

**Scotts Valley Fire Protection District**

**FINANCIAL STATEMENTS**

**AUDIT REPORT**

**June 30, 2015**



**September 24, 2015**

Scotts Valley Fire Protection District  
7 Erba Lane  
Scotts Valley, CA 95066

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of Scotts Valley Fire Protection District as of and for the years ended June 30, 2015, 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 of material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Governmental 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 of 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 our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scotts Valley Fire Protection District as of June 30, 2015, and the respective changes in financial position, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information and Budget VS. Actual comparison 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 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 principally of inquiries of management regarding 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 assurances on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015, on our consideration of the Scotts Valley Fire Protection 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Pehling & Pehling, CPA's  
An Accountancy Corporation

**Scotts Valley Fire Protection District**

**Audit Report  
June 30, 2015**

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# SCOTTS VALLEY FIRE PROTECTION DISTRICT

7 Erba Lane, Scotts Valley, California 95066 (831) 438-0211 Fax (831) 438-0383

**Daniel J. Grebil**  
**Fire Chief**

September 24, 2015

The Scotts Valley Fire Protection District provides fire protection services to a twenty-two and one-half square mile area of Santa Cruz County from the Santa Cruz city limits to Laurel Curve and from Henry Cowell State Park to Glen Canyon/Vine Hill Roads and includes all of the City of Scotts Valley. The population of the District is approximately eighteen thousand six hundred, including about eleven thousand within the city limits. The District is a separate government body, not part of the City of Scotts Valley, known as a Special District and is governed by an elected board of five citizens. This section of the District's financial report presents our discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2015.

## **Description of the Basic Financial Statements**

The financial statements consist of the following parts: Management's discussion and analysis; the basic financial statements consisting of government-wide financial statements, and fund financial statements (governmental and fiduciary); notes to the financial statements; and required supplementary information.

The basic government-wide and fund financial statements present the financial results on different methods of accounting. Included in the financial statements are reconciliations that explain the difference between the two methods.

Government-wide financial statements are prepared on the modified accrual basis of accounting and economic resources focus. The required financial statements are: Statement of Net Position (Statement A) and Statement of Activities. The Statement of Net Position reports all assets and liabilities, both financial and capital, and short-term and long-term, of the District. The Statement of Activities reports all revenue and expenses during the year, regardless of when cash was received or paid.

Governmental Funds financial statements are prepared on the modified accrual basis of accounting and current financial resources focus. This is the traditional form for our financial statements. The required financial statements are Balance Sheet, and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Balance Sheet shows only assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports revenue 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 or soon after the end of the year.

Board of Directors

Jane Armstrong    Robert Campbell    Alan Smith    Art Smith    Joshua Warren

Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position explains the differences between the two balance sheets. Reconciliation of the Statement Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities traces the change in fund balances to the change in net position.

Governmental Fiduciary financial statements for the Hazardous Materials Interagency Team are prepared on the accrual basis of accounting and economic resources focus. The required financial statements are: Statement of Fiduciary Net Position and Statement of Activities and Changes in Fiduciary Net Position. The Statement of Net Position report all assets and liabilities, both financial and capital, and short-term and long-term of the fund. The Statement of Activities reports all revenue and expenses of the fund during the year, regardless of when the cash is received or paid.

The Government-Wide and Governmental Funds financial statements show the results of the following funds:

General Fund - This fund is used to finance the operations of the District. Tax revenues are placed in the General Fund and regular operating expenses are charged here. Funds to be used for capital equipment and projects are transferred from the General Fund to the Capital Outlay Fund.

Zone A - A legally formed zone of benefits established in 1969 that receives revenues and makes expenditures designated for capital projects that benefit a specific zone in the southern portion of the District. Zone A's Board of Directors is the same as the board of Directors of the District.

Capital Outlay Fund - Used to separate funds for capital equipment and projects. All capital expenditures are taken from this fund. Funds in this account come from revenue transferred from the General Fund to be used for capital improvements, the sale of existing assets (such as land), grants, and interest received on the balance of the fund.

The fiduciary fund financial statements show the results of the following:

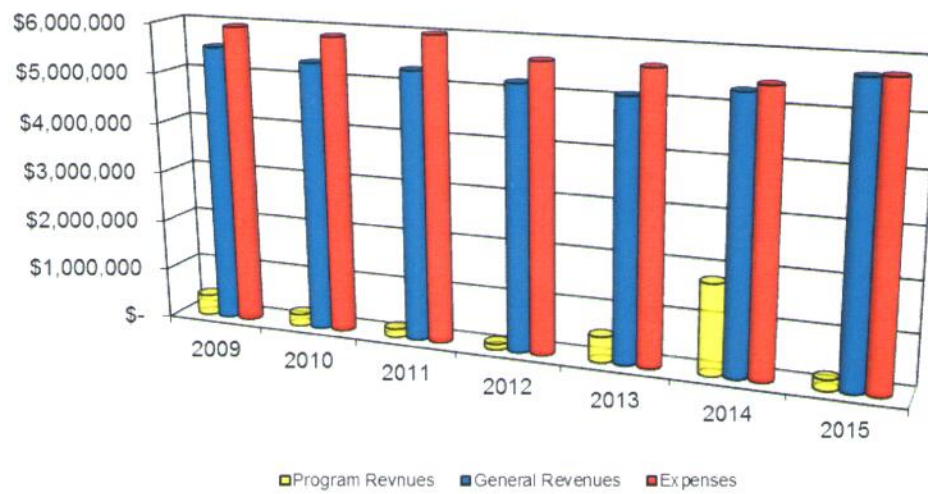
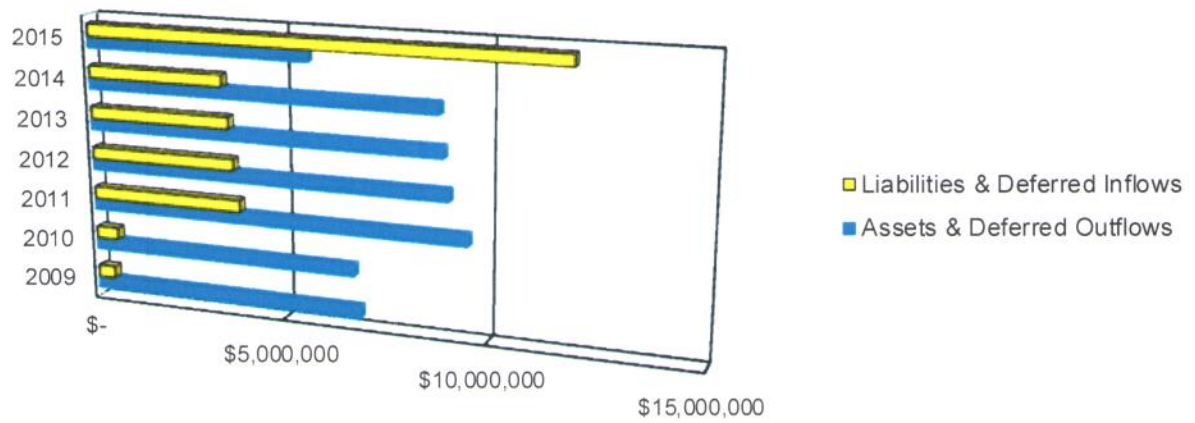
Santa Cruz Hazardous Materials Interagency Team (SCHMIT) - The District reports the resources held and administered by the District in acting in a fiduciary capacity for other agencies involved in the Team. Operational funding is received through a memorandum of understanding with Santa Cruz County, UCSC, City of Scotts Valley, City of Capitola, City of Santa Cruz, City of Watsonville, and the California State Parks. Additional funding had been received from grants.

### **Financial Analysis of the District as a Whole**

Net Position - The District's net change in net position was \$181,988 for the fiscal year ended June 30, 2015. However, the District took a one-time prior-period adjustment with the adoption of GASB 68 that a decrease in net position of (\$11,784,927). The adoption of GASB 68 put the district in a negative net position. The negative net position will not adversely effect the District as the positive fund balance will allow the district to continue to offer services to the public. Approximately 59 percent of the \$5,655,675 in assets, \$3,376,317 are invested in capital assets (net of accumulated depreciation and related debt).

The following charts can be used to compare the Net Position and the Revenues and Expenses of the District over time.





## **Financial Analysis of the District's Funds**

Governmental fund balances increased by \$336,742. The main reason for the difference between the \$191,988 increase in District net position and the \$337,642 increase in fund balances is timing differences in accounting for expenditures, principal payments made on long-term liabilities, and the difference in accounting for fixed asset purchases and depreciation.

## **Budgetary Highlights**

Fund revenue was 6.7% better than budgeted \$371,133, with tax revenue 7.3% better \$390,686.

Salaries and benefits were \$81,499 (1.6%) under budget. Services and supplies were \$335,195 (56%) under budget. This was due to small differences both favorable and unfavorable between budgeted and actual expenditures in the thirty separate accounts that make up this category.

Total Fund expenditures were \$497,016 (8.2%) less than the amount budgeted, including contingency appropriation, which did not need to be used during the year.

Capital expenditures were under budget by \$14,920.

## **Capital Assets**

As of June 30, 2015, the District had invested \$6,263,288 in a broad range of capital assets including land, structures and improvements, equipment, and construction in progress.

## **Long-Term Liabilities**

At June 30, 2015 the District had \$9,480,597 in long-term liabilities which consists of net other postemployment benefits obligation and the loan obtained for the payment of the CalPERS Side Fund Liability and the Net Pension Liability. The District budgets a portion of this liability each year based on our expectation of employees using some accumulated leave. The net other postemployment benefits obligation is a result of the implementation of GASB 45. Detailed information can be found in Note 8 to the financial statements.

During the year ended June 30, 2011, the District paid off the CalPERS Side Fund Liability and obtained funding for the payment from Santa Cruz County Bank. The outstanding loan balance was \$2,544,297 as of June 30, 2015.

## **Economic Factors and Next Year's Budget**

The District's main source of revenue is property tax. Estimates from the Santa Cruz County Auditor project a 2% growth in the secured property tax (real estate). The District has budgeted the 2% growth in the property tax elements for the General Fund and Zone A. Other non-tax elements of revenue are projected using past trends. There is potential for variances due to re-assessments of real property values in the community.

Total budgeted General Fund expenditures for fiscal year 2015/2016, is \$6,313,430. Salaries and Benefits budget includes a 2% increase on July 18, 2015, and an additional increase on January 2, 2016. The vacant Fire Marshal position is not funded this year. The District's



contribution to the CalPERS retirement program is 16.523% of payroll plus an annual Unfunded Accrued Liability payment of \$265,704 for the Safety plan and 5.512% of payroll plus an annual Unfunded Accrued Liability payment of \$7,536 for the Miscellaneous Employee plan. Safety members contribute an additional 9% of salary to CalPERS for retirement and the miscellaneous members contribute 7% of salary. Services and supplies are closely scrutinized to sustain basic operations.

An operating transfer to the Capital Outlay Fund of \$70,000 is budgeted.

Looking ahead into the 2015/2016 fiscal year, property tax revenues are expected to increase. The District will continue to keep tight control of all costs while maintaining services at the current level as its first priority.

