURRENT ASSETS			
Cash	\$ 2,307,504	\$ 86,073	\$ 2,393,577
Accounts receivable	666,366	-	666,366
Prepaid insurance	18,906	-	18,906
TOTAL CURRENT ASSETS	\$ 2,992,776	\$ 86,073	\$ 3,078,849
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 180,889	\$ -	\$ 180,889
Accrued salaries payable	142,291	-	142,291
Other liabilities	913,274	-	913,274
TOTAL LIABILITIES	1,236,454	-	1,236,454
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	163,886	-	163,886
TOTAL FUND BALANCES	1,756,322	86,073	1,842,395
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,992,776	\$ 86,073	\$ 3,078,849

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, 2018

Fund Balances of Governmental Funds	\$ 1,842,395
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	1,908,457
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	(3,329,903)
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds	(11,319,514)
Net OPEB obligation is not due in the current period and therefore is not reported in the governmental funds	(1,641,400)
Deferred outflows not reported in the governmental funds	4,904,604
Deferred inflows not reported in the governmental funds	<u>(2,151,737)</u>
Net position of government-wide activities	<u><u>\$ (9,787,098)</u></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, 2018

	Governmental Fund Types		Total
	General	Special Revenue	
REVENUES			
Property taxes	\$ 4,656,224	\$ -	\$ 4,656,224
Use of money and property	9,723	-	9,723
Aid from other governmental agencies	750,286	-	750,286
Charges for current services	123,590	-	123,590
Other revenues	2,031,878	-	2,031,878
Fire capital facilities fee	-	23,539	23,539
TOTAL REVENUES	7,571,701	23,539	7,595,240
EXPENDITURES			
Salaries and benefits	5,837,023	-	5,837,023
Services and supplies	1,385,650	23,539	1,409,189
Debt service:			
Principal	210,349	-	210,349
Interest	130,799	-	130,799
TOTAL EXPENDITURES	7,563,821	23,539	7,587,360
EXCESS OF REVENUES OVER EXPENDITURES	7,880	-	7,880
BEGINNING FUND BALANCE	1,748,442	86,073	1,834,515
FUND BALANCE, END OF YEAR	\$ 1,756,322	\$ 86,073	\$ 1,842,395

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, 2018

Net change in fund balances - total governmental funds	\$	7,880
<p>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:</p> <p>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:</p>		
Current year capital outlays		387,493
Depreciation expense		(236,276)
<p>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.</p>		
		(137,483)
Change in accrued net pension liability		(448,949)
<p>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:</p>		
		(73,243)
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		<u>210,349</u>
Change in net position in government-wide financial statements	\$	<u>(290,229)</u>

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

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TRUST FUND FINANCIAL STATEMENTS**

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

**STATEMENT OF OPEB TRUST ASSETS
AND CHANGES IN TRUST NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
ASSETS	
Cash and short term investments	\$ 456,784
NET POSITION HELD IN TRUST FOR OTHER POST EMPLOYMENT BENEFITS	<u>\$ 456,784</u>

STATEMENT OF CHANGES IN PLAN NET POSITION

ADDITIONS	
Investment income	\$ 10,382
TOTAL ADDITIONS	<u>10,382</u>
NET INCREASE	10,382
Net position held in trust for other post employment benefits	
BEGINNING OF YEAR	<u>446,402</u>
END OF YEAR	<u>\$ 456,784</u>

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, 2018

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, 2018:

	<u>Term Expires November</u>
Don Chapin, President	2020
Frank Balesteri, Vice President	2022
Don Champion, Secretary	2022
Jacqueline C. Simon, Director	2022
Stanley Silva	2020

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, 2018

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, 2018

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, 2018

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, 2018

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

The District implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018. The provisions of this statement are effective for periods beginning after June 15, 2017.

Future Accounting Pronouncements

Statement No. 83, *Certain Asset Retirement Obligations* - The provisions of this statement are effective for fiscal years beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities* - The provisions of this statement are effective for fiscal years beginning after December 15, 2018

Statement No. 87, *Leases* - The provisions of this statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements* – The provisions of this statement are effective for periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* - The provisions of this statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests* – The provisions of this statement are effective for periods beginning after December 15, 2018.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits (OPEB) Trust Funds

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, 2018, 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".

