

PAJARO VALLEY FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
and
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

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**Pajaro Valley Fire Protection District
Basic Financial Statements
June 30, 2020 and 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pajaro Valley Fire Protection District
Watsonville, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Pajaro Valley Fire Protection District (District), as of and for the year ended June 30, 2020, 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 the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Report on Summarized Comparative Information

We have previously audited the Pajaro Valley Fire Protection District's 2019 financial statements in our report dated January 7, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maze + Associates

Pleasant Hill, California
January 7, 2021

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2020

The District provides fire protection services to the land and 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 government 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 the 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 resource 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 the 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 resource 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.

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/constructing of Structures & improvements and equipment. During the fiscal years ended June 30, 2020 and 2019, the District transferred \$60,000 and \$130,025 respectively, into the Capital Projects Fund. During the fiscal years ended June 30, 2020 and 2019, the District expended \$-0- (facilities improvement) and \$15,000, respectively, out of the Capital Projects Fund.

Financial Analysis of the District as a Whole

The District’s net position decreased for the fiscal year ended June 30, 2020 by \$591,420 or 20% to a total of \$2,643,773. In 2019 net position increased by \$609,638 or 323% to a total of \$23,235,193. Of the \$2,643,773 in the net position as of June 30, 2020, \$1,697,476 are invested in capital assets (net of accumulated depreciation).

Financial Analysis of the District’s Funds

Governmental fund balances increased for the fiscal year ended June 30, 2020 by \$812,198 or 19% to the total of \$2,0856,102. In 2019 governmental fund balances increased by \$671,494 or 47% to a total of \$2,087,289. The main reasons for the difference between the change in the District net position and the change in fund balances for the years ended June 30, 2020 and 2019, is the difference in accounting for fixed asset additions/depreciation and pension asset/liability.

Budgetary Highlights

During the fiscal year ended June 30, 2020, the following highlights occurred:

1. Continued staffing a three-person engine company 24 hours a day.
2. 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, 2020, the District had invested \$3,799,479 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 include:

	<u>2020</u>	<u>2019</u>
Facility Improvements	\$ -0-	\$ 15,000
Total major capital asset additions	\$ 229,751	\$ -0-

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2020

Long – Term Debt

As of June 30, 2020, and 2019, the district had no long-term debt.

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

As of June 30, 2020, and 2019, the District had (\$580,307) and (\$490,478), respectively in net pension (liability)/asset. As of June 30, 2020, and 2019, the District had \$56,803 and \$25,267, respectively in deferred outflows of resources and \$ -0- and \$-0-, respectively in deferred inflows of resources.

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 4.5% for the fiscal year ending June 30, 2020, as recommend by the Santa Cruz County Auditor/Controller.

The District anticipates about a 5% 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.

Capital Outlay; the District has budgeted \$100,000 for building and improvements and \$1,031,025 for mobile equipment replacement. Funding is from \$1,131,025 fund balance as of June 30, 2020, projected \$6,000 of interest income, and a transfer \$60,000 into the Mobile Equipment Replacement account.

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 office at 562 Casserly road, Watsonville, California 95076, telephone number (831) 722-6188.

Basic Financial Statements

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PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Assets		
Cash in County Treasury		
Santa Cruz County	\$ 1,473,455	\$ 2,452,367
Total Current Assets	1,473,455	2,452,367
Station and Equipment		
Structures and Improvements	2,385,818	2,385,818
Equipment	1,413,661	1,204,010
Total Station and Equipment	3,799,479	3,589,828
Accumulated Depreciation	(2,102,003)	(1,976,713)
Station and Equipment, Net of Accumulated Depreciation	1,697,476	1,613,115
Total Assets	3,170,931	4,065,482
Deferred Outflows of Resources		
Deferred Pension - Actuarial	56,803	25,267
Total Assets and Deferred Outflows of Resources	\$ 3,227,734	\$ 4,090,749
Liabilities		
Current Liabilities		
Accounts payable	\$ 3,654	\$ 365,078
Total Current Liabilities	3,654	365,078
Other Liabilities		
Net Pension Liability	580,307	490,478
Total Liabilities	583,961	855,556
Net Position		
Net investment in capital assets	1,697,476	1,613,115
Unrestricted		
General Fund	946,297	1,622,078
Total Net Position	2,643,773	3,235,193
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 3,227,734	\$4,090,749

