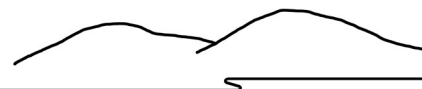


Scotts Valley Fire Protection District

FINANCIAL STATEMENTS

AUDIT REPORT

June 30, 2018



September 20, 2018

Scotts Valley Fire Protection District

Scotts Valley, CA

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Scotts Valley Fire Protection District as of and for the year-ended June 30, 2018, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

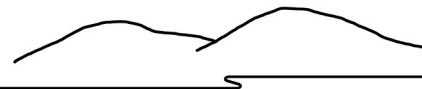
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and 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, 2018, 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 managements 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.

Pehling & Pehling, CPA's
An Accountancy Corporation

Scotts Valley Fire Protection District

**Audit Report
June 30, 2018**

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SCOTTS VALLEY FIRE PROTECTION DISTRICT

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

Steve M. Kovacs
Fire Chief

September 20, 2018

The Scotts Valley Fire Protection District (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 Spanish Oaks 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 California 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, 2018.

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

Daron Pisciotta Robert Campbell Alan Smith Russ Patterson 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 reports 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, buildings 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 Fire District.

Capital Outlay Fund - Used to separate funds for capital equipment, building 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 \$1,226,294 for the fiscal year ended June 30, 2018. The adoption of GASB 68 put the district in a negative net position with further negative net position from the adoption of GASB 74/75. 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 55 percent of the \$7,277,591 in assets, \$4,030,453 are invested in capital assets (net of accumulated depreciation and related debt).

Financial Analysis of the District's Funds

Governmental fund balances increased by \$196,816. The main reason for the difference between the \$1,226,294 increase in District net position and the \$196,816 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

General Fund revenue was 4.26% better than the budgeted \$308,388, with tax revenue 1.55% better, at \$32,753.

Salaries and benefits were \$3,949 (.07%) under budget. Services and supplies were \$62,695 (9.90%) 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 General Fund expenditures were \$141,111 (1.92%) less than the amount budgeted, including contingency appropriation, which did not need to be used during the year.

Capital expenditures were under budget by \$86,389.

Capital Assets

As of June 30, 2018, the District had invested \$6,597,139 in a broad range of capital assets including land, structures and improvements, equipment, and construction in progress.

Long-Term Liabilities

At June 30, 2018 the District had \$14,238,863 in long-term liabilities which consists of postemployment benefits obligation and the loan obtained for the payment of the CalPERS Side Fund Liability and the Net Pension Liability. The other postemployment benefits obligation is a result of the implementation of GASB 74/75. 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 \$1,942,339 as of June 30, 2018.

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 4% growth in the secured property tax (real estate). The District has budgeted the 4% 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 and new construction within the District.

Total budgeted General Fund expenditures for fiscal year 2018/2019, is \$9,068,265, which includes reserve funds. Salaries and Benefits budget includes a 3% salary increase. All authorized positions are funded this year. The District's contribution to the CalPERS retirement program is 18.677% of payroll plus an annual Unfunded Accrued Liability payment of \$507,715 for the Safety plan and 9.409% of payroll plus an annual Unfunded Accrued Liability payment of \$12,000 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.

The employer rate for new CalPERS safety employees hired after January 1, 2013, is 12.141% of payroll and non-safety employees are 6.842% of payroll.

This represents a budgeted amount of \$1,094,236, payable to CalPERS and a loan payment for the side fund of \$324,236, for a total of \$1,418,472 in retirement liability, which represents an \$168,117, increase over 2017/2018.

Health insurance is budgeted for an increase effective January 1, 2019. Retiree health insurance is budgeted at \$77,805, a decrease of \$9,214 over last year due to retirees transitioning to Medicare and supplemental insurance plans.

Workers compensation insurance is \$196,000, an increase of \$33,923 over last year.

The Services and Supplies budget is \$724,400, an increase of \$90,900 over last year.

The Contributions to Other Agencies are for the District's share of the LAFCO budget at \$9,000, an increase of \$611 over last year.

A \$200,000 transfer to the Capital Outlay is budgeted and \$50,000 for Contingencies.

The beginning Zone A fund balance is \$1,084,241. Besides auditing and accounting costs, \$18,000 is budgeted for professional services.

The beginning Capital Outlay fund balance is \$116,731. Revenue consists of a \$200,000, transfer from the General Fund and \$500, in interest.