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fund Balance Assigned

Fund Balance Assigned includes amounts intended to be used by the District for specific purposes. As of June 30, 2018, 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

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plans (Continued)

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, 2018:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to and 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, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

For the year ended June 30, 2018:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 items that qualify for reporting in this category. These items are related to the pension and OPEB plans. The deferred outflows on the Statement of Net Position represents the net effect of the District's contributions to the pension and OPEB plans subsequent to the measurement date and not included in pension expense along with other actuarially determined changes to the pension and OPEB plans.

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 items that qualify for reporting in this category. These items are related to the pension and OPEB plans. The deferred inflows 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 June 24, 2019, the date the financial statements were available to be issued.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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, 2018, 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, 2018, the weighted average maturity of the Monterey County investment portfolio is two (2) years.

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 87% 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, which comprises approximately 13% of the investment portfolio, is rated in the higher levels of investment grade. All federal agency securities have AA ratings or are guaranteed by the U.S. Treasury.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

3. CASH AND CASH EQUIVALENTS (Continued)

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, 2018

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	N/A	20%	None
CalTrust	N/A	20%	None
U.S. Treasury Notes, Bonds, Bills	5 Years	None	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	20%	None
Repurchase Agreements	1 Year	20%	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 \$65,000,000 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, 2018

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, 2018, 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, 2018

4. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</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	1,194,789	-	-	1,194,789
Equipment	<u>5,403,110</u>	<u>387,493</u>	<u>-</u>	<u>5,790,603</u>
	<u>6,597,899</u>	<u>387,493</u>	<u>-</u>	<u>6,985,392</u>
Total Capital Assets	6,724,099	387,493	-	7,111,592
Less accumulated depreciation	<u>(4,966,859)</u>	<u>(236,276)</u>	<u>-</u>	<u>(5,203,135)</u>
	<u>\$ 1,757,240</u>	<u>\$ 151,217</u>	<u>\$ -</u>	<u>\$ 1,908,457</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, 2018, the District borrowed \$3,500,000 in Tax Anticipation Funds. The balance was fully paid as of June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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, 2015, Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2015, 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, 2018

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:

	2018		
Hire date	Prior to May 1, 2011	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0% @ 55	2.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	3.0%	2.0%	2.7%
Required employee contribution rates	8.982%	8.933%	11.500%
Required employer contribution rates	19.520%	14.971%	11.990%

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, 2018

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:

	2018
Contributions	\$877,980

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:

	2018
Proportionate Share of Net Pension Liability (Asset)	\$11,319,514

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

Proportion - June 30, 2016	0.21457%
Proportion - June 30, 2017	0.21031%
Change - Decrease	(0.00426%)

For the year ended June 30, 2018, the District recognized pension expense of \$1,438,599.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

6. PENSION PLANS (Continued)

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

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 989,651	\$ -
Differences in proportions	321,819	121,579
Changes in assumptions	1,883,426	114,125
Difference in employer's contributions and the employer's proportionate share of contributions	-	388,218
Difference in experience	129,869	26,827
Net differences between projected and actual earnings on plan investments	1,524,682	1,500,988
Total	\$ 4,849,447	\$ 2,151,737

At June 30, 2018, the District reported \$989,651 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, 2019. 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 Ended June 30,</u>	<u>Amount</u>
2019	\$ 289,703
2020	1,055,043
2021	603,607
2022	<u>(240,292)</u>
Total	<u>\$ 1,708,061</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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, 2017, actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
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 mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf.</p>	

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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, 2015, 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 – As of June 30, 2017, measurement date, the accounting discount rate reduced from 7.65% to 7.15%.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40)%	(0.90)%
Total	100%		

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

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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:

	2018
1% Decrease Net Pension Liability (Asset)	6.15% \$16,924,174
Current Discount Rate Net Pension Liability (Asset)	7.15% \$ 11,319,514
1% Increase Net Pension Liability (Asset)	8.15% \$ 6,737,984

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, 2018

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, 2018, the District contributed \$61,025 and \$263,427 to the general liability and workers' compensation programs, respectively.