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Program Revenues				Totals	
	Expenditures	Charges for Services (Plan Check)	Strike Team & Emergency Reimbursements	Operating Grants and Contributions	2020	2019
Expenditures						
Fire Protection						
Salaries and Benefits	\$ 57,916	\$ -	\$ -	\$ -	\$ 57,916	\$ 26,328
Pension Expense (GASB 68)	58,293	-	-	-	58,293	387
Services and Supplies	2,477,954	21,814	52,461	-	2,403,679	1,262,214
Contributions to Other Agencies	2,549	-	-	-	2,549	2,537
Depreciation	125,290	-	-	-	125,290	94,924
Total Governmental Activities	<u>\$ 2,722,002</u>	<u>\$ 21,814</u>	<u>\$ 52,461</u>	<u>\$ -</u>	<u>2,647,727</u>	<u>1,386,390</u>
General Revenues						
Property Tax					1,870,270	1,808,597
Fire Suppression Benefit Assessment					140,707	140,982
Use of Money and Property Agencies					35,225	36,307
State Homeowners Property Tax Relief					<u>10,105</u>	<u>10,142</u>
Total General Revenues					<u>2,056,307</u>	<u>1,996,028</u>
Change in Net Position					(591,420)	609,638
Net Position, Beginning					<u>3,235,193</u>	<u>2,625,555</u>
Net Position, Ending					<u>\$ 2,643,773</u>	<u>\$ 3,235,193</u>

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2020 and 2019

	Governmental Fund Types		Total	
	General	Capital Projects	2020	2019
ASSETS				
Cash and Investments	\$ 573,691	\$ 899,764	\$ 1,473,455	\$ 2,452,367
Total Assets	<u>\$ 573,691</u>	<u>\$ 899,764</u>	<u>\$ 1,473,455</u>	<u>\$ 2,452,367</u>
LIABILITIES				
Accounts Payable	\$ 3,654	\$ -	\$ 3,654	\$ 365,078
Total Liabilities	<u>3,654</u>	<u>-</u>	<u>3,654</u>	<u>365,078</u>
FUND BALANCES				
Assigned Fund Balance				
Equipment and Facility Replacement	-	899,764	899,764	1,079,271
Unassigned				
Unreserved, Undesignated	<u>570,037</u>	<u>-</u>	<u>570,037</u>	<u>1,008,018</u>
Total Fund Balance	<u>570,037</u>	<u>899,764</u>	<u>1,469,801</u>	<u>2,087,289</u>
Total Liabilities and Fund Balances	<u>\$ 573,691</u>	<u>\$ 899,764</u>	<u>\$ 1,473,455</u>	<u>\$ 2,452,367</u>

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Fund Balance Sheet to the
Government-Wide Statement of Net Position - Governmental Activities
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Fund Balances - Total Governmental Funds	\$ 1,469,801	\$ 2,087,289
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>		
<p>Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.</p>		
Total Historical Cost of Capital Assets	3,799,479	3,589,828
Less: Accumulated Depreciation	(2,102,003)	(1,976,713)
<p>Deferred outflow of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred Pension - Actuarial	56,803	25,267
<p>Other liabilities, pension liabilities reported in the Statement of Net Position are reported in governmental funds.</p>		
Net Pension Liability	(580,307)	(490,478)
<p>Deferred inflow of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred Pension - Actuarial	-	
Net Position of Governmental Activities	\$ 2,643,773	\$ 3,235,193