Capital Outlay expenses include \$50,000 for fleet replacement, \$35,000 for auto extrication equipment, \$25,000 for SCBA bottles and masks, \$18,000 for Erba Station kitchen stove and improvements, \$161,731 for future capital outlay expenses and \$27,500 for contingencies.

The beginning fund balance for the Santa Cruz Hazardous Materials Interagency Team (SCHMIT) is \$45,906. Services and supplies are to support the operating costs of the team in the amount of \$63,457, which includes a \$4,500, charge for management of the program. Personnel costs include \$20,000 for reimbursement to response agencies in the event of an activation and \$112,500, for differential costs for the response agencies, which accounts for 25 total members.

Contacting the Districts 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.

GOVERNMENT FUNDS FINANCIAL STATEMENTS

Scotts Valley Fire Protection District

**Balance Sheet
June 30, 2018**

	<u>General Fund</u>	<u>Zone A</u>	<u>Capital</u>
<u>ASSETS</u>			
<u>Assets:</u>			
Cash	\$ 2,046,076	\$ 1,084,241	\$ 116,731
Accounts Receivable	-	-	-
Deposits & Prepaid Expenses	-	-	-
TOTAL ASSETS	<u>2,046,076</u>	<u>1,084,241</u>	<u>116,731</u>
<u>LIABILITIES & FUND BALANCES</u>			
<u>Liabilities:</u>			
Accounts Payable	330	-	-
Accrued Payroll	201,501	-	-
TOTAL LIABILITIES	<u>201,831</u>	<u>-</u>	<u>-</u>
<u>Fund Balances:</u>			
Unassigned	1,844,145	-	-
Unspendable	100	-	-
Committed	-	1,084,241	116,731
Total Fund Balance	<u>1,844,245</u>	<u>1,084,241</u>	<u>116,731</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u><u>\$ 2,046,076</u></u>	<u><u>\$ 1,084,241</u></u>	<u><u>\$ 116,731</u></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, 2018

<u>REVENUE</u>	<u>General Fund</u>	<u>Zone A</u>	<u>Capital</u>
Tax Revenue	\$ 6,834,796	\$ 112,212	\$ -
Charges for Service	601,257	-	-
Interest & Investment Earnings	9,424	12,528	2,533
License & Permits	54,679	-	-
Grants & Contributions	-	-	-
Miscellaneous	53,302	-	25,000
TOTAL REVENUE	7,553,458	124,740	27,533
<u>EXPENDITURES</u>			
Capital Assets	31,533	-	473,611
Debt Service:			
Principle	204,529	-	-
Interest	119,707	-	-
Professional Fees	139,661	31,496	-
Salaries and Employee Benefits	6,068,988	-	-
Repairs and Maintenance	127,923	-	-
Insurance	27,365	-	-
Services, Supplies and Refunds	284,102	-	-
TOTAL EXPENDITURES	7,003,808	31,496	473,611
Excess (Deficit) Revenues over Expenditures	549,650	93,244	(446,078)
Transfer In/(Out)	(200,000)	-	200,000
<u>CHANGE IN FUND BALANCE</u>	349,650	93,244	(246,078)
<u>FUND BALANCE, BEGINNING OF YEAR</u>	1,494,595	990,997	362,809
<u>FUND BALANCE, END OF YEAR</u>	\$ 1,844,245	\$ 1,084,241	\$ 116,731

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, 2018

<u>ASSETS</u>	<u>2018</u>
<u>Current Assets:</u>	
Cash	\$ 3,247,048
Accounts Receivable	-
Deposits & Prepaid Expenses	-
Total Current Assets	<u>3,247,048</u>
<u>Capital Assets:</u>	
Land	820,843
Buildings & Improvements	2,052,641
Firefighting Equipment	3,613,441
Construction in Progress	470,214
Less: Accumulated Depreciation	<u>(2,926,596)</u>
Total Capital Assets	<u>4,030,543</u>
TOTAL ASSETS	<u>7,277,591</u>
<u>DEFERRED OUTFLOW</u>	
GASB 68 Pension	<u>4,400,167</u>
TOTAL DEFERRED OUTFLOW	<u>4,400,167</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>11,677,758</u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	330
Accrued Payroll Liabilities	201,501
Current Portion	185,377
Accrued Compensated Absences	<u>254,869</u>
Total Current Liabilities	<u>642,077</u>
<u>Long-term Liabilities:</u>	
OPEB	2,308,483
Note Payable	1,756,962
Net Pension Liability	<u>10,173,418</u>
Total Long-term Liabilities	<u>14,238,863</u>
TOTAL LIABILITIES	<u>14,880,940</u>
<u>DEFERRED INFLOWS</u>	
GASB 68 Pension	<u>447,547</u>
TOTAL DEFERRED INFLOWS	<u>447,547</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>15,328,487</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	4,030,543
Unrestricted	<u>(7,681,272)</u>
TOTAL NET POSITION	<u>\$ (3,650,729)</u>

