

PAJARO VALLEY FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
and
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

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**Pajaro Valley Fire Protection District
Basic Financial Statements
June 30, 2018 and 2017**

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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, 2018, 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 2017 financial statements in our report dated March 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maze + Associates

Pleasant Hill, California
January 24, 2019

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2018

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, 2018 and 2017, the District transferred \$20,000 and \$188,200, respectively, into the Capital Projects Fund. During the fiscal years ended June 30, 2018 and 2017, the District expended \$-0- (facilities improvement) and \$-0-, respectively, out of the Capital Projects Fund.

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2018

Condensed Government-Wide Financial Data

	<u>2018</u>	<u>2017</u>
Current assets	\$ 1,428,628	\$ 1,405,543
Stations and equipment, net of accumulated depreciation	1,674,584	1,695,312
Deferred outflows of resources	<u>26,182</u>	<u>18,513</u>
Total assets and deferred outflows of resources	<u>\$ 3,129,394</u>	<u>\$ 3,119,368</u>
Current liabilities	\$ 12,833	\$ 26,170
Net pension liability	<u>491,006</u>	<u>368,852</u>
Total liabilities and deferred inflow of resources	<u>503,839</u>	<u>395,022</u>
Net position		
Net investment in capital assets	1,674,584	1,695,312
Unrestricted	<u>950,971</u>	<u>1,029,034</u>
Total net position	<u>2,625,555</u>	<u>2,724,346</u>
Total liabilities and net position	<u>\$ 3,129,394</u>	<u>\$ 3,119,368</u>
	<u>2018</u>	<u>2017</u>
Expenditures, net of program revenue	\$ 1,955,263	\$ 1,958,358
General Revenue		
Property tax	1,684,563	1,608,083
Fire suppression benefits assessment	141,436	141,882
Use of money and property (interest income)	20,380	11,070
Aid from other government agencies	10,093	10,355
Other revenue	<u>-</u>	<u>13,015</u>
Change in net position	<u>\$ (98,791)</u>	<u>\$ (173,953)</u>

Financial Analysis of the District as a Whole

The District’s net position decreased for the fiscal year ended June 30, 2018 by \$98,791 or 3.6 percent to a total of \$2,625,555. In 2017 net position increased by \$173,935 or 6.8 percent to a total of \$2,724,346. Of the \$2,625,555 in the net position as of June 30, 2018, \$1,674,584 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, 2018 by \$36,422 or 2.6% to the total of \$1,415,795. In 2017 governmental fund balances increased by \$178,309 or 15% to a total of \$1,379,373. 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, 2018 and 2017, is the difference in accounting for fixed asset additions/depreciation and pension asset/liability.

Budgetary Highlights

During the fiscal year ended June 30, 2018, 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, 2018, the District had invested \$3,556,373 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>2018</u>	<u>2017</u>
Facility Improvement and Equipment	\$ -0-	\$ 66,061
Total major capital asset additions	\$ -0-	\$ 66,061

PAJARO VALLEY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis

June 30, 2018

Long – Term Debt

As of June 30, 2018, and 2017, the district had no long-term debt.

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

As of June 30, 2018, and 2017, the District had (\$491,006) and (\$368,852), respectively in net pension (liability)/asset. As of June 30, 2018, and 2017, the District had \$26,182 and \$18,513, 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% for the fiscal year ending June 30, 2018, 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 \$855,800 for mobile equipment replacement. Funding is from \$900,000 fund balance as of June 30, 2018, projected \$5,800 of interest income, and a transfer \$25,800 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

PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Cash in County Treasury		
Santa Cruz County	\$ 1,428,628	\$ 1,398,647
Accounts receivable	-	6,896
Total Current Assets	1,428,628	1,405,543
Station and Equipment		
Structures and Improvements	2,385,818	2,385,818
Equipment	1,170,555	1,170,555
Total Station and Equipment	3,556,373	3,556,373
Accumulated Depreciation	(1,881,789)	(1,861,061)
Station and Equipment, Net of Accumulated Depreciation	1,674,584	1,695,312
Total Assets	3,103,212	3,100,855
Deferred Outflows of Resources		
Deferred Pension - Actuarial	26,182	18,513
Total Assets and Deferred Outflows of Resources	\$ 3,129,394	\$ 3,119,368
Liabilities		
Current Liabilities		
Accounts payable	\$ 12,833	\$ 26,170
Total Current Liabilities	12,833	26,170
Other Liabilities		
Net Pension Liability	491,006	368,852
Total Liabilities	503,839	395,022
Net Position		
Net investment in capital assets	1,674,584	1,695,312
Unrestricted		
General Fund	950,971	1,029,034
Total Net Position	2,625,555	2,724,346
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 3,129,394	3,119,368

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	Expenditures	Program Revenues			Totals	
		Charges for Services (Plan Check)	Strike Team & Emergency Reimbursements	Operating Grants and Contributions	2018	2017
Expenditures						
Fire Protection						
Salaries and Benefits	\$ 1,073	\$ -	\$ -	\$ -	\$ 1,073	\$ 1,089
Pension Expense (GASB 68)	114,485	-	-	-	114,485	168,320
Services and Supplies	1,843,286	26,785	-	-	1,816,501	1,536,910
Contributions to Other Agencies	2,476	-	-	-	2,476	2,036
Depreciation	20,728	-	-	-	20,728	250,003
Total Governmental Activities	<u>\$ 1,982,048</u>	<u>\$ 26,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,955,263</u>	<u>1,958,358</u>
General Revenues						
Property Tax					1,684,563	1,608,083
Fire Suppression Benefit Assessment					141,436	141,882
Use of Money and Property Agencies					20,380	11,070
State Homeowners Property Tax Relief					10,093	10,355
Other Revenues						
Fire Protection Services					-	13,015
Total General Revenues					<u>1,856,472</u>	<u>1,784,405</u>
Change in Net Position					(98,791)	(173,953)
Net Position, Beginning					<u>2,724,346</u>	<u>2,898,299</u>
Net Position, Ending					<u>\$ 2,625,555</u>	<u>\$ 2,724,346</u>

See accompanying notes to financial statements

PAJARO VALLEY FIRE PROTECTION DISTRICT

Balance Sheet - Governmental Funds

June 30, 2018 and 2017

	Governmental Fund Types		Total	
	General	Capital Projects	2018	2017
ASSETS				
Cash and Investments	\$ 499,493	\$ 929,135	\$ 1,428,628	\$ 1,398,647
Accounts Receivable	-	-	-	6,896
Total Assets	<u>\$ 499,493</u>	<u>\$ 929,135</u>	<u>\$ 1,428,628</u>	<u>\$ 1,405,543</u>
LIABILITIES				
Accounts Payable	\$ 12,833	\$ -	\$ 12,833	\$ 26,170
Total Liabilities	<u>12,833</u>	<u>-</u>	<u>12,833</u>	<u>26,170</u>
FUND BALANCES				
Assigned Fund Balance				
Equipment and Facility Replacement	-	929,135	929,135	898,133
Unassigned				
Unreserved, Undesignated	<u>486,660</u>	<u>-</u>	<u>486,660</u>	<u>481,240</u>
Total Fund Balance	<u>486,660</u>	<u>929,135</u>	<u>1,415,795</u>	<u>1,379,373</u>
Total Liabilities and Fund Balances	<u>\$ 499,493</u>	<u>\$ 929,135</u>	<u>\$ 1,428,628</u>	<u>\$ 1,405,543</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, 2018
(With Comparative Totals for 2017)