### **Contacting the District's Financial Management**

This financial statement is designed to provide a general overview of the District's finances. If you have questions about these financial statements or need additional financial information, contact the District's office at 7 Erba Lane, Scotts Valley, California 95066. Financial statements from previous fiscal years may be found on the District's website at [www.scottsvalleyfire.com](http://www.scottsvalleyfire.com).

**GOVERNMENT FUNDS FINANCIAL STATEMENTS**

**Scotts Valley Fire Protection District**

**Balance Sheet  
June 30, 2015**

	<u>General Fund</u>	<u>Zone A</u>	<u>Capital</u>
<b><u>ASSETS</u></b>			
Accounts Receivable	\$ -	\$ -	\$ -
Cash	867,720	775,765	635,873
<b>TOTAL ASSETS</b>	<u>867,720</u>	<u>775,765</u>	<u>635,873</u>
<b><u>LIABILITIES &amp; FUND BALANCES</u></b>			
<b><u>Liabilities:</u></b>			
Accounts Payable	-	-	-
Accrued Payroll	111,288	-	-
Total Current Liabilities	<u>111,288</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>111,288</u>	<u>-</u>	<u>-</u>
<b><u>Fund Balances:</u></b>			
Undesignated	756,433	-	-
Restricted	-	-	-
Committed	-	775,765	635,873
Total Fund Balance	<u>756,433</u>	<u>775,765</u>	<u>635,873</u>
<b><u>TOTAL LIABILITIES &amp; FUND BALANCE</u></b>	<u>\$ 867,720</u>	<u>\$ 775,765</u>	<u>\$ 635,873</u>

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



# Scotts Valley Fire Protection District

## Statement of Revenues, Expenditures & Change in Fund Balance For the Year Ended June 30, 2015

<u>REVENUE</u>	<u>General Fund</u>	<u>Zone A</u>	<u>Capital Outlay</u>
Taxes and Intergovernmental	\$ 5,586,396	\$ 91,780	\$ -
Charges for Services	54,571	-	-
Use of Money & Property	339	3,319	2,744
Other Government	159,470	-	-
Other Revenue	-	-	-
<b>TOTAL REVENUE</b>	<b>5,800,775</b>	<b>95,098</b>	<b>2,744</b>
<u>EXPENDITURES</u>			
Salaries and Employee Benefits	4,783,751	-	-
Maintenance	100,685	-	-
Professional Fees	73,355	1,469	-
Fixed Assets	22,980	-	-
Other Charges	324,236	-	-
Services, Supplies and Refunds	255,401	-	-
<b>TOTAL EXPENDITURES</b>	<b>5,560,407</b>	<b>1,469</b>	<b>-</b>
<b>Excess (Deficit) Revenues over Expenditures</b>	<b>240,369</b>	<b>93,629</b>	<b>2,744</b>
<b>Operating Transfer in/(out)</b>	<b>(50,000)</b>	<b>-</b>	<b>50,000</b>
<b>CHANGE IN FUND BALANCE</b>	<b>190,369</b>	<b>93,629</b>	<b>52,744</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>566,064</b>	<b>682,136</b>	<b>583,129</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 756,433</b>	<b>\$ 775,765</b>	<b>\$ 635,873</b>

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# Scotts Valley Fire Protection District

## Statement of Net Position June 30, 2015

### ASSETS

#### Current Assets:

Cash	2,279,358
Accounts Receivable	-
Total Current Assets	2,279,358

#### Fixed Assets:

Land	820,843
Buildings & Improvements	2,038,479
Firefighting Equipment	3,108,703
Construction-in-Progress	295,263
Less: Accumulated Depreciation	(2,886,971)
Total Fixed Assets	3,376,317

<b>TOTAL ASSETS</b>	<b>5,655,675</b>
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### DEFERRED OUTFLOW

Difference in Proportions	508
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<b>TOTAL DEFERRED OUTFLOW</b>	<b>508</b>
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<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>5,656,183</b>
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### LIABILITIES

#### Current Liabilities:

Accounts Payable	-
Accrued Payroll Liabilities	111,288
Accrued Compensated Absences	218,157
Current Portion of Long-term Debt	155,489
Total Current Liabilities	484,933

#### Long-term Liabilities:

Long Term Debt	2,388,808
Net Pension Liability	6,419,859
Net Other Post Employment Benefit	671,930
Total Long-term Liabilities	9,480,597

<b>TOTAL LIABILITIES</b>	<b>9,965,530</b>
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### DEFERRED INFLOWS

Difference in Proportions	1,879
Difference between actual and expected investments	1,936,202

<b>TOTAL DEFERRED INFLOWS</b>	<b>1,938,081</b>
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<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>11,903,611</b>
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### NET POSITION

Net Investment in Capital Assets	3,376,317
Unrestricted	(9,623,745)
<b>TOTAL NET POSITION</b>	<b>\$ (6,247,428)</b>

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



Scotts Valley Fire Protection District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION**

June 30, 2014

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	<u>Jun-15</u>
Total Fund Balances - Governmental Funds	\$ 2,168,071
Capital Assets used in Governmental Funds are not financial resources and therefore are not reported as assets in the Governmental Funds.	
Total Historical Cost of Capital Assets	6,263,288
Less: Accumulated Depreciation	(2,886,971)
Compensated Absences are reported in the Government-Wide Statement of Net Assets, but they do not require the use of current financial resources. Therefore, the liability is not reported in Governmental Funds.	(218,157)
Net Other Postemployment Benefits Obligation is not due and payable in the current period and therefore is not reported as a liability in the Governmental Funds. Net Other Postemployment Benefits Obligation at June 30 were:	(671,930)
Deferred Outflows not due and receivable in the current period and therefore is not reported as an asset in the governmental funds. Deferred Outflows at June 30 was:	507
Deferred Inflows are not due in the current period and therefore, are not reported as liabilities in the governmental funds.	(1,938,081)
Long-term liabilities are not due in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(8,964,156)</u>
Net Position	<u><u>\$ (6,247,428)</u></u>

