

# **Pajaro Valley Fire Protection District**

Financial Statements and  
Supplementary Information

June 30, 2015

## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Government-Wide Financial Statements	
Statement of Net Position	7
Statement of Activities	8
Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	9
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13 - 35
Required Supplementary Information	
Budgetary Comparison Schedules - Revenues - Budget and Actual - General Fund	36
Budgetary Comparison Schedules - Expenditures - Budget and Actual - General Fund	37 - 38
Budgetary Comparison Schedules - Revenues and Expenditures - Budget and Actual - Capital Project Fund	39
Schedule of Proportionate Share of Net Pension Liability/(Asset) and Related Ratios	40
Schedule of Contributions	41

## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42 - 43
Schedule of Findings and Questioned Costs	44
Prior Year Schedule of Findings and Questioned Costs	45



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pajaro Valley Fire Protection District  
Watsonville, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, and each major fund of Pajaro Valley Fire Protection District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts, and the standards applicable to financial audits contained in *Government Auditing Standards*. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of Pajaro Valley Fire Protection District as of June 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, on our consideration of Pajaro 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pajaro Valley Fire Protection District's internal control over financial reporting and compliance.

## Report on Summarized Comparative Information

The 2014 financial statements of Pajaro Valley Fire Protection District as of and for the year ended June 30, 2014, were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino<sup>LLP</sup> as of January 1, 2015, and whose report dated December 23, 2014 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it was derived.



Armanino<sup>LLP</sup>  
Santa Cruz, California

April 7, 2016

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Management's Discussion and Analysis  
June 30, 2015

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The District provides fire protection services to the land areas covered by the former Freedom Fire Protection District and the Salsipuedes Fire Protection District.

Description of the Basic Financial Statements

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

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

Government-wide financial statements are prepared on the accrual basis of accounting and economic resources focus. The required financial statements are: Statement of Net Position and Statement of Activities. The Statement of Net Position reports all assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the long term financial position of the District is improving or deteriorating. The Statement of Activities presents information on how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is paid or received.

Governmental Funds financial statements are prepared on the modified accrual basis of accounting and current financial resources focus. The required financial statements are: Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Balance Sheet shows only assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports revenues for which cash has been received during the year or soon after the end of the year; expenditures are recorded when goods or services have been received and payment is due during the year or soon after the end of the year.

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

General Fund - Most of the District's basic services are accounted for in this fund.

Capital Projects Fund - The District uses the Capital Projects fund to accumulate funds for and accounting for the purchase/construction of Structures & Improvements and Equipment. During the fiscal years ended June 30, 2015 and 2014, the District transferred \$110,200 and \$179,650, respectively, into the Capital Projects Fund. During the fiscal years ended June 30, 2015 and 2014, the District expended \$33,292 (equipment) and \$61,882 (equipment, structures and improvement costs), respectively, out of the Capital Projects Fund.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Management's Discussion and Analysis  
June 30, 2015

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Condensed Government-Wide Financial Data

	<u>2015</u>	<u>2014</u>
Current assets	\$ 984,382	\$ 926,704
Station and equipment, net of accumulated depreciation	2,036,580	2,157,085
Other asset - net pension asset	126,121	-
Deferred outflows of resources	<u>87,093</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$3,234,176</u>	<u>\$3,083,789</u>
Current liabilities	\$ 21,096	\$ 26,323
Deferred inflows of resources	<u>335,318</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>356,414</u>	<u>26,323</u>
Net position		
Net investment in capital assets	2,036,580	2,157,085
Unrestricted	<u>841,182</u>	<u>900,381</u>
Total net position	<u>2,877,762</u>	<u>3,057,466</u>
Total liabilities and net position	<u>\$3,234,176</u>	<u>\$3,083,789</u>
	<u>2015</u>	<u>2014</u>
Expenditures, net of program revenue	\$1,652,598	\$1,564,750
General revenues		
Property tax	1,430,978	1,324,276
Fire protection tax	141,886	141,956
Use of money and property (interest income)	4,822	3,729
Aid from other government agencies	10,587	10,355
Other revenues		
Pension income	31,236	-
Other revenue	<u>6,725</u>	<u>1,531</u>
Change in net position	<u>\$ (26,364)</u>	<u>\$ (82,903)</u>

Financial Analysis of the District as a Whole

The District's net position decreased for the fiscal year ended June 30, 2015 by \$26,364 or 0.9 percent to a total of \$2,877,762. In 2014 net position decreased by \$82,903 or 2.7 percent to a total of \$3,057,466. Of the \$2,877,762 in net position as of June 30, 2015, \$2,036,580 are invested in capital assets (net of accumulated depreciation).

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Management's Discussion and Analysis  
June 30, 2015

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Financial Analysis of the District's Funds

Governmental fund balances increased for the fiscal year ended June 30, 2015 by \$62,905 or 6.5% to a total of \$963,286. In 2014 governmental fund balances increased by \$3,847 or 0.4% to a total of \$900,381. The main reasons for the difference between the decreases in District net position and the increases in fund balances for the years ended June 30, 2015 and 2014, is the difference in accounting fixed asset additions/depreciation.

Budgetary Highlights

During the fiscal year ended June 30, 2015, the following highlights occurred:

1. Continued staffing a three person engine company 24 hours a day.
2. CAL FIRE Firefighters agreed to a new labor agreement. The new agreement will result in about a 1% reduction in professional services (labor costs).
3. Continued sharing the cost of the Fire Captain position in the Fire Marshal's office with the Santa Cruz County Fire Department. The agreement is a 50/50 match, which resulted in a 50% reduction to the District.