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**

	<u>June 30, 2018</u>
Total Fund Balances - Governmental Funds	\$ 3,045,217
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	6,957,139
Less: Accumulated Depreciation	(2,926,596)
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.	(254,869)
Deferred Outflows not due and receivable in the current period and therefore are not reported as an asset in the governmental funds. This is comprised of GASB 68 Pension Outflows. Deferred Outflows at June 30 was:	4,400,167
Deferred Inflows are not due in the current period and therefore, are not reported as liabilities in the governmental funds. This is comprised of GASB 68 Pension Inflows. Deferred Inflows at June 30 was:	(447,547)
Long-term liabilities are not due in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(14,424,240)</u>
Net Position	<u><u>\$ (3,650,729)</u></u>

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, 2018

2018				
		<u>Operating Revenues</u>		
	Expenses	Charges for Services	Grants and Contributions	Excess of Revenues/(Expenses)
<u>Governmental Activities</u>				
Public Protection	\$ 6,239,660	\$ 601,257	\$ -	\$ (5,638,403)
Depreciation (Unallocated)	210,339	-	-	(210,339)
Total Governmental Activities				<u>(5,848,742)</u>
General Revenues:				
Tax Revenue				6,947,007
Interest & Investment Earnings				24,486
License, Permits & Rents				54,679
Miscellaneous				48,864
Total General Revenues				<u>7,075,036</u>
NET CHANGE IN NET POSITION				<u>1,226,294</u>
NET POSITION, BEGINNING OF YEAR				(5,051,974)
Prior-Period Adjustment				174,951
NET POSITION, END OF YEAR				<u><u>\$ (3,650,729)</u></u>

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

SCOTT'S VALLEY FIRE PROTECTION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

	<u>June 30, 2018</u>
Net Change in Fund Balances - Total Governmental Funds	<u>196,816</u>
Amounts reported for governmental activities in the Statement of Activities 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	505,144
Less: Current Year Depreciation Expense	(210,339)
In the Governmental Funds revenues are measured by the amount of financial resources received. In the Government-Wide Statement of Activities, revenues are measured by the amounts earned during the year	(29,439)
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	616,922
In the Governmental Funds OPEB expenditures are measured by the amount of financial resources used, which is the amounts actually paid. In the Government-Wide Statement of Activities, OPEB expenditures are measured by the amounts expensed during the year	(41,862)
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	(36,712)
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 Position. Principle payments made on long-term liabilities during the year consist of:	225,764
Change in Net Position of Governmental Activities	<u><u>\$ 1,226,294</u></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, 2018

<u>ASSETS</u>	<u>2018</u>
<u>Current Assets:</u>	
Cash	\$ 45,906
Total Current Assets	45,906
<u>Capital Assets:</u>	
Firefighting Equipment	593,895
Computer Equipment	948
Less: Accumulated Depreciation	(454,604)
Total Capital Assets	140,239
TOTAL ASSETS	186,145
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	-
Total Current Liabilities	-
TOTAL LIABILITIES	-
<u>NET POSITION</u>	
SCHMIT Fund	186,145
TOTAL NET POSITION	\$ 186,145

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

Scotts Valley Fire Protection District

**Statement of Activities & Change in Fiduciary Net Position - Fiduciary Funds
SCHMIT
For the Year Ended
June 30, 2018**

	2018
<u>ADDITIONS</u>	<u>Fiduciary Fund</u>
Aid from other government agencies	\$ 144,138
Use of Money and Property (Interest)	<u>700</u>
TOTAL ADDITIONS	<u>144,838</u>
<u>DEDUCTIONS</u>	
Depreciation	21,656
Services, Supplies and Refunds	<u>140,457</u>
TOTAL DEDUCTIONS	<u>162,113</u>
<u>CHANGE IN NET POSITION</u>	<u>(17,275)</u>
<u>NET POSITION, BEGINNING OF YEAR</u>	<u>203,420</u>
<u>NET POSITION, END OF YEAR</u>	<u><u>\$ 186,145</u></u>

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

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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.