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The accompanying notes are an integral part of these financial statements

**Scotts Valley Fire Protection District**

**Statement of Activities  
For the Year Ended  
June 30, 2015**

**EXPENSES**

Program Expenses:

Salaries and Employee Benefits	4,898,855
Professional Services	74,826
Depreciation	217,136
Interest Expense	169,729
Maintenance	100,685
Services, Supplies and Refunds	255,401
	<hr/>
Total Program Expenses	5,716,631

**TOTAL EXPENSES**

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5,716,631

**REVENUE**

Program Revenue:

Operating Grants & Contributions	159,470
Charges for Services	54,571
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Total Program Revenue	214,041

General Revenues:

Interest	6,401
Taxes and Intergovernmental	5,678,176
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Total General Revenues	5,684,578

**TOTAL REVENUE**

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5,898,618

**NET CHANGE IN NET POSITION**

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181,988

**NET POSITION, BEGINNING OF YEAR**

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5,355,511

**Prior Period Adjustment (Note 10.)**

(11,784,927)

**NET POSITION, END OF YEAR**

\$ (6,247,428)

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

Scotts Valley Fire Protection District  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**June 30,2014**

	<u>Jun-15</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 336,742
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different as follows:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets are allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense during the year	
Current Year Capital Outlays	22,979
Less: Current Year Depreciation Expense	(217,136)
In the Governmental Funds CalPers expenditures are measured by the amount of financial resources used, which is the amounts actually paid. In the Government-Wide Statement of Activities, CalPers expenditures are measured by the amounts expensed during the year	(42,773)
In the Governmental Funds compensated absences (sick pay and vacation) are measured by the amount of financial resources used, which is the amounts actually paid. In the Government-Wide Statement of Activities, compensated absences are measured by the amounts earned during the year	(7,054)
Repayment of principle on long-term liabilities is an expenditure for Governmental funds, but the repayment reduces long-term liabilities on the Government-Wide Statement of Net Assets. Principle payments made on long-term liabilities during the year consist of:	154,507
In the Government Funds Retiree healthcare expenditures is measured by the amount of financial resources used, which is the amounts actually paid. In the Government-Wide Statement of Activities, Retiree healthcare expense is measured by the amounts accrued during the year. Retiree healthcare paid was more of (less) than accrued.	<u>(65,277)</u>
Change in Net Position of Governmental Activities	<u>\$ 181,988</u>

The accompanying notes are an integral part of these financial statements



**FIDUCIARY FUNDS FINANCIAL STATEMENTS**  
**SCHMIT**

**Scotts Valley Fire Protection District**

**Statement of Fiduciary Net Position  
Schmit  
June 30, 2015**

**ASSETS**

Cash	\$ 43,338
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**FIXED ASSETS**

Equipment	587,857
Less: Accumulated Depreciation	<u>(382,713)</u>

Total Fixed Assets	<u>205,144</u>
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<b>TOTAL ASSETS</b>	<u><b>248,482</b></u>
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**LIABILITIES & NET POSITION**

Liabilities:

Accounts Payable	<u>-</u>
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Total Liabilities	<u>-</u>
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Net Position:

Held in Trust	<u>248,482</u>
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Total Net Position	<u>248,482</u>
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**TOTAL LIABILITIES &  
NET POSITION**

<u><u>\$ 248,482</u></u>
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The accompanying notes are an integral part of these financial statements.

**Scotts Valley Fire Protection District**

**Statement of Activities - Fiduciary Funds  
Schmit  
For the Year Ended  
June 30, 2015**

**ADDITIONS**

Charges for Services	-
Use of Money & Property	275
Other Government	143,827
	<hr/>
<b>TOTAL ADDITIONS</b>	<b>144,101</b>

**DEDUCTIONS**

Maintenance	1,041
Professional Fees	5,995
Depreciation	26,127
Services, Supplies and Refunds	127,738
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<b>TOTAL DEDUCTIONS</b>	<b>160,901</b>

<b><u>CHANGE IN NET POSITION</u></b>	<b>(16,800)</b>
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<b><u>NET POSITION, BEGINNING OF YEAR</u></b>	<b>266,691</b>
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<b><u>NET POSITION, END OF YEAR</u></b>	<b>\$ 249,891</b>
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The accompanying notes are an integral part of these financial statements.



## 1. GENERAL INFORMATION

### Organization

The Scotts Valley Fire Protection District was organized July 17, 1956, under the authority of Section 56000 et. seq. of the California Government Code, in conformity with the Health and Safety Code, Sections 14001 et. seq. and was reorganized in September 1987 in conformity with the Health and Safety Code, Sections 13801 et. seq. The District provides fire protection for the City of Scotts Valley and vicinity.

The Special Fire Protection Zone A was organized December 22, 1969, in conformity with the Health and Safety Code, Sections 13991 et. seq. The boundaries of the fire zone fall totally within Scotts Valley Fire Protection District. By resolution 2003-2 the funding derived from Zone A may be used for capital improvements, where a beneficial relationship to Zone A can be demonstrated as established during the annual budget hearings.

During the fiscal year ended June 30, 2002, the Santa Cruz Hazardous Materials Interagency Team (SCHMIT) was formed. The District has been appointed as the Program Manager for SCHMIT. As program manager, the District is acting as the fiscal agent. The District accounts for all receipts and disbursements for SCHMIT, a separate Fiduciary Fund of the District.