Capital Assets

As of June 30, 2015, the District had invested \$3,548,802 in a broad range of capital assets including structures and improvements, and equipment. The District leases the land that the fire station is located on. Major capital asset additions included:

	<u>2015</u>	<u>2014</u>
Vehicle	\$33,292	\$61,882
Deck	<u>-</u>	<u>1,775</u>
Total major capital asset additions	<u>\$33,295</u>	<u>\$63,657</u>

Long-Term Liabilities

As of June 30, 2015 and 2014, the District had \$- in long-term liabilities.

GASB 68 Net Pension Asset and Related Deferred Inflows and Outflows of Resources

As of June 30, 2015 and 2014, the District had \$126,121 and \$-, respectively in net pension asset. As of June 30, 2015 and 2014, the District had \$87,093 and \$-, respectively in deferred outflows of resources and \$335,318 and \$-, respectively in deferred inflows of resources.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Management's Discussion and Analysis  
June 30, 2015

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Economic Factors and Next Year's Budget

The District's main source of revenue is property taxes. The District expects property tax revenue to increase 2% for the fiscal year ending June 30, 2016, as recommended by the Santa Cruz County Auditor/Controller.

The District plans to maintain a minimum of \$100,000 in the buildings and improvements Capital Projects account and the remaining balance of \$491,033 is designated for mobile equipment replacement. The District plans to transfer \$108,200 into the Mobile Equipment Replacement account.

The District anticipates about a 4% increase in the Cooperative Services Agreement with CAL FIRE. The reason for the increase is due to an increase in the benefit rate, administrative fee and minimum wage. Additionally, CAL FIRE and the employees Union (CAL FIRE Firefighters) have agreed to 4% increase in salary starting January 1, 2015.

Contacting the District's Financial Management

These financial statements are designed to provide a general overview of the District's finances. If you have questions about these financial statements or need additional financial information, contact the District's office at 562 Casserly Road, Watsonville, California 95076, telephone number (831) 728-8290.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

PAJARO VALLEY FIRE PROTECTION DISTRICT

Statement of Net Position

June 30, 2015

(With Comparative Totals for 2014)

<u>ASSETS</u>		
	<u>2015</u>	<u>2014</u>
Cash in county treasury		
Santa Cruz County	\$ 967,286	\$ 916,937
Accounts receivable	17,096	9,767
Current assets	<u>984,382</u>	<u>926,704</u>
Station and equipment - net of accumulated depreciation		
Structures and improvements	2,359,288	2,359,288
Equipment	<u>1,189,514</u>	<u>1,180,338</u>
Total station and equipment	3,548,802	3,539,626
Less: accumulated depreciation	<u>(1,512,222)</u>	<u>(1,382,541)</u>
Station and equipment, net of accumulated depreciation	<u>2,036,580</u>	<u>2,157,085</u>
Other asset		
Net pension asset	<u>126,121</u>	<u>-</u>
Deferred outflows of resources		
Deferred pension - actuarial	<u>87,093</u>	<u>-</u>
 Total assets and deferred outflows of resources	 <u>\$ 3,234,176</u>	 <u>\$ 3,083,789</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities		
Accounts payable	\$ 21,096	\$ 26,323
Total current liabilities	<u>21,096</u>	<u>26,323</u>
Deferred inflow of resources		
Deferred pension - actuarial	<u>335,318</u>	<u>-</u>
Total deferred inflow of resources	<u>335,318</u>	<u>-</u>
Net position		
Net investment in capital assets	2,036,580	2,157,085
Unrestricted net position		
General fund (fiscal year beginning July 1, 2014 as restated)	<u>841,182</u>	<u>900,381</u>
Total net position	<u>2,877,762</u>	<u>3,057,466</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 3,234,176</u>	<u>\$ 3,083,789</u>

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)

	Expenditures	Program Revenues			Totals	
		Charges for Services (Plan Check)	Strike Team & Emergency Reimburse-ments	Operating Grants and Contributions	2015	2014
<b>Expenditures</b>						
Fire protection						
Salaries and benefits	\$ 1,077	\$ -	\$ -	\$ -	\$ 1,077	\$ 1,098
Services and supplies	1,540,672	29,379	11,264	5,148	1,494,881	1,410,024
Contributions to other agencies	2,836	-	-	-	2,836	3,174
Interest expense	7	-	-	-	7	47
Depreciation	153,797	-	-	-	153,797	150,407
Total governmental activities	<u>1,698,389</u>	<u>29,379</u>	<u>11,264</u>	<u>5,148</u>	<u>1,652,598</u>	<u>1,564,750</u>
<b>General revenues</b>						
Property tax					1,430,978	1,324,276
Fire protection tax					141,886	141,956
Use of money and property					4,822	3,729
Aid from other government agencies						
State homeowners property tax relief					10,587	10,355
<b>Other revenue</b>						
Cost recovery - other					175	-
Fire protection services					50	100
Pension income					31,236	-
Miscellaneous					-	1,431
Gain (loss) on sale/surplus of fixed assets					6,500	-
Total general revenues					<u>1,626,234</u>	<u>1,481,847</u>
Changes in net position					(26,364)	(82,903)
<b>Net position</b>						
Net positon, beginning of the year					3,057,466	3,140,369
Prior period adjustment, restated as of July 1, 2014 for GASB 68 pension accounting					(153,340)	-
Net position, beginning of year, as restated					<u>2,904,126</u>	<u>3,140,369</u>
Net position, end of the year					<u>\$ 2,877,762</u>	<u>\$ 3,057,466</u>

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2015  
(With Comparative Totals for 2014)

ASSETS AND OTHER DEBITS

	<u>Governmental Fund Types</u>		<u>Total</u> (Memorandum Only)	
	<u>General</u>	<u>Capital Projects</u>	<u>2015</u>	<u>2014</u>
	Assets			
Cash	\$ 372,518	\$ 594,768	\$ 967,286	\$ 916,937
Accounts receivable	<u>17,096</u>	<u>-</u>	<u>17,096</u>	<u>9,767</u>
 Total assets	 <u>\$ 389,614</u>	 <u>\$ 594,768</u>	 <u>\$ 984,382</u>	 <u>\$ 926,704</u>