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, 2018

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, 2018, 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, 2018

8. RISK MANAGEMENT (Continued)

	Building Contents	Building Replacement Cost	Deductible
Firehouse – 11200 Speegle Street	\$ 190,484	\$ 3,200,217	\$ 1,000
Firehouse – 11200 Speegle Street	\$ 129,877	\$ 1,887,536	\$ 1,000
Firehouse – 17639 Pesante Road	\$ 129,877	\$ 1,823,234	\$ 1,000
Firehouse – 310 Elkhorn Road	\$ 129,877	\$ 3,333,560	\$ 1,000
Electronic data processing	\$ 33,955	\$ 250,000	\$ 1,000
		Limits	Deductible
Equipment floater – Miscellaneous portable equipment		Guaranteed Replacement Cost	\$ 1,000
Personnel – Workers' compensation (self-insured through the Monterey County Local Agencies Insurance Authority)		Statutory	

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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.

General Information about the OPEB Plan

Plan Description and Benefits

The District administers a single-employer defined benefit postemployment healthcare plan. Medical coverage is currently provided through the California Public Employee's Retirement System (CalPERS) as permitted under the Public Employees' Medical and Hospital Care Act (PEMHCA).

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

General Information about the OPEB Plan (Continued)

Plan Description and Benefits (Continued)

This coverage requires the employee to satisfy the requirements for retirement under CalPERS: either (a) attainment of age 50 (age 52, if a miscellaneous employee new to PERS on or after January 1, 2013) with 5 years of State or public agency service or (b) an approved disability retirement.

Once eligible, coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage depending on the retirement plan election.

As a PEMHCA employer, the District is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The District maintains a resolution with CalPERS defining the level of the District's contribution toward the cost of medical plan premiums for employees and retirees to be the PEMHCA minimum employer contribution (MEC). The MEC is \$133 per month in 2018.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to CalPERS at the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Employees Covered By Benefit Terms

At the OPEB liability measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Active employee	34
Inactive employees currently receiving benefit payments	<u>16</u>
	<u><u>50</u></u>

Contributions

The District is currently financing its OPEB liability on a pay-as-you-go basis.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

General Information about the OPEB Plan (Continued)

Net OPEB Liability

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

Actuarial Assumptions

The total OPEB liability measured as of June 30, 2017, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Funding Method	Entry Age Normal Cost, level percent of day
Asset Valuation Method	Market value of assets
Discount rate	3.50% as of June 30, 2017. The discount rate used in this valuation is based on the Fidelity General Option Municipal AA 20 year bond rate.
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Compensation Increase Rate	Not applicable
Assumed Wage Inflation	3.00%
Healthcare (PEMCHA) Inflation Rate	3.50% per year
Administration (PORAC) Inflation Rate	4.00% per year

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position (i.e. Fair value of Plan assets), and the net OPEB liability during the measurement period ending on June 30, 2017 for the District.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at 6/30/2017	\$ 2,027,200	\$ 434,500	\$ 1,592,700
Changes for the year:			
Service cost	69,400	-	69,400
Interest	70,900	-	70,900
Investment experience (loss)/gain	-	(2,321)	2,321
Changes of assumptions	-	-	-
Contributions	-	79,700	(79,700)
Expected investment return	-	15,191	(15,191)
(Benefit payments)	(79,700)	(79,700)	-
(Administrative expense for Trust)	-	(970)	970
Net Changes	60,600	11,900	48,700
Balances at 6/30/2018	\$ 2,087,800	\$ 446,400	\$ 1,641,400

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Changes in the Net OPEB Liability (Continued)

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50 percent) or 1-percentage point higher (4.5 percent) than the current discount rate:

	<u>1%</u> Decrease <u>2.50%</u>	Discount Rate <u>3.50%</u>	<u>1%</u> Increase <u>4.50%</u>
Net OPEB liability	\$ 1,996,000	\$ 1,641,400	\$1,361,400