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.

Note 1 - Significant Accounting Policies

Accounting Principles

The financial statements of the Scotts Valley Fire Protection District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the District are described below.

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

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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 position and changes in net position presented in the Government-Wide financial statements. The District has presented all major funds that met those qualifications.

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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 Fund 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.

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy is to apply restricted net position first.

Budgets and Budgetary Accounting

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

Pooled Cash and Investments

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 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.

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.

Accounts Receivable

On an accrual basis, revenues are recognized in the fiscal year in which the services are rendered. The District has not established an allowance for uncollectable receivables for Governmental or Grant Funds since prior experience has shown that uncollectable receivables are not significant.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures in the period benefited.

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)

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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. All vacation and vested sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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, 2018 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred outflow/inflows of resources, represents an acquisition/disposition of net position that applies to future period(s) and will not be recognized as an outflow/inflow of resources until that time.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position

Property Taxes

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

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 – Cash

Summary of Cash

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
County Cash	\$ 3,005,952	\$ 3,246,948
Petty Cash	100	100
Total	<u>\$ 3,006,052</u>	<u>\$ 3,247,048</u>

Investment Policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The District does not have an investment policy that addresses its interest rate risk, credit risk, and concentration of credit risk.

Investment in the County of Santa Cruz's Investment Pool: The District maintains its cash in County of Santa Cruz's cash and investment pool which is managed by the Santa Cruz County Treasurer. The District's cash balances invested in the Santa Cruz County Treasurer's cash and investment pool are stated at amortized cost, which approximates fair value. Santa Cruz County does not invest in any derivative financial products. The Santa Cruz County Treasury Investment Oversight Committee (Committee) has oversight responsibility for Santa Cruz County's cash and investment pool. The value of pool shares in Santa Cruz County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. Investments held in the County's investment pool are available on demand to the District and are stated at cost, which approximates fair value. This investment is not subject to categorization under GASB No. 3.

Scotts Valley Fire Protection District

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2018, the weighted average maturity of the investments contained in the County's investment pool was approximately 614 days.

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 issued by a nationally recognized statistical rating organization. The County's investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Risk: Custodial risk is the risk that the government will not be able to recover its deposits or the value of its investments that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect deposits or investment in securities through the use of government investment pools (such as the County's investment pool).

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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District's deposits were covered by FDIC insurance at June 30, 2018.

Note 3 –Accounts Receivable

On June 30, 2018, the District had \$0 in Accounts Receivable.

Note 4 – Capital Assets

The District believes that sufficient detail of Capital assets balances is provided in the financial statements to avoid obscuring of significant components by aggregation

Note 5 – Compensated Absences

On June 30, 2018, the liability for compensated absences was \$254,869.

Note 6 - Changes in Long-term debt

A summary of long-term debt transactions of Scotts Valley Fire Protection District for the year ended June 30, 2018 is as follows:

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Balance July 1, 2017	Reductions/ Additions	Reductions/ Additions	Balance June 30, 2018
Accumulated Unpaid Compensated Absences	\$ 218,157	\$ 36,012		\$ 254,169
Net Other Post Employment Benefits Obligation	\$ 2,184,018	\$ 124,465	\$ -	\$ 2,308,483
CalPERS Side Fund Liability Payment				
Long-Term Debt	\$ 2,168,103	\$ -	\$ 225,764	\$ 1,942,339

Long-Term Debt Notes Payable consists of the following items as of June 30, 2018:

	2018	2017
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.	\$ 1,942,339	\$ 2,168,103
	<u>\$ 1,942,339</u>	<u>\$ 2,168,103</u>

	Principle	Interest
2019	185,377	111,237
2020	195,951	100,663
2021	207,128	89,486
2022 to 2026	1,353,883	256,139
	\$ 1,942,339	\$ 557,525

Note 7 - Public Employees' retirement Plan:

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Scotts Valley Fire Protection District. The Scotts Valley Fire Protection District's employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPR

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Miscellaneous plan (PEPRA Misc.). The Scotts Valley Fire Protection District's employer rate plans in the safety risk pool include the Safety plan (Safety) and the PEPRA Safety Fire plan (PEPRA Fire).