### District Officials

The District is governed by a board of five directors. The following were in office at June 30, 2015.

	<u>Term Expires November</u>
Jane Armstrong, President	2016
Joshua Warren, Vice-President	2018
Arthur E. Smith,	2016
Robert Campbell	2018
Alan Smith,	2016

Dan Grebil was the Fire Chief at June 30, 2015

### Accounting Records

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

### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Accounting Principles

The District prepares its financial statements in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems.

### 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 a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

### Financial Statement Presentation

#### ***Government-Wide Financial Statements***

The District 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 and Business-Type Activities for the District accompanied by a total column.

These 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 as well as infrastructure 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 in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

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

Net Investment in Capital Assets - Includes amount of the fund balance that is invested in capital assets net of 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.

#### ***Fund Financial Statements***

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The District has presented all major funds that met those qualifications.

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 Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present 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. The primary revenue sources, which have been treated as susceptible to accrual by the District, are property tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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

Restricted - Includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

Committed - Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government take the same formal action that imposed the constraint originally.

Assigned - Includes amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates authority.

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

### Fiduciary Funds Financial Statements

The District entered into an arrangement whereby the District reports resources held and administered by the District in a fiduciary capacity for the Santa Cruz Hazardous Materials Interagency Team (SCHMIT). Per definition, the resources held under this agreement are not available to support the District's own programs. Fiduciary Fund financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position.

The basic financial statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Fiduciary Fund'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.

### Property Tax

The County of Santa Cruz assesses properties, bills, and collects property taxes for the District. Assessed values are determined annually by the County Assessor as of March 1, and become a lien on real property as of that date. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County bills and collects property taxes and remits them to the District under the state authorized method of apportioning taxes whereby all local agencies, including special districts, receive for the County their respective shares of the amount of ad valorem taxes collected.

### 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 had set capitalization thresholds for reporting capital assets at the following:

Structures	\$3,000
Equipment	300
Improvements	5,000 or 20% of cost of existing asset (lesser of)

Depreciation is recorded on the straight-line method (with no depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

Station and Improvements	15-40 years
Equipment	3-40 years
Mobile Equipment	10-20 years



#### Inventory, Materials, and Supplies

The inventory on hand at any time is small. Accordingly, purchases are charges directly to fixed assets or to maintenance costs, as applicable.

#### Liability for Compensated Absences

The District is required to recognize a liability for employees' rights to receive compensation for future absences. On June 30, 2015, the liability for compensated absences was \$218,157.

#### District Special Expense

Because 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".

#### Unrealized Gains and Losses

Governmental Accounting Standards Board (GASB) has established GASB-31 which requires public agencies to report the financial effect of all unrealized gains and losses on invested funds. As of June 30, 2015 the unrealized gains for Scotts Valley Fire Protection District were not considered to be material to the financial statements taken as a whole, and accordingly, has not been reflected in the financial statements.

### 3. POOLED CASH AND INVESTMENTS

Districts cash in county pool at June 30, 2015 was \$2,322,696.

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds monthly using a formula based on the average daily balance of each fund.

The carrying amounts of the County's cash deposits were \$20,371,403 at June 30, 2014. Bank Balances at June 30, 2014 were \$20,367,836, which were fully insured or collateralized with securities held by the pledging financial institution in the County's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the County's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such a collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County's name.

The market value of pledged securities must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal

Deposit Insurance Corporation. The County, however, has not waved the collateralization requirements.

Investments - The Table below identifies the investment types that are authorized for the County by the California Government Code of the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	10%	None
U.S. Treasury Obligations	5 Years	100%	None
U.S. Government Agency Obligations	5 Years	100%	25%
Bankers' Acceptances	180 Days	40%	10%
Commercial Paper	270 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Bank Deposit	180 Days	10%	10%
Repurchase Agreements	1 Year	100%	10%
Medium Term Notes	5 Years	30%	10%
Mutual Funds/Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$50 Million	None
Joint Powers Authority Investment Funds	None	25%	None

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at cost, as the fair market value adjustment at the yearend was immaterial.

Investments of debt proceeds held by the bond trustee are governed by provisions for the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

Interest Rate Risk - The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

Concentration of Credit Risk - At June 30, 2014, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt for these limitations.



The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2014.

Investment Type	S&P	Moody's	%Percent of Portfolio
U.S. Treasury Securities	AA+	Aaa	35.49%
Federal Agency Securities	AA+	Aaa	34.55%
Corporate Notes and Bonds	AA+/AA-	AAA/As3/Aa2	6.39%
Medium Term Notes - Other	Unrated	Unrated	7.64%
Money Market Mutual Funds	Unrated	Unrated	7.23%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	2.44%
Investment Agreements	AAA	Aa3	0.15%
Certificates of Deposit	A1+	Aa3	6.11%
Total			100.00%

#### Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event or the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At yearend, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

#### Local Agency Investment Fund

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2014, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: Debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: Generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

At June 30, 2014, the County had \$40,023,755 invested in LAIF, which had invested 0.21% of the pool investments funds in Structured Notes and Asset-Backed Securities as compared to .33% the previous year. LAIF provided a fair value factor in 1.00029875 to calculate the fair market value of the investments in LAIF. However, an adjustment was not made to reflect the fair market value of LAIF, as the fair market value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

#### 4. CHANGES IN LONG-TERM DEBT

A summary of long-term debt transactions of Scotts Valley Fire Protection District for the year ended June 30, 2015 is as follows:

	Balance 1, 2014	July	Reductions/ Additions	Reductions/ Additions	Balance 30, 2015
Accumulated Unpaid Compensated Absences	\$ 211,103		\$ 7,054	\$ -	\$ 218,157
Net Other Post Employment Benefits Obligation (Note 9)	\$ 606,653		\$ 65,277	\$ -	\$ 671,930
CalPERS Side Fund Liability Payment					
Long-Term Debt	\$ 2,698,297		\$ -	\$ 154,507	\$ 2,543,790

Long-Term Debt Notes Payable consists of the following items as of June 30, 2015:

	2014	2015
Santa Cruz County Bank funded fiscal year June 30, 2011, semi-annual payments of \$148,307, including interest at 5.798% per annum. Initial payment due June 15, 2011, final payment due December 15, 2025.	\$ 2,698,297	\$ 2,543,790
	\$ 2,858,745	\$ 2,543,790

#### 5. PUBLIC EMPLOYEES' RETIREMENT PLAN:

Plan Description - The Scotts Valley Fire Protection District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Scotts Valley Fire Protection District's defined benefit pension plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by the State statutes within the Public Employees' Retirement Law. The Scotts Valley Fire Protection District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts the benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments



## Summary of Significant Accounting Policies

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 and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this Purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

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

Validation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

## General Information about the Pension Plan

### *Plan Description, Benefits Provided and Employees Covered*

The Plan is a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2013 actuarial valuation report. This report is a publicly available valuation report that can be obtained at CalPERS' website under Forms and Publications.

### *Contribution Description*

Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For Public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by the employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate is 8.980 percent of annual pay, and the average employer's contribution rate is 21.669 percent of annual payroll for safety and the active employee contribution rate is 6.891 percent of annual pay, and the average employer's contribution rate is 13.292 percent of annual payroll for miscellaneous. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

## Actuarial Methods and Assumptions Used to determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table <sup>1</sup>	Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>1</sup>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 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

### Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report call the "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative



expenses would have been 7.65 percent. Using this lower discount rate was resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multi-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes.

CalPERS is Scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, staff 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 employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, 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. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1-10<sup>1</sup></b>	<b>Real Return Years 11+<sup>2</sup></b>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

#### Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in your GASB 68 accounting valuation report may differ from the plan assets reported in your funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in your funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

#### Allocation of Net Pension Liability and Pension Expense to Individual Plans

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations if individual plan amounts as of the valuation date are used where not available.

- (1) In determining a cost-sharing plans proportionate share, total amounts of liabilities and assets are first calculated for the Miscellaneous Risk Pool (risk pool) as a whole on the valuation date (2013). The risk pool's fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net position liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2014). Risk Pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: for purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2013-14).

- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4).

The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).



Please refer to the CalPERS Public Agency Cost-Sharing Allocation Methodology Report that can be obtained at CalPERS' website under the GASB 68 section, and see Appendix D of this report for the calculation of the plan's proportionate share of the TPL and FNP.

The plan's proportion of aggregate employer contributions is equal to the plan's proportion of FNP calculated in (4).

The following table shows the Plan's proportionate share of the risk pool collective net pension liability over the measurement period.

	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability/(Asset) (c)=(a)-(b)
Balance at: 6/30/2013 (VD)	\$ 32,320,878	\$ 23,982,583	\$ 8,338,295
Balance at: 6/30/2014 (MD)	\$ 33,888,906	\$ 27,591,887	\$ 6,297,019
Net Changes during 2013-14	\$ 1,568,028	\$ 3,609,304	\$ (2,041,276)

Misc.	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability/(Asset) (c)=(a)-(b)
Balance at: 6/30/2013 (VD)	\$ 595,819	\$ 435,967	\$ 159,852
Balance at: 6/30/2014 (MD)	\$ 631,276	\$ 508,436	\$ 122,840
Net Changes during 2013-14	\$ 35,457	\$ 72,469	\$ (37,012)

#### Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

#### Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

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

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

Difference between projected  
and actual earnings

5 year straight-line amortization

All other amounts

Straight-line amortization over the average expected  
remaining service lives of all members that are provided  
with benefits (active, inactive and retired) as of the  
beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of participants (active, inactive and retired) in PERF C.

The EARSL for the 2013-14 measurement period is 3.8 years, which was obtained by dividing to total service years 460,700 ( the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees are retirees have remaining service lifetimes equal to 0. Also, note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

#### **Pension Expense and Deferred Outflows and Deferred Inflows**

For the measurement period ended June 30, 2014 (the measurement date), the Scotts Valley Fire Protection District incurred a pension expense/(income) of \$52,410 for the Plan (the pension expense for the risk pool for the measurement period is \$239,824,465). See Appendix C-2 for the complete breakdown of the risk pool pension expense.

Note that no adjustments have been made for contributions subsequent to the measurement date. Adequate treatment of any contributions made after the measurement date is the responsibility of the employer.

As of June 30, 2014, the Scotts Valley Fire Protection District reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pensions as follows:

#### **Miscellaneous:**

Differences between Expected and Actual Experience	\$0	\$0
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(34,924)
Adjustment due to Differences in Proportions	0	(1,879)
<b>Total</b>	<b>\$0</b>	<b>(\$36,803)</b>

**Safety:**

Differences between Expected and Actual Experience	\$0	\$0
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(1,901,278)
Adjustment due to Differences in Proportions	508	(999)
<b>Total</b>	<b>\$508</b>	<b>(\$1,902,277)</b>

The amounts above are net outflows and inflows recognized in the 2013-14 measurement period expense.