LIABILITIES AND FUND BALANCE

Liabilities				
Accounts payable	\$ <u>17,361</u>	\$ <u>3,735</u>	\$ <u>21,096</u>	\$ <u>26,323</u>
 Total liabilities	 <u>17,361</u>	 <u>3,735</u>	 <u>21,096</u>	 <u>26,323</u>
 Fund balance				
Assigned fund balance				
Equipment and facility replacement	-	591,033	591,033	511,649
 Unassigned fund balance				
Unreserved, undesignated	<u>372,253</u>	<u>-</u>	<u>372,253</u>	<u>388,732</u>
Total fund balance	<u>372,253</u>	<u>591,033</u>	<u>963,286</u>	<u>900,381</u>
 Total liabilities and fund balance	 <u>\$ 389,614</u>	 <u>\$ 594,768</u>	 <u>\$ 984,382</u>	 <u>\$ 926,704</u>

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Reconciliation of the Governmental Fund Balance Sheet  
to the Government-wide Statement of Net Position  
June 30, 2015  
(With Comparative Totals for 2014)

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	2015	2014
Total fund balances - Governmental Funds	\$ 963,286	\$ 900,381
<p>Amounts to be reported for governmental activities in the Statement of Net Assets are different because:</p> <p>Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds.</p>		
Total historical cost of capital assets	3,548,802	3,539,626
Less: accumulated depreciation	(1,512,222)	(1,382,541)
<p>Other assets, pension asset reported in the Statement of Net Position are not reported in governmental funds.</p>		
Net pension asset	126,121	-
<p>Deferred outflows of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred pension - actuarial	87,093	-
<p>Deferred inflows of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred pension - actuarial	(335,318)	-
Net position	\$ 2,877,762	\$ 3,057,466

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances - Government Funds  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)

	Governmental Funds			
	General	Capital Projects	Total (Memorandum Only)	
			2015	2014
Revenues				
Property taxes	\$ 1,430,978	\$ -	\$ 1,430,978	\$ 1,324,276
Other taxes	141,886	-	141,886	141,956
Use of money and property	2,346	2,476	4,822	3,729
Aid from other government agencies	10,587	-	10,587	10,355
Charges for current services	29,604	-	29,604	39,110
Other revenue	16,412	-	16,412	12,898
Total revenues	<u>1,631,813</u>	<u>2,476</u>	<u>1,634,289</u>	<u>1,532,324</u>
Expenditures				
Salaries and employee benefits	1,077	-	1,077	1,098
Services and supplies	1,540,672	-	1,540,672	1,460,501
Fixed assets	-	33,292	33,292	63,657
Other charges	2,843	-	2,843	3,221
Contingency	-	-	-	-
Total expenditures	<u>1,544,592</u>	<u>33,292</u>	<u>1,577,884</u>	<u>1,528,477</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	87,221	(30,816)	56,405	3,847
Other financing sources (uses)				
Sale of fixed assets	6,500	-	6,500	-
Transfers (to) from other funds	(110,200)	110,200	-	-
Total other financing sources	<u>(103,700)</u>	<u>110,200</u>	<u>6,500</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures	(16,479)	79,384	62,905	3,847
Beginning fund balance	<u>388,732</u>	<u>511,649</u>	<u>900,381</u>	<u>896,534</u>
Ending fund balance	<u>\$ 372,253</u>	<u>\$ 591,033</u>	<u>\$ 963,286</u>	<u>\$ 900,381</u>

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and Changed  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 June 30, 2015  
 (With Comparative Totals for 2014)

	2015	2014
Net change in fund balances - total governmental funds	\$ 62,905	\$ 3,847
 Amounts reported for governmental activities in the statement of activities are different as follows:		
 Government Funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense during the year.		
Current year capital outlays	33,292	63,657
Less: current year depreciation expense	(153,797)	(150,407)
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Net pension income	31,236	-
Change in net position of governmental activities	\$ (26,364)	\$ (82,903)

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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1. General Information

Organization

The Pajaro Valley Fire Protection Agency was a Joint Powers Agency ("JPA") formed in September 1993 consisting of two members: Freedom Fire Protection District and Salsipuedes Fire Protection District. Effective July 1, 1995, the JPA was dissolved and Pajaro Valley Fire Protection District was formed to consolidate the Freedom Fire Protection District and the Salsipuedes Fire Protection District, under the authority of Section 56000 et seq of the California Government Code. The District operates under the provisions of the Fire Protection District Law of 1987, beginning with Health and Safety Code Section 13800, and provides fire protection services to the land areas covered by the former Freedom Fire Protection District and the Salsipuedes Fire Protection District.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether it exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters). The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

District officials

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

	<u>Term Expires December</u>
Dave Martone, President	2016
Kendel White, Director	2018
Celeste Freedman, Director	2018
Sarah Chauvet, Director	2016
Jake Retz, Director	2016

Greg Estrada was the Battalion Chief at June 30, 2015.

The District entered into an agreement with the State of California ("State") whereby the District will pay the State for fire protection services in an amount to be budgeted on an annual basis. The agreement is from July 1, 2013 through June 15, 2015. Under the terms of the agreement, either party may terminate the agreement with or without cause by giving a one year written notice.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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1. General Information (continued)

Under the terms of the agreement, the District maintains the burden of the cost of operating and maintaining equipment and property under its ownership. In addition, the District is to maintain commercial insurance providing at least \$1,000,000 of general liability coverage at a combined single limit per occurrence.

In addition to the above contract with CAL FIRE, and in order to assure response to fire calls in borderline areas of the District, the District has entered into the following agreements:

Fire protection services

With the City of Watsonville.