Benefits Provided

The Plan 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. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is the Basic Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

Employer Rate Plans in the Miscellaneous Risk Pool

Employer rate plan	Miscellaneous	PEPRA Misc.
	Prior to January 01, 2013	On or after January 01, 2013
Hire Date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52
Monthly benefits, as of % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	6.896%	6.25%
Required employer contribution rates	8.921%	6.533%

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
Employer Rate Plans in the Safety Risk Pool**

Employer rate plan	Safety	PEPRA Fire
	Prior to January 01, 2013	On or after January 01, 2013
Hire Date		
Benefit formula	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as of % of eligible compensation	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	8.982%	11.5%
Required employer contribution rates	17.875%	11.99%

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 CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS' annual actuarial valuation process. Each employer rate plan's actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan's allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The Scotts Valley Fire Protection District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Scotts Valley Fire Protection District's contributions to the risk pools in the Plan for the year ended June 30, 2018, were as follows:

	Contributions
Miscellaneous Risk Pool	\$21,127
Safety Risk Pool	902,759
Total contributions	<u>\$923,886</u>

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

As of June 30, 2018, Scotts Valley Fire Protection District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Proportionate Share of Net Pension Liability
Miscellaneous Risk Pool	\$188,159
Safety Risk Pool	9,985,259
Total net pension liability	<hr/> \$10,173,418 <hr/>

* The proportionate share of the total NPL to each of the enterprise and internal service funds is not being allocated because it is deemed to have an immaterial effect on the financial statements.

The Scotts Valley Fire Protection District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The Scotts Valley Fire Protection District's proportionate share of the net pension liability as of June 30, 2016, the valuation date, was calculated as follows:

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2016. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The Scotts Valley Fire Protection District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Scotts Valley Fire Protection District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The Scotts Valley Fire Protection District's proportionate share of the net pension liability as of June 30, 2017, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2017, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2017, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2017, was calculated by applying Scotts Valley Fire Protection District's proportionate share percentage as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2017, to obtain the total pension liability and fiduciary net position as of June 30, 2017. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

The Scotts Valley Fire Protection District's proportionate share percentage of the net pension liability for each risk pool as of June 30, 2016, and June 30, 2017, was as follows:

	Miscellaneous Risk Pool	Safety Risk Pool
Proportion at measurement date – June 30, 2016	0.004663%	0.165305%
Proportion at measurement date – June 30, 2017	0.004773%	0.167112%
Change – increase (decrease)	<u>0.000110%</u>	<u>0.001807%</u>

For the year ended June 30, 2018, the Scotts Valley Fire Protection District recognized pension expense of \$4,092,095. At June 30, 2018, the Scotts Valley Fire Protection District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$115,547	(\$38,741)
Changes of Assumptions	1,702,506	(110,967)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	181,013	0
Adjustment due to Differences in Proportions	1,394,612	0
Differences between Actual and Required Contributions	0	(297,839)
Contributions after Measurement Date	923,886	0
Total	\$4,317,564	(\$447,547)

Amounts other than contributions subsequent to the measurement date reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$832,653
2019	1,401,449
2020	938,192
2021	(226,163)
2022	0
Thereafter	0
Total	2,946,131

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Miscellaneous	Safety
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase ⁽¹⁾	Varies By Age & Length of Service	Varies By Age & Length of Service
Investment Rate of Return ⁽²⁾	7.50%	7.50%
Mortality Rate Table ⁽³⁾	Derived using CalPERS' Membership Data for all Funds	Derived using CalPERS' Membership Data for all Funds

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of Pension Plan Investment and Administrative Expenses; includes Inflation

⁽³⁾ 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>.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan 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 employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2017 based on June 30, 2016 Valuations*, that can be obtained from the CalPERS website.

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.15% 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%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the PERF. In making its decision, the CalPERS Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies and school districts.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. 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 Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (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 the Plan. 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.