See accompanying notes to basic financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	General	Capital Projects	Total	
			2020	2019
REVENUES:				
Property taxes	\$ 1,870,270	\$ -	\$ 1,870,270	\$ 1,808,597
Other taxes	140,707	-	140,707	140,982
Use of money and property	15,753	19,472	35,225	36,307
Aid from other government agencies	10,105	-	10,105	10,142
Charges for current services	21,814	-	21,814	26,762
Other revenue	52,461	-	52,461	91,958
Total Revenues	2,111,110	19,472	2,130,582	2,114,748
EXPENDITURES:				
Salaries and employee benefits	57,916	-	57,916	26,328
Services and supplies	2,428,018	-	2,428,018	1,399,789
Fixed assets	608	258,979	259,587	14,600
Other charges	2,549	-	2,549	2,537
Total Expenditures	2,489,091	258,979	2,748,070	1,443,254
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(377,981)	(239,507)	(617,488)	671,494
OTHER FINANCING SOURCES (Uses)				
Transfers (to) from other funds	(60,000)	60,000	-	-
Total other financing sources (uses)	(60,000)	60,000	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(437,981)	(179,507)	(617,488)	671,494
Fund Balance, Beginning	1,008,018	1,079,271	2,087,289	1,415,795
Fund Balance, Ending	\$ 570,037	\$ 899,764	\$ 1,469,801	\$ 2,087,289

See accompanying notes to basic financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Reconciliation of the Governmental Fund Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Government-wide Statement of Activities
 Governmental Activities
 June 30, 2020
 (With Comparative Totals for 2019)

	2020	2019
Net Change in Fund Balances - Total Governmental Funds	\$ (617,488)	\$ 671,494
<p>Amounts reported for governmental activities in the Statement of Activities are different because of the following:</p>		
<p>Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Current year capital outlays	452,425	45,127
Less: current year retirements	(241,797)	(1,488)
Less: current year depreciation expense	(126,267)	(105,108)
<p>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.</p>		
Net pension income/(expense)	(58,293)	(387)
Change in Net Position of Governmental Activities	\$ (591,420)	\$ 609,638

See accompanying notes to basic financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 1 – GENERAL INFORMATION

A. 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.

B. District Officials

The District is governed by a board of five elected directors. The following were in office at June 30, 2020:

	<u>Term Expires December</u>
Kendel White, Chairperson	2022
Robert Erbe, Vice Chairperson	2020
Dave Martone, Director	2020
Dean Moules, Director	2022
Aerin Murphy, Director	2020

Sean Murray was the Battalion Chief at June 30, 2020.

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, 2018 through June 30, 2021. Under the terms of the agreement, either party may terminate the agreement with or without cause by giving a one year written notice.

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 1 – GENERAL INFORMATION (Continued)

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 County of Santa Cruz 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 2020 were under budget.

Appropriations limit

In accordance with the California Constitution, the District has adopted an appropriations limit for the fiscal year 2019/2020.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basic 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Adoption of New Guidance

GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance – The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement extended the implementation dates for 15 GASB Statements and Implementation Guides by 1 year or more. This Statement had no effect on the District's financial statements.

C. 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, expenses are recognized in the period the liability is incurred.

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.
- Unassigned - 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 the Financial Statements
June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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.

E. Cash in County Treasury

The District's cash is held in the Santa Cruz County ("County") Treasury Pool, which is not rated by national credit rating agencies. See Note 3 to these financial statements for information regarding the Pools investments, interest rate risk, concentration of credit risk and custodial credit risk. The County Treasurer pools cash with other County and Special District funds and invests to maximize income consistent with safe and prudent investment practices within the guidelines of the County's investment pool. The County routinely reviews its investment policy. The estimated fair value of investments in the pool is based on quoted market prices. The fair value of the District's position in the pool is the same as the value of the pool shares. The value of the pool shares may be withdrawn at any time based on an amortized cost basis, which is different than the fair value of the District's position in the pool. Information regarding the investments within the pool, including related risks, can be found in the County of Santa Cruz's Comprehensive Annual Financial Report.

F. 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.

G. 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.

H. 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report deferred outflows of resources. Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has two items which qualify for reporting as deferred outflows of resources; both are related to GASB 68 Pension accounting and are reported on the Government-Wide Financial Statement.