Accounting records

The official accounting records of the District are maintained in the office of the Auditor/Controller. 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. The District's total Capital Fund and Capital Project Fund expenditures for the year ended June 2015 were under budget.

Appropriations limit

In accordance with the California Constitution, the District has adopted an appropriations limit for the fiscal year 2014/2015.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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2. Summary of Significant Accounting Policies (continued)

Basis of accounting and measurement focus

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accounting policies of the District conform to GAAP in the United States for local governmental units. The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenses or expenditures, as appropriate. The District uses a chart of accounts based on the uniform accounting system prescribed by the State Controller.

Financial statement presentation

*Government-Wide financial statements*

The District's Government-Wide Financial Statements include a statement of net position and a statement of activities and changes in net position. These statements present summaries of governmental activities for the District.

The basic Government-Wide financial statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, liabilities, deferred inflows/outflows of resources, including capital assets, and long-term liabilities are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period the liability is incurred.

The District's governmental-wide net position is classified in the following categories:

- Net investment in capital assets - Includes amount of the net position that is invested in capital assets net of accumulated depreciation and any related debt.
- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by a formal action of the government's highest level of decision-making authority, external resource providers, constitutionally, or through enabling legislation.
- Unrestricted - Includes amounts that are technically available for any purpose and includes all amounts not contained in other classifications.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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2. Summary of Significant Accounting Policies (continued)

Financial statement presentation (continued)

*Governmental Funds financial statements*

The District's Government Funds 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. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements of net position presented in the Government-Wide financial statements.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred. Reconciliation of the Governmental Funds financial statements to the Government-Wide financial statements is provided to explain the differences created by the different measurement focus and basis of accounting.

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

- Nonspendable - Includes amounts that are not in a spendable form or are required to be maintained intact.
- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.
- Committed - Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- Assigned - Includes amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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2. Summary of Significant Accounting Policies (continued)

Financial statement presentation (continued)

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

Total columns on combined statements - overview

Total Columns on the combined statement are captioned "memorandum only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Property tax revenue

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 whereby all local agencies including special districts, receive from the County their respective share of the amount of ad valorem taxes collected.

Cash in County Treasury

The Districts cash is held in the Santa Cruz County Treasury Pools and are considered cash. See Note 3 to the financial statements for information regarding the Pools investments, interest rate risk, concentration of credit risk and custodial credit risk for the largest County.

Accounts receivable

All accounts receivable, if any, are shown net of any allowance for uncollectible accounts. All receivables which have been remitted within 60 days subsequent to fiscal year end are considered measurable and available and recognized as income in the government-fund financial statements.

Inventory, materials and supplies

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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2. Summary of Significant Accounting Policies (continued)

Prepaid items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and government fund financial statements, as applicable.

Capital assets

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

	<u>Cost</u>	<u>Useful Lives</u>
Structures	\$3,000	30 - 40 years
Equipment	\$1,000	3 - 15 years

Depreciation is recorded on the straight-line method over the useful lives of the assets.

Fund balance designated

Fund balance designated indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

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 and 2014, the unrealized gains/losses for Pajaro Valley Fire Protection District were immaterial to the financial statements taken as a whole, and accordingly, have not been reflected in the financial statements.

Use of estimates

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

PAJARO VALLEY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2015

3. Pooled Cash and Investments

The District's funds are held in the County of Santa Cruz pooled cash and investment pool. The following is information from the most recently available (June 30, 2015) audited financial statements of the County of Santa Cruz.

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 cash balance of each fund. Interest earned through June 30, 2015 was distributed on the thirtieth business day during June 2015, and is shown as part of receivables on the financial statements.

The following is a summary of cash and investments at June 30, 2015:

Government-Wide Statement of Net Position				
	Primary Governments			Component Unit
	Governmental Activities	Business-Type Activities	Total	Santa Cruz County Sanitation District
Cash and investments	\$ 206,499,726	\$ 5,868,928	\$ 212,368,654	\$ 19,821,327
Restricted cash and investments	14,047,087	6,076,310	20,123,397	969,937
Total cash and investments	<u>\$ 220,546,813</u>	<u>\$ 11,945,238</u>	<u>\$ 232,492,051</u>	<u>\$ 20,791,264</u>
Fiduciary Funds				
	Agency Funds	Investment Trust Fund	Private Purpose Fund	County Total
Cash and investments	\$ 40,590,783	\$ 371,829,794	\$ 13,308,970	\$ 657,919,528
Restricted cash and investments	-	-	9,093,441	30,186,775
Total cash and investments	<u>\$ 40,590,783</u>	<u>\$ 371,829,794</u>	<u>\$ 22,402,411</u>	<u>\$ 688,106,303</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2015

3. Pooled Cash and Investments (continued)

	<u>Cash and Investments</u>	<u>Restricted Cash &amp; Investments</u>	<u>Total</u>
Primary government and fiduciary funds			
Cash on hand or imprest cash	\$ 3,021,442	\$ -	\$ 3,021,442
Cash deposits in Treasury Pool	19,648,141	-	19,648,141
Investments in Treasury Pool	615,428,618	-	615,428,618
Restricted investments in other pools	-	23,157,037	23,157,037
Restricted cash deposits in Treasury Pool	-	-	-
Davenport County Sanitation District	-	-	-
County Disposal Sites CSA 9C	-	6,059,801	6,059,801
Total	<u>638,098,201</u>	<u>29,216,838</u>	<u>667,315,039</u>
Component unit			
Investments in Treasury Pool	19,821,327	-	19,821,327
Restricted investments in other banks	-	969,937	969,937
Total	<u>19,821,327</u>	<u>969,937</u>	<u>20,791,264</u>
Total cash and investments	<u>\$ 657,919,528</u>	<u>\$ 30,186,775</u>	<u>\$ 688,106,303</u>