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Asset Class	New Strategic Allocation	Real Return Years 1-10^(a)	Real Return Years 11+^(b)
Global Equity	47.0%	4.9%	5.38%
Global Fixed Income	19.0	0.8	2.27
Inflation Sensitive	6.0	0.6	1.39
Private Equity	12.0	6.6	6.63
Real Estate	11.0	2.8	5.21
Infrastructure and Forestland	3.0	3.9	5.36
Liquidity	2.0	(0.4)	(0.9)

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

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

Sensitivity of the Scotts Valley Fire Protection District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Scotts Valley Fire Protection District's proportionate share of the net pension liability of the each risk pool as of the measurement date, calculated using the discount rate, as well as what the Scotts Valley Fire Protection 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:

Sensitivity of the Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate:			
	Discount Rate -1%	Current Discount Rate	Discount Rate +1%
	6.15%	7.15%	8.15%
Employer's Net Pension Liability/(Asset) - Miscellaneous	289,940	188,160	103,864
Employer's Net Pension Liability/(Asset) - Safety	15,507,630	9,985,259	5,470,997
Employer's Net Pension Liability/(Asset) - Total	15,797,570	10,173,419	5,574,861

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF THE SCOTTS VALLEY FIRE PROTECTION DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

As of June 30, 2018

LAST TEN YEARS*

Miscellaneous Plan	Measurement Date June 30, 2014	Measurement Date June 30, 2015	Measurement Date June 30, 2016	Measurement Date June 30, 2017
Plan's Proportion of the PERF C Net Pension Liability/(Asset)	[Unknown]	0.001856%	0.001872%	0.001897%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	[Unknown]	\$127,372	\$161,983	\$188,159
Plan's Covered-Employee Payroll**	[Unknown]	\$107,963	\$138,063	\$171,988
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	[Unknown]	117.98%	117.33%	109.40%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	[Unknown]	79.75%	75.54%	74.57%

Safety Plan	Measurement Date June 30, 2014	Measurement Date June 30, 2015	Measurement Date June 30, 2016	Measurement Date June 30, 2017
Plan's Proportion of the PERF C Net Pension Liability/(Asset)	0.095200%	0.095210%	0.100810%	0.100686%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$6,535,213	\$6,535,150	\$8,723,472	\$9,985,259
Plan's Covered-Employee Payroll**	[Unknown]	\$2,844,227	\$2,999,215	\$2,917,203
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	[Unknown]	229.77%	290.86%	342.29%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	[Unknown]	80.72%	75.36%	74.70%

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total	Measurement Date June 30, 2014	Measurement Date June 30, 2015	Measurement Date June 30, 2016	Measurement Date June 30, 2017
Plan's Proportion of the PERF C Net Pension Liability/(Asset)	0.105026%	0.097066%	0.102685%	0.102583%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	[Unknown]	\$6,662,522	\$8,885,455	\$10,173,418
Plan's Covered-Employee Payroll**	[Unknown]	\$2,952,190	\$3,137,278	\$3,089,191
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	[Unknown]	225.68%	283.22%	329.32%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	[Unknown]	80.70%	75.36%	74.70%

Notes to Schedule:

Changes of benefit terms – There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a. Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes in assumptions – In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

* Fiscal Year 2015 was the first year of implementation, therefore only 4 years are shown.

** Valuation year payroll increased by assumed 3% increase.

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF THE SCOTTS VALLEY FIRE PROTECTION DISTRICT'S PENSION PLAN
CONTRIBUTIONS**

June 30, 2018

LAST TEN YEARS*

Miscellaneous Plan	CalPERS Fiscal Year 2014-15	CalPERS Fiscal Year 2015-16	CalPERS Fiscal Year 2016-17	CalPERS Fiscal Year 2017-18
Actuarially Determined Contributions	\$13,592	\$16,335	\$19,103	[Unknown]
Actual Contributions During the Measurement Period	(\$13,592)	(\$16,335)	(\$19,103)	[Unknown]**
Contribution Deficiency (Excess)	\$0	\$0	\$0	[Unknown]**
Covered-Employee Payroll	\$107,963	\$138,063	\$171,988	[Unknown]
Contributions as a Percentage of Covered-Employee Payroll	12.59%	1.13%	11.11%	[Unknown]**

Safety Plan	CalPERS Fiscal Year 2014-15	CalPERS Fiscal Year 2015-16	CalPERS Fiscal Year 2016-17	CalPERS Fiscal Year 2017-18
Actuarially Determined Contributions	\$579,311	\$726,938	\$851,899	[Unknown]
Actual Contributions During the Measurement Period	(\$579,311)	(\$726,938)	(\$851,899)	[Unknown]**
Contribution Deficiency (Excess)	\$0	\$0	\$0	[Unknown]**
Covered-Employee Payroll	\$2,541,188	\$2,999,215	\$3,018,958	[Unknown]
Contributions as a Percentage of Covered-Employee Payroll	22.80%	24.24%	28.22%	[Unknown]**