In addition to liabilities, the statement of financial position will sometimes report deferred inflows of resources. Deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The District currently has one two items which qualify for reporting as deferred inflows of resources; both are related to GASB 68 Pension accounting and are reported on the Government-Wide Financial Statement.

K. 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.

L. 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”.

M. 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 the Financial Statements
June 30, 2020

NOTE 3 – POOLED CASH AND INVESTMENTS

A. Cash

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, 2019) 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, 2019 was distributed on June 30, 2019.

The following is a summary of cash and investments at June 30, 2019:

	Government-Wide Statement of Net Positions			
	Primary Governments			Component Unit
	Governmental Activities	Business-Type Activities	Total	Santa Cruz County Sanitation District
	Agency Funds	Investment Trust Fund	Private Purpose Fund	County Total
Cash and Investments	\$ 223,867,208	\$ 10,264,941	\$ 234,132,149	\$ 15,542,639
Restricted Cash and Investments	9,280,584	8,012,205	17,292,789	7,000,000
Total cash and investments	\$ 233,147,792	\$ 18,277,146	\$ 251,424,938	\$ 22,542,639
Cash and Investments	\$ 50,749,438	\$ 531,043,627	\$ 14,449,294	\$ 845,917,147
Restricted Cash and Investments	-	-	4,502	24,297,291
Total cash and investments	\$ 50,749,438	\$ 531,043,627	\$ 14,453,796	\$ 870,214,438

	Cash and Investments	Restricted Cash & Investments	Total
Primary Government and Fiduciary Funds			
Cash on hand or imprest cash	\$ 4,833,203	\$ -	\$ 4,833,203
Cash deposits in Treasury Pool	19,820,743	-	19,820,743
Investments in Treasury Pool	805,720,561	-	805,720,561
Restricted investments in other pools	-	9,797,020	9,797,020
Restricted cash deposits in Treasury Pool			
County Disposal Sites CSA 9C	-	7,500,272	7,500,272
Total	830,374,507	17,297,292	847,671,799
Component unit			
Investments in Treasury Pool	15,542,639	-	15,542,639
Restricted investments in other banks	-	7,000,000	7,000,000
Total	15,542,639	7,000,000	22,542,639
Total cash and investments	\$ 845,917,146	\$ 24,297,292	\$ 870,214,438

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

At June 30, 2019, the County's cash on hand, deposits, and investments consisted of:

	Treasury Pool	Other Banks/ Investment Pools	Total
Primary Government and Fiduciary Funds			
Cash on hand or imprest cash	\$ 109,356	\$ 4,723,847	\$ 4,833,203
Deposits	19,820,743	-	19,820,743
Investments	813,220,833	9,797,020	823,017,853
Total primary government	<u>833,150,932</u>	<u>14,520,867</u>	<u>847,671,799</u>
Component unit			
Investments	15,542,639	7,000,000	22,542,639
Total component unit	<u>15,542,639</u>	<u>7,000,000</u>	<u>22,542,639</u>
Total reporting unit	<u>\$ 848,693,571</u>	<u>\$ 21,520,867</u>	<u>\$ 870,214,438</u>

The carrying amounts of the County's cash deposits were \$19,820,743 at June 30, 2019, 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.

B. 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.

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

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.

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	\$65 Million	None
Joint Powers Authority investment funds	N/A	25%	10%
Supranationals	5 years	30%	10%

C. 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, 2019, 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
Local agency bonds	\$ 24,381,126	\$ 12,247,926	\$ 12,133,200	\$ -	\$ -	\$ -
U.S. treasury securities	275,141,780	275,141,780	-	-	-	-
Federal agency securities	179,588,665	97,038,655	42,039,800	40,510,210	-	-
Medium term notes - other	105,058,110	64,562,760	-	25,016,750	15,478,600	-
Money market mutual funds	55,000,000	55,000,000	-	-	-	-
Local Agency Investments Fund (LAIF)	65,238,769	65,238,769	-	-	-	-
Certificates of deposit	95,022,400	95,022,400	-	-	-	-
Investment Agreements	12,000,000	12,000,000	-	-	-	-
Supranationals	50,948,550	35,945,100	15,003,450	-	-	-
Total investments	<u>\$ 862,379,400</u>	<u>\$ 712,197,390</u>	<u>\$ 69,176,450</u>	<u>\$ 65,526,960</u>	<u>\$ 15,478,600</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