	2018	2017
Fund Balances - Total Governmental Funds	\$ 1,415,795	\$ 1,379,373
<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	3,556,373	3,556,373
Less: Accumulated Depreciation	(1,881,789)	(1,861,061)
<p>Deferred outflow of resources reported in the Statement of Net Position are not reported in governmental funds.</p>		
Deferred Pension - Actuarial	26,182	18,513
<p>Other liabilities, pension liabilities reported in the Statement of Net Position are reported in governmental funds.</p>		
Net Pension Liability	(491,006)	(368,852)
<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	\$ 2,625,555	\$ 2,724,346

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, 2018
(With Comparative Totals for 2017)

	General	Capital Projects	Total	
			2018	2017
REVENUES:				
Property taxes	\$ 1,684,563	\$ -	\$ 1,684,563	\$ 1,608,083
Other taxes	141,436	-	141,436	141,882
Use of money and property	9,378	11,002	20,380	11,070
Aid from other government agencies	10,093	-	10,093	10,355
Charges for current services	26,494	-	26,494	29,537
Other revenue	291	-	291	10,543
Total Revenues	<u>1,872,255</u>	<u>11,002</u>	<u>1,883,257</u>	<u>1,811,470</u>
EXPENDITURES:				
Salaries and employee benefits	1,073	-	1,073	1,089
Services and supplies	1,843,286	-	1,843,286	1,548,483
Fixed assets	-	-	-	81,553
Other charges	2,476	-	2,476	2,036
Total Expenditures	<u>1,846,835</u>	<u>-</u>	<u>1,846,835</u>	<u>1,633,161</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	25,420	11,002	36,422	178,309
OTHER FINANCING SOURCES (Uses)				
Sales of fixed assets	-	-	-	-
Transfers (to) from other funds	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	5,420	31,002	36,422	178,309
Fund Balance, Beginning	<u>481,240</u>	<u>898,133</u>	<u>1,379,373</u>	<u>1,201,064</u>
Fund Balance, Ending	<u>\$ 486,660</u>	<u>\$ 929,135</u>	<u>\$ 1,415,795</u>	<u>\$ 1,379,373</u>

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, 2018
 (With Comparative Totals for 2017)

	2018	2017
Net Change in Fund Balances - Total Governmental Funds	\$ 36,422	\$ 178,309
<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	-	66,061
Less: current year depreciation expense	(20,728)	(250,003)
<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)	(114,485)	(168,320)
Change in Net Position of Governmental Activities	\$ (98,791)	\$ (173,953)

See accompanying notes to basic financial statements

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PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

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, 2018:

	<u>Term Expires December</u>
David Martone, Chairperson	2020
Kendel White, Director	2018
Celeste Freedman, Director	2020
Sarah Chauvet, Director	2020
Jake Retz, Director	2018

Sean Murray was the Battalion Chief at June 30, 2018.

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, 2015 through June 30, 2018. Under the terms of the agreement, either party may terminate the agreement with or without cause by giving a one year written notice. On May 17, 2018 the contract was extended to July 1, 2018 through June 30, 2021.

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, 2018

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 2018 were under budget.

Appropriations limit

In accordance with the California Constitution, the District has adopted an appropriations limit for the fiscal year 2017/2018.

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, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Adoption of New Guidance

GASB Statement No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This statement is effective for the 2017-2018 fiscal year and had no effect on the District 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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2017) 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, 2017 was distributed on the seventh business day during July 2017, and is shown as part of receivables on the financial statements.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

The following is a summary of cash and investments at June 30, 2017:

	Government-Wide Statement of Net Positions			Component Unit Santa Cruz County Sanitation District
	Primary Governments			
	Governmental Activities	Business-Type Activities	Total	
Cash and Investments	\$ 211,407,554	\$ 9,321,184	\$ 220,728,738	\$ 10,385,721
Restricted Cash and Investments	11,750,266	7,356,690	19,106,956	969,937
Total cash and investments	<u>\$ 223,157,820</u>	<u>\$ 16,677,874</u>	<u>\$ 239,835,694</u>	<u>\$ 11,355,658</u>
	Agency Funds	Investment Trust Fund	Private Purpose Fund	County Total
Cash and Investments	\$ 53,547,289	\$ 552,112,345	\$ 13,224,532	\$ 849,998,625
Restricted Cash and Investments	-	-	3,483,329	23,560,222
Total cash and investments	<u>\$ 53,547,289</u>	<u>\$ 552,112,345</u>	<u>\$ 16,707,861</u>	<u>\$ 873,558,847</u>
		Cash and Investments	Restricted Cash & Investments	Total
Primary Government and Fiduciary Funds				
Cash on hand or imprest cash	\$ 1,762,650	\$ -	\$ 1,762,650	
Cash deposits in Treasury Pool	28,482,515	-	28,482,515	
Investments in Treasury Pool	809,367,739	-	809,367,739	
Restricted investments in other pools	-	15,250,263	15,250,263	
Restricted cash deposits in Treasury Pool				-
Davenport County Sanitation District	-	-	-	
County Disposal Sites CSA 9C	-	7,340,022	7,340,022	
Total	<u>\$ 839,612,904</u>	<u>\$ 22,590,285</u>	<u>\$ 862,203,189</u>	
Component unit				
Investments in Treasury Pool	\$ 10,385,721	\$ -	\$ 10,385,721	
Restricted investments in other banks	-	969,937	969,937	
Total	<u>10,385,721</u>	<u>969,937</u>	<u>11,355,658</u>	
Total cash and investments	<u>\$ 849,998,625</u>	<u>\$ 23,560,222</u>	<u>\$ 873,558,847</u>	

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

At June 30, 2017, 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	\$ 60,536	\$ 1,702,114	\$ 1,762,650
Deposits	28,482,515	-	28,482,515
Investments	816,158,514	15,799,510	831,958,024
Total primary government	<u>844,701,565</u>	<u>17,501,624</u>	<u>862,203,189</u>
Component unit			
Investments	10,385,721	969,937	11,355,658
Total component unit	<u>10,385,721</u>	<u>969,937</u>	<u>11,355,658</u>
Total reporting unit	<u>\$ 855,087,286</u>	<u>\$ 18,471,561</u>	<u>\$ 873,558,847</u>

The carrying amounts of the County's cash deposits were \$28,482,515 at June 30, 2017, 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, 2018

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, 2017, 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	\$ 314,658,348	\$ 149,841,930	\$ 128,271,428	\$ 16,780,190	\$ 19,764,800	\$ -
Federal agency securities	283,244,403	123,884,210	159,360,193	-	-	-
Medium term notes - other	57,359,088	37,530,188	9,947,400	9,881,500	-	-
Money market mutual funds	5,009,647	5,009,647	-	-	-	-
Local Agency Investments Fund (LAIF)	65,123,913	65,123,913	-	-	-	-
Certificates of deposit	76,236,156	74,999,500	969,937	266,719	-	-
Investment Agreements	12,000,000	12,000,000	-	-	-	-
Supranationals	39,688,350	-	-	29,798,850	9,889,500	-
Total investments	<u>\$ 853,319,905</u>	<u>\$ 468,389,388</u>	<u>\$ 298,548,958</u>	<u>\$ 56,727,259</u>	<u>\$ 29,654,300</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

D. Concentration of Credit Risk

At June 30, 2017, 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, 2017:

Investment Type	Standard & Poor's	Moody's	% of Portfolio
U.S. treasury securities	N/A	N/A	36.10%
Federal agency securities	AA+	Aaa	32.51%
Supranational	AAA	Aaa	4.57%
Medium term notes - other	A/AAA	A+	6.60%
Money market mutual funds	Unrated	Unrated	0.57%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	7.46%
Certificates of deposit	A1+	P1	8.62%
Checking account	Unrated	Unrated	2.20%
Investment agreements	Unrated	Unrated	1.37%
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, 2017, 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, 2018

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

At June 30, 2017, the County had \$65,123,913 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 0.998940671 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, 2017:

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:				
U.S. Treasury Securities	\$ 314,658,348	\$ 314,658,348	\$ -	\$ -
Federal Agency Securities	283,244,403	283,244,403	-	-
Medium-Term Notes - Other	57,359,088	57,359,088	-	-
Certificates of Deposit	75,249,793	75,249,793	-	-
Investment Agreements	12,000,000	12,000,000	-	-
Supranationals	39,688,350	39,688,350	-	-
Total Investments Measured at Fair Value	<u>782,199,982</u>	<u>\$ 782,199,982</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Amortized Cost				
Money Market Mutual Funds	5,009,647			
LAIF	<u>65,123,913</u>			
Total Pooled and Directed Investments	<u>\$ 852,333,542</u>			

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 4 – CHANGES IN STATION AND EQUIPMENT

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Station and Improvements	\$ 2,359,288	\$ 61,530	\$ (35,000)	\$ 2,385,818
Equipment	1,167,674	4,531	(1,650)	1,170,555
Total	3,526,962	66,061	(36,650)	3,556,373
Accumulated depreciated	(1,647,708)	(250,003)	(36,650)	(1,861,061)
Total, net of accumulated depreciation	<u>\$ 1,879,254</u>	<u>\$ (183,942)</u>	<u>\$ -</u>	<u>\$ 1,695,312</u>
	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Station and Improvements	\$ 2,385,818	\$ -	\$ -	\$ 2,385,818
Equipment	1,170,555			1,170,555
Total	3,556,373			3,556,373
Accumulated depreciated	(1,861,061)	(20,728)	-	(1,881,789)
Total, net of accumulated depreciation	<u>\$ 1,695,312</u>	<u>\$ (20,728)</u>	<u>\$ -</u>	<u>\$ 1,674,584</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, 2018

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

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%.

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, 2018, FAIRA maintained a fully-insured program.

Insurance coverage as of June 30, 2018 is as follows:

	Deductible	Limit
Property		
Property (building and contents)	\$ 1,000	\$ 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, 2018

NOTE 6 – DRY PERIOD FUNDING

As of June 30, 2018, 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, 2018, the District did not borrow any funds under the tax anticipation agreement.

NOTE 7 – ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable as of June 30, 2018 and 2017, consisted of \$0 and \$6,896 (Volunteer Fire Assistance Grant reimbursement), respectively.

Accounts payable consist of the following items as of June 30, 2018 and 2017:

	2018	2017
Operations		
Services and Supplies	\$ 7,379	\$ -
CAL FIRE Contract	-	15,944
Vehicle	-	9,824
Other	5,454	402
	\$ 12,833	\$ 26,170

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, 2018

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, 2018, 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, 2018, the District reported net pension liability for its proportionate shares of the net pension liability in the amount of \$491,006.

The District's June 30, 2018 net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2018 was as follows:

	Total Pension Liability (a)	Increase (Decrease)	
		Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/16 (MD)	\$ 4,791,514	\$ 4,422,662	\$ 368,852
Balance at: 6/30/17 (MD)	5,098,012	4,607,006	491,006
Net Changes during 2016-17	\$ (306,498)	\$ (184,344)	\$ (122,154)

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

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, 2018, the District recognized pension expense of \$140,667. At June 30, 2018, the District reported deferred outflows of resources in the amount of \$26,182 which represents pension contribution made subsequent to measurement date.

F. Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), total pension liability was determined by rolling forward following the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 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	2.75%
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 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>

All other actuarial assumptions used in the June 30, 2016 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. Change of assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.65 percent used for the June 30, 2016 measurement date was net of administrative expenses. The discount rate of 7.15 percent used for the June 30, 2017 measurement date is without reduction of pension plan administrative expense.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

H. Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% 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 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.80 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.