At June 30, 2014, the County's cash on hand, deposits, and investments consisted of:

	<u>Treasury Pool</u>	<u>Other Banks/ Investment Pools</u>	<u>Total</u>
Primary government and fiduciary funds			
Cash on hand or imprest cash	\$ 163,310	\$ 2,858,132	\$ 3,021,442
Deposits	19,648,141	-	19,648,141
Investments	620,322,066	24,323,390	644,645,456
Total primary government	<u>640,133,517</u>	<u>27,181,522</u>	<u>667,315,039</u>
Component unit			
Investments	19,821,327	969,937	20,791,264
Total component unit	<u>19,821,327</u>	<u>969,937</u>	<u>20,791,264</u>
Total reporting unit	<u>\$ 659,954,844</u>	<u>\$ 28,151,459</u>	<u>\$ 688,106,303</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2015

3. Pooled Cash and Investments (continued)

The carrying amounts of the County's cash deposits were \$19,648,141 at June 30, 2015, of which the bank balances were fully insured or collateralized with securities held by the pledging financial institutions 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 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 waived the collateralization requirements.

Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or 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%	10%
Bank deposit	5 Years	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	N/A	25%	None
Supranationals	5 years	30%	None

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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3. Pooled Cash and Investments (continued)

Investments

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 year-end was immaterial.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code of 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.

At June 30, 2015, the County had the following investment maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less Than 1	1 to 2	2 to 3	3 to 4	More than 4
U.S. treasury securities	\$ 226,511,293	\$ 61,041,740	\$ 107,514,950	\$ 57,954,603	\$ -	\$ -
Federal agency securities	283,626,245	50,046,900	134,634,010	98,945,335	-	-
Medium term notes - other	73,469,107	61,387,500	12,081,607	-	-	-
Money market mutual funds	500,173	500,173	-	-	-	-
Local Agency Investment Fund (LAIF)	26,023,858	26,023,858	-	-	-	-
Certificates of deposit	55,499,791	55,499,791	-	-	-	-
Investment agreements	9,000,000	9,000,000	-	-	-	-
Total investments	<u>\$ 674,630,467</u>	<u>\$ 263,499,962</u>	<u>\$ 254,230,567</u>	<u>\$ 156,899,938</u>	<u>\$ -</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2015

3. Pooled Cash and Investments (continued)

Concentration of Credit Risk

At June 30, 2015, 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 investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government sponsored enterprises are exempt from these limitations.

The following schedule is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2015.

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>	<u>% of Portfolio</u>
U.S. Treasury Securities	AA+	Aaa	33.51%
Federal Agency Securities	AA+	Aaa	42.08%
Medium Term Notes	AA/AAA	Aaa/Aa1-Aa3	10.90%
Money Market Mutual Funds	Unrated	Unrated	0.07%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	3.86%
Certificates of Deposit	A1+	P1	5.94%
Checking Account	Unrated	Unrated	2.30%
Investment Agreements	Unrated	Unrated	1.34%
Total			<u>100.00%</u>

Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of 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 year end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

PAJARO VALLEY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2015

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3. Pooled Cash and Investments (continued)

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, 2015, 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, 2015, the County had \$26,023,858 invested in LAIF, which had invested 0.13% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.21% in the previous year. LAIF provided a fair value factor of 1.000375979 to calculate the fair 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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4. Changes in Station and Equipment

	Balance June 30, 2014	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2015
Station and improvements	\$ 2,359,288	\$ -	\$ -	\$ 2,359,288
Equipment	<u>1,180,338</u>	<u>33,292</u>	<u>(24,116)</u>	<u>1,189,514</u>
Total	3,539,626	33,292	(24,116)	3,548,802
Accumulated depreciation	<u>(1,382,541)</u>	<u>(153,797)</u>	<u>24,116</u>	<u>(1,512,222)</u>
Total, net of accumulated depreciation	<u>\$ 2,157,085</u>	<u>\$(120,505)</u>	<u>\$ -</u>	<u>\$ 2,036,580</u>
	Balance June 30, 2013	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2014
Station and improvements	\$ 2,357,513	\$ 1,775	\$ -	\$ 2,359,288
Equipment	<u>1,118,456</u>	<u>61,882</u>	<u>-</u>	<u>1,180,338</u>
Total	3,475,969	63,657	-	3,539,626
Accumulated depreciation	<u>(1,232,134)</u>	<u>(150,407)</u>	<u>-</u>	<u>(1,382,541)</u>
Total, net of accumulated depreciation	<u>\$ 2,243,835</u>	<u>\$ (86,750)</u>	<u>\$ -</u>	<u>\$ 2,157,085</u>

5. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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5. Risk Management (continued)

Workers' compensation coverage

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

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

Primary workers' compensation

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

Excess workers' compensation

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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5. Risk Management (continued)

Liability insurance

The District has joined the Fire Agencies Insurance Risk Authority, a joint powers authority (JPA) with other California special districts as members. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for reporting purposes. The Authority, as administrator, maintains general liability insurance for its members. The purpose of the joint protection program is to reduce the amount and frequency of their losses, pool their self-insured losses, and jointly purchase general liability insurance. For the fiscal year ended June 30, 2015, FAIRA maintained a fully-insured program.

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

	<u>Deductible</u>	<u>Amount</u>
Property		
Property (building and contents)	\$ 1,000	\$10,000,000
Automobile physical damage	\$ 1,000	\$ 5,000,000
Liability		
Comprehensive general and automobile bodily injury, property damage, person injury, single limit	\$ 1,000	\$1,000,000
General liability - each	None	\$1,000,000
General liability - aggregate		\$2,000,000
Other		
Workers' compensation insurance		Statutory

6. Dry Period Funding

As of June 30, 2015, the District had received authorization for a temporary transfer of funds with the County of Santa Cruz for an amount up to \$300,000. This loan is in anticipation of tax revenues for the operation and maintenance of the District until the tax revenues are collected. Any advances under this loan are to be repaid by April 30, 2016. During the fiscal year ended June 30, 2015, the District did not borrow any funds under the tax anticipation agreement.