D. Concentration of Credit Risk

At June 30, 2019, 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, 2019:

Investment Type	Standard & Poor's	Moody's	% of Portfolio
Local agency bonds	A	Aa3	2.83%
U.S. treasury securities	AA+	Aaa	31.90%
Federal agency securities	AA+	Aaa	20.82%
Medium term notes - other	A/AAA	A+	12.18%
Money market mutual funds	Unrated	Unrated	6.38%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	7.56%
Certificates of deposit	A1	P1	11.03%
Investment agreements	Unrated	Unrated	1.39%
Supranational	AAA	Aaa	5.91%
Total			100%

E. 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.

F. Local Agency Investment Fund (LAIF)

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, 2019, 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

At June 30, 2019, the County had \$65,238,769 invested in LAIF, which had invested 0.05% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.8% in the previous year. LAIF provided a fair value factor of 1.001711790 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.

G. Local Agency Investment Fund (LAIF)

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1: Investments reflect prices quoted in active markets

Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active, and

Level 3: Investments reflect prices based on unobservable sources.

The Pool has the following recurring fair value measurements as of June 30, 2019:

Investment by Fair Value Level		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
Local agency bonds	\$ 24,381,126	\$ 24,381,126	\$ -	\$ -
U.S. Treasury Securities	275,141,780	275,141,780	-	-
Federal Agency Securities	179,588,665	179,588,665	-	-
Medium-Term Notes - Other	105,058,110	105,058,110	-	-
Certificates of Deposit	95,022,400	95,022,400	-	-
Investment Agreements	12,000,000	12,000,000	-	-
Supranationals	50,948,550	50,948,550	-	-
Total Investments Measured at Fair Value	742,140,631	<u>\$ 742,140,631</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Amortized Cost				
Money Market Mutual Funds	55,000,000			
LAIF	65,238,769			
Total Pooled and Directed Investments	<u>\$ 862,379,400</u>			

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 4 – CHANGES IN STATION AND EQUIPMENT

	Balance June 30, 2018	Additions/ Adjustments	Deletions	Balance June 30, 2019
Station and Improvements	\$ 2,385,818	\$ -	\$ -	\$ 2,385,818
Equipment	1,170,555	45,127	(11,672)	1,204,010
Total	<u>3,556,373</u>	<u>45,127</u>	<u>(11,672)</u>	<u>3,589,828</u>
Accumulated depreciated	<u>(1,881,789)</u>	<u>(105,108)</u>	<u>10,184</u>	<u>(1,976,713)</u>
Total, net of accumulated depreciation	<u>\$ 1,674,584</u>	<u>\$ (59,981)</u>	<u>\$ (1,488)</u>	<u>\$ 1,613,115</u>
	Balance June 30, 2019	Additions/ Adjustments	Deletions	Balance June 30, 2020
Station and Improvements	\$ 2,385,818	\$ -	\$ -	\$ 2,385,818
Equipment	1,204,010	452,425	(242,774)	1,413,661
Total	<u>3,589,828</u>	<u>452,425</u>	<u>(242,774)</u>	<u>3,799,479</u>
Accumulated depreciated	<u>(1,976,713)</u>	<u>(126,267)</u>	<u>977</u>	<u>(2,102,003)</u>
Total, net of accumulated depreciation	<u>\$ 1,613,115</u>	<u>\$ 326,158</u>	<u>\$ (241,797)</u>	<u>\$ 1,697,476</u>

NOTE 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.