In addition to the figures shown in the table above, each employer is required to recognize an employer-specific expense item and a deferred outflow or deferred inflow of resources related to pensions. This is derived for the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions, other than the employer-specific item, will be recognized in future pension expense as follows:

**Miscellaneous:**

<b>Measurement Period Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2015	\$ (9,402)
2016	(9,402)
2017	(9,268)
2018	(8,731)
2019	0
Thereafter	0

**Safety:**

<b>Measurement Period Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2015	\$ (475,139)
2016	(475,139)
2017	(475,174)
2018	(475,318)
2019	0
Thereafter	0

The deferred outflows and deferred inflows and schedules of future amortizations for the Risk Pool in aggregate are summarized in Appendix A.



## Schedules of Required Supplementary Information

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date in Relation to PERF C.

### Miscellaneous:

	<b><u>6/31/2014</u></b>
Plan's Proportion of the Net Pension Liability/(Asset)	0.197%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 122,840
Plan's Covered-Employee Payroll	\$ 116,623
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	105.33%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	80.54%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 13,749

### Safety:

	<b><u>6/31/2014</u></b>
Plan's Proportion of the Net Pension Liability/(Asset)	10.120%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 6,297,019
Plan's Covered-Employee Payroll	\$ 2,725,239
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	231.06%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.42%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 781,159

The deferred outflows and deferred inflows and schedules of future amortizations for the Risk Pool in aggregate are summarized.

### Schedule of Plan Contributions

### Miscellaneous:

	<b><u>Fiscal Year 2012-14</u></b>
Actuarially Determined Contribution	\$13,932
Contributions in Relation to the Actuarially Determine Contribution	(13,932)
Contribution Deficiency (Excess)	<u>\$0</u>
Covered-Employee Payroll	\$116,623
Contributions asa Percentage of Covere- Employee Payroll	11.95%

**Safety:**

	<b>Fiscal Year 2013-14</b>
Actuarially Determined Contribution	\$540,814
Contributions in Relation to the Actuarially Determine Contribution	(540,814)
Contribution Deficiency (Excess)	\$0
Covered-Employee Payroll	\$2,725,239
Contributions asa Percentage of Covere- Employee Payroll	19.84%

**6. TEMPORARY TRANSFERS OF FUNDS:**

The District requires financial assistance for the period of July through April due to the flow of property tax revenue. The Board of Supervisors of the County of Santa Cruz, by resolution, approved its intention to provided needed "tax anticipation funds" to the District in the amount of \$2,000,000. The balance is due and payable by April 30, 2015. As of June 30, 2015, no amount was outstanding.

**7. RISK MANAGEMENT**

The District is a member of the Santa Cruz County Fire Agencies Insurance Group (the "Group"). In a board meeting on June 19, 2002, the Group approved the return of its self-insurance certificates to the State and to accept a proposal from California Public Entity Insurance Authority (CPEIA) and joint powers authority for both primary and excess workers' compensation coverage. In a resolution dated September 20, 2007 the Santa Cruz Fire Agencies Insurance Group's Board of Directors opted to terminate the CPEA joint power agreement and merge into the CSAC Excess Insurance Authority (CSAC-EIA) Joint Power Agreement. This change was predicted on the decision of CSAC-EIA to restructure their bylaws and JPA agreements, discontinuing the operation of CPEIA member granted automatic approval of inclusion into both the Primary and Excess EIA workers' compensation programs beginning with the July 1, 2007 policy renewals. The relationship between the Group and CSAC-EIA ("the JPA") is such that CSACOEIA is not a component unit of the Group for reporting purposes.

CSAC-EIA is a joint powers agency (JPA formed pursuant to Section 6500 et seq. of the California Government Code. Members are assessed a contribution for each program in which they participate. Members may be subject to additional supplemental assessments if it is determined that the contributions are insufficient. Members may withdraw from the CSAC-EIA only at the end of a policy period and only if a sixty day written advance note is given. However, CSAC-EIA may cancel a membership at any time upon a two-thirds vote of the Board of Directors and with sixty days written notice. Upon withdrawal or cancellation, a member shall remain liable for additional assessments for the program periods they have participated. CSAC-EIA is governed by a board of directors. The Board controls the operations of CSAC-EIA including adopting and annual budget.



Primary Workers' Compensation - The Primary Workers' Compensation program is a full service program including claims administration. The program blends pooling of workers' compensation claims with purchased stop loss insurance.

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

Insurance coverage as of June 30, 2015 is as follows:

Property	Deductible	Limits
Real Property, Including Code Upgrade and On-site Equipment Breakdown	\$1,000	Guaranteed Replacement Cost Included
Building Contents and Personal Property	\$1,000	
Building and Contents Sublime, Earthquake and Flood	\$1,000	\$1,000,000 Each loss and each location
Electronic Data Processing		
Business - Personal Property Included	\$500	\$250,000
Equipment	\$500	\$250,000
Software	\$500	\$250,000
Emergency Services		
Commandeered and Impounded Property		Larger of Actual Value or Liability
Scheduled Equipment Floater:	\$250	Guaranteed Replacement Cost (Unlimited)
Miscellaneous Portable Equipment		\$250,000
Public Employee Dishonesty/Fidelity Bond		\$1,000,000
Employee Benefits Liability		Agreed Value or ACV
Automobile Comprehensive	\$250/1,000	Agreed Value or ACV
Automobile Collision	\$250/1,000	
Liability		
Commercial/General Liability Each Occurrence		\$1,000,000
General Aggregate Limit		\$10,000,000
Automobile Coverage -		
Combined Single Limit		\$1,000,000
Uninsured/Underinsured Motorists		\$1,000,000
Excess Liability Coverage -		
Operation, Aggregate, Automobile and Public Offices Errors and Omissions, Occurrence		\$5,000,000 Each Occurrence \$10,000,000 Aggregate
Public Officials Errors and Omissions/Management Liability including Emergency Services Liability - Occurrence, Aggregate - Primary		\$1,000,000 Each Wrongful Act \$10,000,000 Aggregate
Medical Expense (Any one person)		\$5,000
Valuable Papers/Records		\$250,000
Loss of Income - Extra Expense		Actual Cost

Money and Securities		\$250		\$25,000
Uncollected Funds				\$250,000
Personnel:				
Workers' Compensation				Statutory
PERS Health to 12/31/05, FDAC EBA from 1/1/06 to current				Per Policy
Dental				Per Policy
Term Life Insurance				Per Policy

#### 8. POST RETIREMENT BENEFITS:

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

##### Plan Description

The District provides contributions for post retirement health, dental, and life to retired employees. The scope of the benefits provided depends on the memorandum of understanding between the District and the various employees.