7. Accounts Receivable and Accounts Payable

Accounts receivable as of June 30, 2015 and 2014, consisted of \$17,096 (grant funds, 4th quarter refunds due from the Department of Forestry and Fire Protection and secured supplemental property tax) and \$9,767 (grant funds), respectively. The 4th quarter estimate for services in accordance with the CAL FIRE cooperative agreement was greater than actual and a refund was issued.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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7. Accounts Receivable and Accounts Payable (continued)

Accounts payable consist of the following items as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Operations		
Services and supplies	\$ 2,206	\$ 516
CAL FIRE contract	-	21,039
Vehicle	3,735	-
City of Watsonville	<u>15,155</u>	<u>4,768</u>
	<u>\$21,096</u>	<u>\$26,323</u>

8. Commitments and Contingencies

Ground lease

The District leases the real property on which the District's fire station is located. During the year ended June 30, 2003, the District constructed a new fire station and entered into a ground lease. The ground lease is for 50 years, rent is payable in one \$50 payment, due upon commencement of the lease.

9. Defined Benefit Pension Plan

Plan description

The Plan is a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provision under the Plans are established by State statute and the District's resolution. CalPERS issues publically available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service, age, and final compensation.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Benefits provided (continued)

The Plans provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<b>Safety</b>
	Prior to January 1, 2013
Benefit formula	2% @ 50
Benefit vesting schedule	5 year's service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.00%
Required employee contribution rates	9.00%
Required employer contribution rates	0.00%

Contributions

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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2014, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>2014</u>	<u>2015</u>
Contributions - employer	\$ -	\$ -
Contributions – employee (paid by employer)	\$ -	\$ -

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Net pension liability/(asset)

As of June 30, 2015, the District reported net pension assets for its proportionate shares of the net pension liability as follows:

	<u>Proportionate Share of net pension liability/(asset)</u>
Safety	\$ (126,121)

The District's net pension liability/(asset) is measured as the proportionate share of the net pension liability. The net pension asset is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability/(asset) was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability/(asset) as of June 30, 2013 and 2014 was as follows:

	<u>Safety</u>
Proportion – June 30, 2013	\$ 291,108
Proportion – June 30, 2014	<u>(126,121)</u>
Change – increase/ (decrease)	<u>\$(417,229)</u>

Pension expenses and deferred outflows/inflows of resources related to pensions

For the year ended June 30, 2015, the District recognized pension income of \$31,236. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred Inflows of resources</u>
Pension contributions subsequent to measurement date	<u>\$ -</u>	<u>\$ -</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(335,318)
Adjustment due to differences in proportions	<u>87,093</u>	<u>-</u>
Total	<u>\$ 87,093</u>	<u>\$(335,318)</u>

The \$87,093 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ended June 30, 2016.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Pension expenses and deferred outflows/inflows of resources related to pensions (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Inflows</u>
2016	\$83,829
2017	83,829
2018	83,829
2019	83,831
2020	-
Thereafter	-
Total	<u>\$335,318</u>

Actuarial assumptions

The total pension liabilities/(assets) in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Safety</u>
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-age normal cost method
Actuarial Assumptions:	
Discount rate	7.50%
Inflation	2.75%
Payroll Growth	3.0%
Projected salary increase	Varies <sup>(1)</sup>
Investment rate of return	7.5% <sup>(2)</sup>
Mortality <sup>(3)</sup>	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract Cost-of-Living-Adjustment (COLA) up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.00% thereafter.

<sup>(1)</sup> Depending on age, service and type of employment.

<sup>(2)</sup> Net of pension plan investment and administrative expenses, including inflation.

<sup>(3)</sup> The mortality table used was developed based on CalPERS's 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Actuarial assumptions (continued)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 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% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% 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% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the 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% 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 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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) 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 2017-18 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Discount rate (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and 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 returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 <sup>(a)</sup></u>	<u>Real Return Years 11+ <sup>(b)</sup></u>
Global equity	47.0%	5.25%	5.71%
Global fixed income	19.0%	.099%	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	<u>2.0%</u>	(0.55)%	(1.05)%
Total	<u>100%</u>		

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

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

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the District for each Plan, calculated using the discount rate for each Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Safety</u>
1% decrease	6.50%
Net pension liability/(asset)	\$508,804
Current discount rate	7.50%
Net pension liability/(asset)	\$(126,121)
1% increase	8.50%
Net pension liability/(asset)	\$(649,272)

Pension plan fiduciary net position

The plan fiduciary net position disclosed in the District's CalPERS GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the District's CalPERS 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 the District's funding actuarial valuation. In additions, differences may result from early CAFR closing and final reconciled reserves.

<u>Valuation date: June 30, 2013</u>	<u>Safety</u>
Total pension liability/(asset)	\$4,520,779
Fiduciary net position	\$4,229,671
Net pension liability/(asset)	\$ 291,108
Total plan liability %	0.02675%
Fiduciary net position%	0.03491%

<u>Valuation date: June 30, 2014</u>	<u>Safety</u>
Total pension liability/(asset)	\$4,740,102
Additional side fund payment during 2013-2014	\$ -
Fiduciary net position	\$4,866,223
Net pension liability	\$(126,121)
Net pension liability %	0.00336%

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Notes to Financial Statements  
June 30, 2015

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9. Defined Benefit Pension Plan (continued)

Payable to the pension plan

At June 30, 2015, there is no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

10. Prior period adjustments

A prior period adjustment of \$153,340 was made to decrease the governmental activities beginning net position. The adjustment was made to reflect the prior period costs to the implementation of the net pension liability/asset.