A. Workers' Compensation Coverage

The District is a member of the Santa Cruz County Fire Agencies Insurance Group (“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 (“JPA”) is such that CSAC-EIA is not a component unit of the Group for reporting purposes.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 5 – RISK MANAGEMENT (Continued)

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.

B. 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.

C. Excess Workers' Compensation

CSAC-EIA 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%.

D. 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, 2019, FAIRA maintained a fully-insured program.

Insurance coverage as of June 30, 2020 is as follows:

	Deductible	Limit
Property		
Property (building and contents)	\$ 5,000	\$ 10,000,000
Automobile physical damage	\$ 1,000	\$ 1,000,000
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		\$ 20,000,000

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 6 – DRY PERIOD FUNDING

As of June 30, 2019, 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, 2019. During the fiscal year ended June 30, 2020, the District did not borrow any funds under the tax anticipation agreement.

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable consist of the following items as of June 30, 2020 and 2019:

	2020	2019
Operations		
Services and Supplies		\$ 6,106
CAL FIRE Contract		358,972
Other	\$ 3,654	
	\$ 3,654	\$ 365,078

NOTE 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.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

A. 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 publicly 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION PLAN

B. 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.

The Safety Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

Hire Date	Prior to January 1, 2013
Benefits formula	2% @ 50
Benefits vesting schedule	5 years' service
Benefit payments	Monthly for life
Retirement age	50
Monthly benefits, as a % of eligible compensation	2.00%
Required employee contributions rates	9.00%
Required employer contribution rates	0.00%

C. 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.

D. Net Pension Liability

As of June 30, 2020, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of \$580,307.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2020 was as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/18 (MD)	\$ 5,268,629	\$ 4,778,151	\$ 490,478
Balance at: 6/30/19 (MD)	5,440,950	4,860,643	580,307
Net Changes during 2018-19	\$ (172,321)	\$ (82,492)	\$ (89,829)

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

E. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the District recognized pension expense of \$58,293. At June 30, 2020, the District reported deferred outflows of resources in the amount of \$56,803 which represents pension contribution made subsequent to measurement date.

F. Actuarial Assumptions

For the measurement period ended June 30, 2019 (the measurement date), total pension liability was determined by rolling forward following the June 30, 2018 total pension liability determined in the June 30, 2019 actuarial accounting valuation. The June 30, 2019 total pension liability was based on the following actuarial methods and assumptions:

Actuarial cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

¹The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2017.pdf>

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

G. Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. The projection of cash flows used to determine the discount rate for the Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

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 funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the expected real rate of return by asset class.

Asset Class ¹	New Strategic Allocation	Real Return Years 1 - 10 ²	Real Return Years 11+ ³
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive Assets	0.00%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)

¹In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

²An expected inflation of 2.00% used for this period

³An expected inflation of 2.92% used for this period

H. Sensitivity of the Net Pension Liability to the 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:

	Discount Rate 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/(Asset)	\$ 1,325,953	\$ 580,307	\$ (31,006)

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2020

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

I. 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>Measurement period: June 30, 2019</u>	<u>Safety</u>
Total pension liability	\$ 5,440,950
Fiduciary net position	\$ 4,860,643
Net pension liability	\$ 580,307

J. Subsequent Event - CalPERS Pension Contribution Rates

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. As a result of these changes, the District's contribution rates for the fiscal year ended June 30, 2021 are expected to increase over the fiscal year 2020 contribution rates.

NOTE 10 – SUBSEQUENT EVENTS

The District's management has evaluated additional events and transactions subsequent to June 30, 2020, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through January 7, 2021, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after January 7, 2021.