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current health cost trend rates of 3.50 percent for PEMHCA subsidy and 4.00 percent for PORAC administration fees:

	<u>1%</u> Decrease <u>Current</u>	Healthcare Cost Trend <u>Current</u>	<u>1%</u> Increase <u>Current</u>
Net OPEB liability	\$ 1,392,000	\$ 1,641,400	\$1,974,600

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Recognition of Deferred Outflows and Deferred Inflows of Resources
(Continued)

The recognition period differs depending on the source of the gain or loss:

Net difference between investment experience loss / (gain)	5 years
All other amounts	Expected average remaining service lifetime (EARSL)

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows
of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$126,543. At June 30, 2018, the District, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between investment experience loss / (gain)	1,857	-
District contributions subsequent to the Measurement date	<u>53,300</u>	<u>-</u>
	<u>\$ 55,157</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (464)
2020	(464)
2021	(464)
2022	<u>(465)</u>
	<u>\$ (1,857)</u>

At June 30, 2018, the District reported \$53,300 as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

As of June 30, 2018, the District reported net OPEB liability of \$1,641,400.

As of June 30, 2017, the District reported net OPEB liability of \$1,592,700.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

10. LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2018, is as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2018</u>	<u>Due Within One Year</u>
<u>Long-term debt:</u>					
Santa Cruz County Bank	\$ 2,380,876	\$ -	\$ (210,349)	\$ 2,170,527	\$ 221,970
Total long-term debt	2,380,876	<u>\$ -</u>	<u>\$ (210,349)</u>	2,170,527	<u>\$ 221,970</u>
Less current portion	<u>(209,992)</u>			<u>(221,970)</u>	
Total long-term debt, net of current portion	<u>\$ 2,170,884</u>			<u>\$ 1,948,557</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, 2018

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	\$ 221,970	\$ 119,178	\$ 341,148
2020	234,349	106,799	341,148
2021	247,999	93,149	341,148
2022	261,688	80,204	341,892
2023-2026	1,204,521	160,362	1,364,883
	<u>\$ 2,170,527</u>	<u>\$ 559,692</u>	<u>\$ 2,730,219</u>

12. RESTATEMENT

Effective for the year ended June 30, 2018, the Agency implemented Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, this replaces GASB Statement 45. In the first year of implementation, beginning net position has been restated to present the retroactive effects of the implementation of GASB 75.

Net position at June 30, 2017	\$ (8,166,335)
Restatement, GASB 75	(1,330,534)
Net position at June 30, 2017, as restated	<u>\$ (9,496,869)</u>

13. 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, 2018

	<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	\$ 5,584,937	\$ 5,584,937	\$ 5,837,023	\$ (252,086)
Services and supplies	811,029	811,029	1,409,189	(598,160)
Debt Service:				
Principal	-	-	210,349	(210,349)
Interest	-	-	130,799	(130,799)
TOTAL EXPENDITURES/EXPENSES	<u>6,395,966</u>	<u>6,395,966</u>	<u>7,587,360</u>	<u>(1,191,394)</u>
PROGRAM REVENUES:				
Property taxes	4,611,313	4,611,313	4,656,224	44,911
Use of money and property	-	-	9,723	9,723
Aid from other governmental agencies	654,000	654,000	750,286	96,286
Charges for current services	-	-	123,590	123,590
Other revenues	-	-	2,031,878	2,031,878
Fire capital facilities fee	5,000	5,000	23,539	18,539
TOTAL PROGRAM REVENUES	<u>5,270,313</u>	<u>5,270,313</u>	<u>7,595,240</u>	<u>2,324,927</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>\$ (1,125,653)</u>	<u>\$ (1,125,653)</u>	<u>\$ 7,880</u>	<u>\$ 1,133,533</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, 2018

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Plan's Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered 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%
2017	0.22429%	\$40,685,753	\$2,617,931	6.43%	\$30,911,773	75.98%
2018	0.21031%	\$41,427,648	\$3,006,180	7.26%	\$30,445,008	73.49%

Notes to Schedule:

Benefit Changes: For 2018, the figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016, 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 2018, the discount rate was changed from 7.65% to 7.15%.