The restatement of the beginning net position of the governmental activities is summarized as follows:

Governmental activities	
Net position at July 1, 2014 as previously stated	\$ 3,057,466
Net pension liability/asset adjustment	<u>(153,340)</u>
Net position at July 1, 2014, as restated	<u>\$ 2,904,126</u>

11. Subsequent Events

The District's management has evaluated additional events and transactions subsequent to June 30, 2015, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through April 7, 2016, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after April 7, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Budgetary Comparison Schedules - Revenues -  
 Budget and Actual - General Fund  
 For the Year Ended June 30, 2015

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes				
Current secured	\$ 1,316,100	\$ 1,316,100	\$ 1,382,011	\$ 65,911
Current unsecured	26,000	26,000	28,201	2,201
Prior year - unsecured	600	600	3,039	2,439
Penalties for delinquent taxes	-	-	371	371
Redemption penalties for delinquent taxes	-	-	528	528
Current supplemental	9,000	9,000	16,148	7,148
Prior year - supplemental	300	300	680	380
Total property taxes	<u>1,352,000</u>	<u>1,352,000</u>	<u>1,430,978</u>	<u>78,978</u>
Other taxes				
Fire protection tax	<u>141,000</u>	<u>141,000</u>	<u>141,886</u>	<u>886</u>
Total other taxes	<u>141,000</u>	<u>141,000</u>	<u>141,886</u>	<u>886</u>
Use of money and property				
Interest	<u>2,200</u>	<u>2,200</u>	<u>2,346</u>	<u>146</u>
Total use of money and property	<u>2,200</u>	<u>2,200</u>	<u>2,346</u>	<u>146</u>
Aid from other government agencies				
Homeowner property tax relief	<u>10,000</u>	<u>10,000</u>	<u>10,587</u>	<u>587</u>
Total aid from other	<u>10,000</u>	<u>10,000</u>	<u>10,587</u>	<u>587</u>
Government agencies	<u>10,000</u>	<u>10,000</u>	<u>10,587</u>	<u>587</u>
Charges for current services				
Plan checking fees	30,000	30,000	29,379	(621)
Cost recovery - other	-	-	175	175
Fire protection services	<u>1,000</u>	<u>1,000</u>	<u>50</u>	<u>(950)</u>
Total charges for current services	<u>31,000</u>	<u>31,000</u>	<u>29,604</u>	<u>(1,396)</u>
Other revenue				
Other revenue	-	-	16,412	16,412
Unclaimed money-escheated	-	-	-	-
Total other revenue	<u>-</u>	<u>-</u>	<u>16,412</u>	<u>16,412</u>
Other financing sources				
Sale of fixed assets-non taxable	<u>6,500</u>	<u>6,500</u>	<u>6,500</u>	<u>-</u>
Total use of money and property	<u>6,500</u>	<u>6,500</u>	<u>6,500</u>	<u>-</u>
Total revenues	<u>\$ 1,542,700</u>	<u>\$ 1,542,700</u>	<u>\$ 1,638,313</u>	<u>\$ 95,613</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Budgetary Comparison Schedules - Expenditures -  
 Budget and Actual - General Fund  
 For the Year Ended June 30, 2015

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures</b>				
OASDI - Social Security	\$ 100	\$ 100	\$ 77	\$ 23
Workers' Compensation Insurance	<u>1,300</u>	<u>1,300</u>	<u>1,000</u>	<u>300</u>
Total salaries and employee benefits	<u>1,400</u>	<u>1,400</u>	<u>1,077</u>	<u>323</u>
<b>Services and supplies</b>				
Clothing and personal supplies	10,000	10,000	5,890	4,110
Radio	3,000	3,000	1,808	1,192
Telephone	6,500	6,500	4,665	1,835
Food	1,000	1,000	482	518
Other household expenses - services	2,500	2,500	1,937	563
Other insurance	6,500	6,500	6,508	(8)
Maintenance - mobile equipment	25,000	39,000	34,997	4,003
Maintenance - other equipment	7,700	7,700	5,087	2,613
Maintenance - structure and grounds	7,000	7,000	6,054	946
Medical, dental and lab supplies	2,400	2,400	1,024	1,376
Memberships	1,000	1,000	1,413	(413)
PC software	200	200	235	(35)
Postage	1,000	1,000	58	942
Supplies	2,200	2,200	1,226	974
Accounting and auditing fees	25,000	25,000	21,980	3,020
Attorney	2,500	2,500	20	2,480
Directors' fees	1,000	1,000	1,000	-
Professional services	1,560,000	1,560,000	1,407,920	152,080
Publication printing costs	800	800	-	800
Legal notices	500	500	164	336
Small tools and instruments	500	500	96	404
Election expense	500	500	-	500
Special district expense	22,400	22,400	20,920	1,480
Education and training	8,000	8,000	600	7,400
Gas, oil and fuel	13,000	13,000	7,256	5,744
Utilities	<u>9,000</u>	<u>9,000</u>	<u>9,332</u>	<u>(332)</u>
Total services and supplies	<u>1,719,200</u>	<u>1,733,200</u>	<u>1,540,672</u>	<u>192,528</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Budgetary Comparison Schedules - Expenditures -  
 Budget and Actual - General Fund (continued)  
 For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Amended Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Fixed assets				
Buildings and improvements	\$ 3,000	\$ 3,000	\$ -	\$ 3,000
Equipment	-	-	-	-
Mobile equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fixed assets	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Other charges				
Interest - other	300	300	7	293
Contribution to other agencies (LAFCO)	<u>3,000</u>	<u>3,000</u>	<u>2,836</u>	<u>164</u>
Total other charges	<u>3,300</u>	<u>3,300</u>	<u>2,843</u>	<u>457</u>
Contingencies	<u>100,000</u>	<u>86,000</u>	<u>-</u>	<u>86,000</u>
Total expenditures	<u>\$ 1,826,900</u>	<u>\$ 1,826,900</u>	<u>\$ 1,544,592</u>	<u>\$ 282,308</u>
Other financing sources (uses)				
Transfer to capital projects fund	<u>\$ 110,200</u>	<u>\$ 110,200</u>	<u>\$ 110,200</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Budgetary Comparison Schedules - Revenues and Expenditures -  
 Budget and Actual - Capital Project Fund  
 For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Amended Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Use of money and property				
Interest	\$ -	\$ -	\$ 2,476	\$ 2,476
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,476</u>	<u>\$ 2,476</u>
<b>Expenditures</b>				
Services and supplies				
Maintenance - structure and grounds	\$ -	\$ -	\$ -	\$ -
Contingencies	-	-	-	-
Fixed assets				
Buildings and improvements	100,000	100,000	-	100,000
Equipment	<u>521,800</u>	<u>521,800</u>	<u>33,292</u>	<u>488,508</u>
	<u>621,800</u>	<u>621,800</u>	<u>33,292</u>	<u>588,508</u>
Total expenditures	<u>\$ 621,800</u>	<u>\$ 621,800</u>	<u>\$ 33,292</u>	<u>\$ 588,508</u>
<b>Other financing sources (uses)</b>				
Transfer from general fund	<u>\$ 110,200</u>	<u>\$ 110,200</u>	<u>\$ 110,200</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Schedule of Proportionate Share of Net Pension Liability/(Asset) and Related Ratios  
June 30, 2015  
Last 10 Years\*