Required Supplemental Information

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues - Budget and Actual - General Fund
 For the Year Ended June 30, 2020

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes				
Current secured	\$ 1,799,504	\$ 1,799,504	\$ 1,802,326	\$ (2,822)
Current unsecured	36,000	36,000	35,127	873
Prior year - unsecured	2,300	2,300	3,538	(1,238)
Penalties for delinquent taxed	-	-	249	(249)
Redemption penalties for delinquent taxes	-	-	236	(236)
Current supplemental	14,000	14,000	26,189	(12,189)
Prior year - supplemental	1,000	1,000	2,605	(1,605)
Total property taxed	<u>1,852,804</u>	<u>1,852,804</u>	<u>1,870,270</u>	<u>(17,466)</u>
Other taxes				
Fire suppression benefit assessment	141,400	141,400	140,707	693
Total other taxes	<u>141,400</u>	<u>141,400</u>	<u>140,707</u>	<u>693</u>
Use of money and property				
Interest	6,000	6,000	15,753	(9,753)
Total use of money and property	<u>6,000</u>	<u>6,000</u>	<u>15,753</u>	<u>(9,753)</u>
Aid from other government agencies				
Homeowner property tax relief	10,200	10,200	10,105	95
Total aid from other government agencies	<u>10,200</u>	<u>10,200</u>	<u>10,105</u>	<u>95</u>
Charges for current services				
Plan checking fees	23,000	23,000	21,584	1,416
Fire protection services	500	500	230	270
Total charges for current services	<u>23,500</u>	<u>23,500</u>	<u>21,814</u>	<u>1,686</u>
Other revenue				
Other revenue	10,000	10,000	52,461	(42,461)
Unclaimed money - escheated	10,000	10,000	52,461	(42,461)
Total other revenue	<u>10,000</u>	<u>10,000</u>	<u>52,461</u>	<u>(42,461)</u>
Total revenue	<u>\$ 2,043,904</u>	<u>\$ 2,043,904</u>	<u>\$ 2,111,110</u>	<u>\$ (67,206)</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2020

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Salaries and employee benefits				
OASDI - Social Security	\$ 100	\$ 100	\$ 113	\$ (13)
PERS	57,000	\$ 57,000	56,803	197
Workers' compensation insurance	1,000	1,000	1,000	-
Total salaries and employee benefits	<u>58,100</u>	<u>58,100</u>	<u>57,916</u>	<u>184</u>
Services and supplies				
Clothing and personal supplies	23,000	23,000	19,837	3,163
Radio	7,500	7,500	6,300	1,200
Telephone	5,000	5,000	4,174	826
Food	1,000	1,000	355	645
Other household expense - services	2,500	2,500	2,592	(92)
Other insurance	6,700	6,700	5,821	879
Maintenance - mobile equipment	40,000	40,000	40,588	(588)
Maintenance - other equipment	7,700	7,700	6,427	1,273
Maintenance - structure and grounds	3,400	3,400	3,424	(24)
Medical, dental and lab supplies	4,200	4,200	2,437	1,763
Memberships	2,500	2,500	440	2,060
PC software	750	750	264	486
Postage	500	500	360	140
Supplies	1,700	1,700	1,005	695
Accounting and auditing fees	30,000	30,000	25,542	4,458
Attorney	2,500	2,500	736	1,764
Directors' fee	1,500	1,500	1,480	20
Professional services	2,368,152	2,368,152	2,279,476	88,676
Publication printing costs	2,000	2,000	163	1,837
Legal notices	500	500	293	207
Small tools and instruments	89,500	89,500	7,481	82,019
Election expense	1,000	1,000	-	1,000
Education and training	1,500	1,500	450	1,050
Gas, oil and fuel	8,000	8,000	7,364	636
Lodging	1,500	1,500	100	1,400
Utilities	12,000	12,000	10,909	1,091
Total services and supplies	<u>2,624,602</u>	<u>2,624,602</u>	<u>2,428,018</u>	<u>196,584</u>
Fixed assets				
Buildings and improvements	10,500	10,500	608	9,892
Total fixed assets	<u>10,500</u>	<u>10,500</u>	<u>608</u>	<u>9,892</u>
Other charges				
Interest - other	300	300	-	300
Contribution to other agencies (LAFCO)	2,600	2,600	2,549	51
Total other charges	<u>2,900</u>	<u>2,900</u>	<u>2,549</u>	<u>351</u>
Total expenditures	<u>\$ 2,696,102</u>	<u>\$ 2,696,102</u>	<u>\$ 2,489,091</u>	<u>\$ 207,011</u>
Other financing sources (uses)				
Transfer to capital projects fund	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ (60,000)</u>	<u>\$ 120,000</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Capital Project Fund
 For the Year Ended June 30, 2020