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

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

SCHEDULE OF PENSION PLAN CONTRIBUTIONS*

FOR THE YEAR ENDED JUNE 30, 2018

Fiscal Year	Contractually Required Contribution (Actuarially Determined)	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$655,335	\$655,335	-	\$2,892,884	22.60%
2016	\$478,290	\$478,290	-	\$2,694,977	17.74%
2017	\$877,980	\$877,980	-	\$2,617,931	33.54%
2018	\$989,651	\$989,651	-	\$3,006,180	32.92%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions are as follows:

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	7.15% 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 four years are shown.

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

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET
OPEB LIABILITY AND RELATED RATIOS
Last 10 Years***

FOR THE YEAR ENDED JUNE 30, 2018

	2018
Net OPEB liability	
Service cost	\$ 69,400
Interest	70,900
(Expected investment return)	(15,191)
Administrative expenses from plan Trusts	970
Amortization of other changes in Net OPEB Liability	464
Net change in net OPEB liability	126,543
(Contributions)	(79,700)
Increase in deferred resources – net	1,857
Net OPEB liability - beginning	1,592,700
Net OPEB liability - ending	\$ 1,641,400
Net OPEB liability as a percentage of covered-employee payroll	2.79%
Covered-employee payroll	\$ 2,860,100
Measurement date	6/30/2017
Actuarially Determined OPEB Contribution (ADC)	\$ 154,500
OPEB Contributions	79,700
OPEB Contribution Deficiency/(Excess) to ADC	\$ 74,800

Note to Schedule:

*Fiscal year 2018 was the first of implementation, therefore only one year is presented.

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

**NOTE TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGET**

JUNE 30, 2018

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.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE (USDA), FORESTRY SERVICE (USFS)			
Passed through:			
State of California, Office of Emergency Services (OES)			
California Fire Assistance Agreement	[1]	Cal OES-F-142	\$ 533,496
Total USDA			<u>533,496</u>
U.S. DEPARTMENT OF HOMELAND SECURITY (USDHS), FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)			
Direct Program:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2015-FH-00220	507,251
Assistance to Firefighters Grant Program (AFG)	97.044	EMW-2016-FO-02359	<u>281,528</u>
Total USDHS			<u>788,779</u>
U.S. DEPARTMENT OF TRANSPORTATION (USDOT),			
Passed through:			
State of California, Office of Traffic Safety (OTS)			
Regional Collision Response and Extrication Improvement Program	20.600	EM18007	<u>68,432</u>
Total USDOT			<u>68,432</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,390,707</u></u>

[1] Federal CFDA Identifying Number not available

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

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

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

INDEPENDENT AUDITORS' REPORTS



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major enterprise fund and the aggregate remaining fund information of North County Fire Protection District of Monterey County (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise North County Fire Protection District of Monterey County's basic financial statements, and have issued our report thereon dated June 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bianchi, Kasavan & Pope, LLP
Salinas, California
June 24, 2019



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited North County Fire Protection District of Monterey County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of North County Fire Protection District of Monterey County (District) major federal programs for the year ended June 30, 2018. North County Fire Protection District of Monterey County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North County Fire Protection District of Monterey County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North County Fire Protection District of Monterey County compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North County Fire Protection District of Monterey County compliance.

Opinion on Each Major Federal Program

In our opinion, North County Fire Protection District of Monterey County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of North County Fire Protection District of Monterey County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North County Fire Protection District of Monterey County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North County Fire Protection District of Monterey County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bianchi, Kasawa & Pope, LLP
Salinas, California
June 24, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SUMMARY OF AUDITOR'S RESULTS

FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting: Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs: Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)
20.600	Regional Collision Response and Extrication Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

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

FINANCIAL STATEMENT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2018

There were no financial statement findings reported in the current year.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

There were no federal awards findings or questioned costs reported in the current year.

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

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

A Report on Compliance for Each Major Federal Program was not required for North County Fire Protection District of Monterey County for the year ended June 30, 2017.