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total	CalPERS Fiscal Year 2014-15	CalPERS Fiscal Year 2015-16	CalPERS Fiscal Year 2016-17	CalPERS Fiscal Year 2017-18
Actuarially Determined Contributions	\$592,903	\$743,273	\$871,002	[Unknown]
Actual Contributions During the Measurement Period	(\$592,903)	(\$743,273)	(\$871,002)	[Unknown]**
Contribution Deficiency (Excess)	\$0	\$0	\$0	[Unknown]**
Covered-Employee Payroll	\$2,649,151	\$3,137,278	\$3,190,946	[Unknown]
Contributions as a Percentage of Covered-Employee Payroll	0.00%	18.90%	22.78%	[Unknown]**

Notes to Schedule:

Contribution Valuation Date:	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015
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* Fiscal Year 2015 was the first year of implementation, therefore only 4 years are shown.

** We did not have sufficient information to determine actual contributions toward the actuarially determined employer contributions. Scotts Valley Fire Protection District should enter the appropriate amounts and make any resulting adjustment to the expense.

Note 9 – 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, 2018, expenditures of approximately \$82,603 were paid for post-employment benefits other than pension benefit.

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 June 30, 2017 valuation.

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	June 30, 2017
Actuarial Cost Method	Projected Unit Credit
Amortization Method	30-year level dollar, open period
Inflation	2.75%
Discount Rate	3.5%

Required Supplementary Information

Schedules of Funding Progress

Funded Status of the District Service Benefit

Year Ended	Annual OPEB Cost	Actual Contribution	Percentage Contributed
6/30/2017	\$ 124,465	\$ 79,947	64.2%
6/30/2018	124,465	82,603	66.4%

Schedules of Employer Contributions

Employer Contributions District Service Benefit

Actuarial						NOL as a
Valuation						% of
Date	Value of Assets	Net OPEB Liability	Funded Ratio	Covered Payroll		Payroll
6/30/2017	\$ -	\$ 2,184,018	0%	\$ 3,656,478		60%
6/30/2018	-	2,308,483	0%	3,959,861		58%

Deferred Outflows

The District recorded a Deferred Outflow for payments made subsequent to the measurement date of \$82,603.

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Note 10 – 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 CSAC0EIA 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, 2018 is as follows:

<u>Property</u>	<u>Deductible</u>	<u>Limits</u>
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

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<u>Emergency Services</u>	<u>Deductible</u>	<u>Limits</u>
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	
<u>Liability</u>		
Commercial/General Liability Each Occurrence		\$1,000,000
General Aggregate Limit		\$10,000,000
<u>Automobile Coverage -</u>		
Combined Single Limit		\$1,000,000
Uninsured/Underinsured Motorists		\$1,000,000
<u>Excess Liability Coverage -</u>		
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
<u>Personnel:</u>		
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

Note 12 – Subsequent Events

The District's management has evaluated events and transactions subsequent to June 30, 2018 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through **September 20, 2018**, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after **September 20, 2018**.

Scotts Valley Fire Protection District

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Note 13 – Prior-period adjustment

Net Position was restated to account for CIP on the La Madrona station that was not previously recorded.

Scotts Valley Fire Protection District

Supplemental Information

June 30, 2018

Scotts Valley Fire Protection District

**Statement of Revenues, Expenditures & Change in Fund Balance
Budget and Actual - General Fund
For the Year Ended
June 30, 2018**

<u>REVENUE</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tax Revenue	\$ 6,601,874	\$ 6,834,796	\$ 232,922
Charges for Service	580,997	601,257	20,260
Interest & Investment Earnings	1,000	9,424	8,424
License & Permits	51,200	54,679	3,479
Grants & Contributions	-	-	-
Miscellaneous	10,000	53,302	43,302
TOTAL REVENUE	7,245,071	7,553,458	308,387
<u>EXPENDITURES</u>			
Capital Assets	83,000	31,533	51,467
Debt Service:			
Principle	204,529	204,529	-
Interest	119,707	119,707	-
Professional Fees	182,000	139,661	42,339
Salaries and Employee Benefits	6,072,946	6,068,988	3,958
Repairs and Maintenance	107,000	127,923	(20,923)
Insurance	28,000	27,365	635
Services, Supplies and Refunds	368,389	284,102	84,287
TOTAL EXPENDITURES	7,165,571	7,003,808	110,296
Excess (Deficit) Revenues over Expenditures	79,500	549,650	
Transfer In/(Out)		(200,000)	
<u>CHANGE IN FUND BALANCE</u>		349,650	
<u>FUND BALANCE, BEGINNING OF YEAR</u>		1,494,595	
<u>FUND BALANCE, END OF YEAR</u>		\$ 1,844,245	