	<u>Final Budget</u>	<u>Amended Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Use of money and property				
Interest	\$ 6,000	\$ 6,000	\$ 19,472	\$ (13,472)
Total revenues	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 19,472</u>	<u>\$ (13,472)</u>
Expenditures				
Fixed assets				
Buildings and improvements	100,000	100,000	-	100,000
Mobile Equipment	1,031,025	1,031,025	258,979	772,046
Total expenditures	<u>\$ 1,131,025</u>	<u>\$ 1,131,025</u>	<u>\$ 258,979</u>	<u>\$ 872,046</u>
Other financing sources (uses)				
Transfer from general fund	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability (Asset) and Related Ratios
June 30, 2020
Last 10 Years *

Fiscal year	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement period	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Entity's proportion of net pension liability (asset)	0.00566%	0.00509%	0.00495%	0.00426%	0.025896%	0.203%
Entity's proportionate share of net pension liability (asset)	\$ 580,307	\$ 490,478	\$ 491,006	\$ 368,852	\$ 59,480	\$ (126,121)
Entity's covered-employee payroll (Measurement Year)	-	-	-	-	-	-
Entity's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the Plan's total pension liability	75.26%	75.26%	73.31%	74.06%	102.66%	78.40%
Proportionate share of the aggregate employer contributions	\$ 192,970	\$ 201,574	\$ 158,988	\$ -	\$ -	\$ -

Notes to Schedule:

* Fiscal year 2014-15 was the first year of implementation. Additional years presented as they become available.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Contributions
June 30, 2020
Last 10 Years*

Fiscal Year	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 56,803	\$ 25,267	\$ 26,182	\$ 18,513	\$ -	\$ -
Contributions in Relation to the						
Actuarially Determined Contribution	(56,803)	(25,267)	(26,182)	(18,513)	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A

*Fiscal year 2014-15 was the first year of implementation.
Additional years presented as they become available.

MEMORANDUM ON INTERNAL CONTROL

To the Board of Directors of
Pajaro Valley Fire Protection District
Watsonville, California

In planning and performing our audit of the basic financial statements of the Pajaro Valley Fire Protection District (District), California, as of an for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
January 7, 2021

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF MATERIAL WEAKNESSES

2020-01 – Preparation of the Financial Statements

Condition – The District did not prepare internal financials statements including related notes 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 notes disclosures in accordance with generally accepted accounting principles.

Cause – Due to the size and financial resources, the District does not have the personnel to prepare the financial statements, including the related notes in accordance with generally accepted accounting principles.

Effect – 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 annually to determine if it is effective to have a staff member prepare the financial statements.

Status – This material weakness is ongoing from prior years. The District has decided that it is not cost effective to hire additional staff to mitigate this issue.

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**PAJARO VALLEY FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

2019-01 & 2018-01 – Preparation of the Financial Statements

Condition – The District did not prepare internal financials statements including related notes 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 notes disclosures in accordance with generally accepted accounting principles.

Cause – Due to the size and financial resources, the District does not have the personnel to prepare the financial statements, including the related notes in accordance with generally accepted accounting principles.

Effect – 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 annually to determine if it is effective to have a staff member prepare the financial statements.

Status – This material weakness is ongoing from prior years. The District has decided that it is not cost effective to hire additional staff to mitigate this issue.

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REQUIRED COMMUNICATIONS

To the Board of Directors
Pajaro Valley Fire Protection District
Watsonville, California

We have audited the basic financial statements of the Pajaro Valley Fire Protection District (District) for the year ended June 30, 2020. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 9 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the District. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 4 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Directors.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated January 7, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplemental information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

This information is intended solely for the use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
January 7, 2021

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