##### Current Accounting and Funding Policy of the Plan

The District finances the plan on a pay-as-you-go basis and the expenditures for post-retirement benefits other than pension benefits are recognized as payments are made. During the year ended June 30, 2015, expenditures of approximately \$73,549 were paid for post-employment benefits other than pension benefit.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. The actuarial assumptions included (a) Demographic assumptions affected by mortality, turnover, disability, and retirement based on the July 1, 2013 valuation.

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

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

#### District Service Benefit

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30-year level dollar, open period
Discount Rate	4%

#### Required Supplementary Information

##### Schedules of Funding Progress

#### **Funded Status of the District Service Benefit**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/13	\$ -	\$ 1,894,157	\$ 1,894,157	0.0%	\$ 2,654,745	71.3%
6/30/14	\$ -	\$ 1,908,422	\$ 1,908,422	0.0%	\$ 2,569,682	74.3%
6/30/15	\$ -	\$ 1,973,289	\$ 1,973,289	0.0%	\$ 2,741,930	72.0%

##### Schedules of Employer Contributions

#### **Employer Contributions District Service Benefit**

Year Ended	Annual OPEB Cost	Actual Contribution	Percentage Contributed
6/30/13	\$ 129,105	\$ 77,095	59.7%
6/30/14	\$ 129,105	\$ 77,395	59.9%
6/30/15	\$ 129,105	\$ 73,549	57.0%

The annual OPEB cost was less than the ARC because of the interest on the Net OPEB cost and an adjustment to the Net OPEB obligation. The ARC was \$138,826 and Annual OPEB cost was \$129,105.



## 9. SUBSEQUENT EVENTS

The District's management has evaluated events and transactions subsequent to June 30, 2015 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through September 24, 2015, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after September 24, 2015. The District did not have any subsequent events that require recognition or disclosure in the financial statements for the year ended June 30, 2015.

## 10. PRIOR-PERIOD ADJUSTMENT

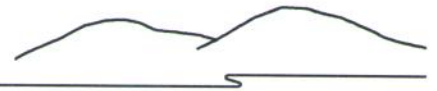
The District has a prior-period adjustment as part of the implementation of GASB 68 for Fiscal-Year 2014/2015. GASB 68 requires the District to carry on the financial statements a Net Pension Liability (NPL).

**Scotts Valley Fire Protection District**

**Supplemental Information**

**June 30, 2015**

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September 24, 2015

Board of Directors  
Scotts Valley Fire Protection District  
7 Erba Lane  
Scotts Valley, CA 95066

**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**

We have audited the financial statements of Scotts Valley Fire Protection District as of and for the year ended June 30, 2015, and have issued our report thereon dated September 24, 2015. 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.

**Internal Control Over Financial Reporting**

Management of Scotts Valley Fire Protection District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Scotts Valley Fire Protection District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scotts Valley Fire Protection District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 controls such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal controls over financial reporting was for the limited purpose described in the first paragraph of this section and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.



**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**  
**(continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Scotts Valley Fire Protection District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pehling & Pehling CPAs  
An Accountancy Corporation  
September 24, 2015

**Scotts Valley Fire Protection District**

**Budget vs. Actual  
Statement of Revenues, Expenditures & Change in Fund Balance  
For the Year Ended  
June 30, 2015**

<b><u>REVENUE</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Favorable (Unfavorable)</u></b>
Taxes and Intergovernmental	\$ 5,287,489	\$ 5,678,175	\$ 390,686
Charges for Services	45,495	54,571	9,076
Use of Money & Property	3,250	6,401	3,151
Other Government	191,250	159,470	(31,780)
Other Revenue	-	-	-
<b><u>TOTAL REVENUE</u></b>	<b><u>5,527,484</u></b>	<b><u>5,898,617</u></b>	<b><u>371,133</u></b>
<b><u>EXPENDITURES</u></b>			
Salaries and Employee Benefits	4,865,250	4,783,751	81,499
Maintenance	109,000	100,685	8,315
Professional Fees	131,910	74,824	57,086
Fixed Assets	37,900	22,980	14,920
Other Charges	324,236	324,236	0
Services, Supplies and Refunds	590,596	255,401	335,195
<b><u>TOTAL EXPENDITURES</u></b>	<b><u>6,058,892</u></b>	<b><u>5,561,876</u></b>	<b><u>497,016</u></b>
<b>Excess (Deficit) Revenues over Expenditures</b>	<b><u>(531,408)</u></b>	<b><u>336,742</u></b>	
<b><u>CHANGE IN FUND BALANCE</u></b>		<b><u>336,742</u></b>	
<b><u>FUND BALANCE, BEGINNING OF YEAR</u></b>		<b><u>1,831,329</u></b>	
<b><u>FUND BALANCE, END OF YEAR</u></b>		<b><u>\$ 2,168,071</u></b>	

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