Scotts Valley Fire Protection District

**Statement of Revenues, Expenditures & Change in Fund Balance
Budget and Actual - Capital
For the Year Ended
June 30, 2018**

<u>REVENUE</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tax Revenue	\$ -	\$ -	\$ -
Charges for Service	-	-	-
Interest & Investment Earnings	500	2,533	2,033
License & Permits	-	-	-
Grants & Contributions	-	-	-
Miscellaneous	50,000	25,000	(25,000)
TOTAL REVENUE	50,500	27,533	(22,967)
<u>EXPENDITURES</u>			
Capital Assets	560,000	473,611	86,389
Debt Service:			
Principle	-	-	-
Interest	-	-	-
Professional Fees	-	-	-
Salaries and Employee Benefits	-	-	-
Repairs and Maintenance	-	-	-
Insurance	-	-	-
Services, Supplies and Refunds	3,309	-	3,309
TOTAL EXPENDITURES	563,309	473,611	3,309
Excess (Deficit) Revenues over Expenditures	(512,809)	(446,078)	
Transfer In/(Out)		200,000	
<u>CHANGE IN FUND BALANCE</u>		(246,078)	
<u>FUND BALANCE, BEGINNING OF YEAR</u>		362,809	
<u>FUND BALANCE, END OF YEAR</u>		\$ 116,731	

Scotts Valley Fire Protection District

**Statement of Revenues, Expenditures & Change in Fund Balance
Budget and Actual - Zone A
For the Year Ended
June 30, 2018**

<u>REVENUE</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tax Revenue	\$ 109,675	\$ 112,212	\$ 2,537
Charges for Service	-	-	-
Interest & Investment Earnings	5,000	12,528	7,528
License & Permits	-	-	-
Grants & Contributions	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUE	114,675	124,740	10,065
<u>EXPENDITURES</u>			
Capital Assets	-	-	-
Debt Service:			
Principle	-	-	-
Interest	-	-	-
Professional Fees	41,700	31,496	10,204
Salaries and Employee Benefits	-	-	-
Repairs and Maintenance	-	-	-
Insurance	-	-	-
Services, Supplies and Refunds	63,972	-	63,972
TOTAL EXPENDITURES	105,672	31,496	74,176
Excess (Deficit) Revenues over Expenditures	9,003	93,244	
<u>CHANGE IN FUND BALANCE</u>		93,244	
<u>FUND BALANCE, BEGINNING OF YEAR</u>		990,997	
<u>FUND BALANCE, END OF YEAR</u>		\$ 1,084,241	

Scotts Valley Fire Protection District

**Statement of Revenues, Expenditures & Change in Fund Balance
Budget and Actual - SCHMIT
For the Year Ended
June 30, 2018**

<u>REVENUE</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Tax Revenue	\$ -	\$ -	\$ -
Charges for Service	-	-	-
Interest & Investment Earnings	200	700	500
License & Permits	-	-	-
Aid from other government agencies	144,138	144,138	-
Miscellaneous	-	-	-
TOTAL REVENUE	144,338	144,838	500
<u>EXPENDITURES</u>			
Depreciation		21,656	
Professional Fees	5,000	5,000	-
Salaries and Employee Benefits	-	-	-
Repairs and Maintenance	15,200	16,110	(910)
Insurance	2,000	2,000	-
Services, Supplies and Refunds	163,700	117,347	46,353
TOTAL EXPENDITURES	185,900	162,113	45,443
Excess (Deficit) Revenues over Expenditures	(41,562)	(17,275)	
<u>CHANGE IN FUND BALANCE</u>		(17,275)	
<u>FUND BALANCE, BEGINNING OF YEAR</u>		203,420	
<u>FUND BALANCE, END OF YEAR</u>		\$ 186,145	