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**Schedule of Central Fire Protection District of Santa Cruz County's Proportionate  
Share of Net Pension Liability/(Asset) and Related Ratios**

	Safety June 30, 2014**
Proportion of the net pension liability/(asset)	(0.00203)%
Proportionate share of the net pension liability/(asset)	\$ (126,121)
Covered employee payroll	N/A
Proportionate share of the net pension liability as a percentage of covered-employee payroll	N/A
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	102.66%
Plan's proportionate share of aggregate employer contributions	\$ 137,768

Notes to schedule

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

\*\*Measurement date is June 30, 2014

Benefit changes

The figures above do not include any liability impact that may have resulted from Plan changes,  
which may have occurred after June 30, 2013.

Changes in assumptions

There were no changes in assumptions.

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Schedule of Contributions  
 June 30, 2015  
 Last 10 Years\*

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**Schedule of Contributions**

	Safety 2013-2014
Contractually required contribution (actuarially determined)	\$ -
Contributions in relation to the actuarially determined contributions	-
Contribution deficiency (excess)	\$ -
 Covered-employee payroll	 N/A
 Contributions as a percentage of covered-employee payroll	 N/A

Notes to Schedule

Valuation date is June 30, 2013.

\* Fiscal year 2014-2015 was the 1st year of implementation; therefore only one year is shown. presented as they become available.

\*\*Measurement date is June 30, 2014

Benefit changes

The figures above do not include any liability impact that may have resulted from Plan changes, which may have occurred after June 30, 2013.

Changes in assumptions

There were no changes in assumptions.

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

Board of Directors  
Pajaro Valley Fire Protection District  
Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of Pajaro Valley Fire Protection District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Pajaro Valley Fire Protection District basic financial statements, and have issued our report thereon dated April 7, 2016.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weakness (2015-1).

## **Compliance and Other Matters**

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

## **Pajaro Valley Fire Protection District's Response to Finding**

Pajaro Valley Fire Protection District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Pajaro Valley Fire Protection District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



Armanino<sup>LLP</sup>  
Santa Cruz, California

April 7, 2016

PAJARO VALLEY FIRE PROTECTION DISTRICT  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

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Finding/Program	Findings/Non-Compliance
Current year finding financial statements audit	
Material weakness	
2015-1	Significant Deficiency: Material Weakness
Condition:	The District did not prepare internal financial statements including related note disclosures in accordance with generally accepted accounting principles.
Criteria:	The District does not have in place controls that would assure the preparation of internal financial statements and related note disclosures in accordance with generally accepted accounting principles.
Cause of Condition:	As is common with a District of your size you do not have the personnel to prepare the financial statements, including the related notes in accordance with generally accepted accounting principles.
Effect of Condition:	As part of the audit process the independent auditors drafted the financial statements and related disclosures, as well as performing procedures to ensure that the related disclosures were complete. Draft financial statements were submitted to the District for review and approval.
Recommendation:	We recommend that the District review this material weakness on an annual basis.
Status:	The District has decided that it is not cost effective to hire additional staff to mitigate this item. We will emphasize financial training and oversight by board members.
	The contact person for the District is:
	Battalion Chief, (831) 728-8290

PAJARO VALLEY FIRE PROTECTION DISTRICT  
Prior Year Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

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Finding/Program	Findings/Non-Compliance
Prior year finding financial statements audit	
Material weakness	
2014-1	Significant Deficiency: Material Weakness
Condition:	The District did not prepare internal financial statements including related note disclosures in accordance with generally accepted accounting principles.
Criteria:	The District does not have in place controls that would assure the preparation of internal financial statements and related note disclosures in accordance with generally accepted accounting principles.
Cause of Condition:	As is common with an District of your size you do not have the personnel to prepare the financial statements, including the related notes in accordance with generally accepted accounting principles.
Effect of Condition:	As part of the audit process the independent auditors drafted the financial statements and related disclosures, as well as performing procedures to ensure that the related disclosures were complete. Draft financial statements were submitted to the District for review and approval.
Recommendation:	We recommend that the District review this material weakness on an annual basis.
Status:	The District has decided that it is not cost effective to hire additional staff to mitigate this item. We will emphasize financial training and oversight by board members.
	The contact person for the District is:
	Battalion Chief, (831) 728-8290