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.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40%)	(0.90%)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

I. 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)	\$ 1,204,304	\$ 491,006	\$ (92,081)

J. 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, 2017</u>	<u>Safety</u>
Total pension liability	\$ 5,098,012
Fiduciary net position	\$ 4,607,006
Net pension liability	\$ 491,006

PAJARO VALLEY FIRE PROTECTION DISTRICT
Notes to the Financial Statements
June 30, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

K. Payable to the Pension Plan

At June 30, 2018, there is no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 10 – SUBSEQUENT EVENTS

The District's management has evaluated additional events and transactions subsequent to June 30, 2018, for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through January 24, 2019, the date the financial statements became available to be issued. The entity has not evaluated subsequent events after January 24, 2019.

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Required Supplemental Information

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues - Budget and Actual - General Fund
 For the Year Ended June 30, 2018

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes				
Current secured	\$ 1,550,200	\$ 1,550,200	\$ 1,620,169	\$ (69,969)
Current unsecured	32,700	32,700	31,415	1,285
Prior year - unsecured	2,300	2,300	1,812	488
Penalties for delinquent taxed	-	-	170	(170)
Redemption penalties for delinquent taxes	-	-	334	(334)
Current supplemental	14,000	14,000	28,956	(14,956)
Prior year - supplemental	1,000	1,000	1,707	(707)
Other revenue	-	-	291	(291)
Total property taxed	<u>1,600,200</u>	<u>1,600,200</u>	<u>1,684,854</u>	<u>(84,654)</u>
Other taxes				
Fire suppression benefit assessment	141,400	141,400	141,436	(36)
Total other taxes	<u>141,400</u>	<u>141,400</u>	<u>141,436</u>	<u>(36)</u>
Use of money and property				
Interest	3,000	3,000	9,378	(6,378)
Total use of money and property	<u>3,000</u>	<u>3,000</u>	<u>9,378</u>	<u>(6,378)</u>
Aid from other government agencies				
Homeowner property tax relief	10,200	10,200	10,093	107
Total aid from other government agencies	<u>10,200</u>	<u>10,200</u>	<u>10,093</u>	<u>107</u>
Charges for current services				
Plan checking fees	6,500	6,500	25,874	(19,374)
Cost recovery - other	-	-	-	-
Fire protection services	500	500	620	(120)
Total charges for current services	<u>7,000</u>	<u>7,000</u>	<u>26,494</u>	<u>(19,494)</u>
Other revenue				
Other revenue	-	-	-	-
Unclaimed money - escheated	-	-	-	-
Total other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>\$ 1,761,800</u>	<u>\$ 1,761,800</u>	<u>\$ 1,872,255</u>	<u>\$ (110,455)</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Expenditures - Budget and Actual - General Fund
 For the Year Ended June 30, 2018

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Salaries and employee benefits				
OASDI - Social Security	\$ 100	\$ 100	\$ 73	\$ 27
Workers' compensation insurance	1,000	1,000	1,000	-
Total salaries and employee benefits	<u>1,100</u>	<u>1,100</u>	<u>1,073</u>	<u>27</u>
Services and supplies				
Clothing and personal supplies	5,000	5,000	1,899	3,101
Radio	2,000	2,000	17	1,983
Telephone	6,000	6,000	4,872	1,128
Food	1,000	1,000	832	168
Other household expense - services	2,500	2,500	2,099	401
Other insurance	6,700	6,700	10,447	(3,747)
Maintenance - mobile equipment	38,000	38,000	36,185	1,815
Maintenance - other equipment	7,500	7,500	8,780	(1,280)
Maintenance - structure and grounds	10,650	10,650	3,253	7,397
Medical, dental and lab supplies	2,400	2,400	1,385	1,015
Memberships	2,500	2,500	2,240	260
PC software	10,300	10,300	9,000	1,300
Postage	500	500	465	35
Supplies	2,200	2,200	1,277	923
Accounting and auditing fees	30,000	30,000	27,124	2,876
Attorney	2,500	2,500	83	2,417
Directors' fee	1,500	1,500	960	540
Professional services	1,968,000	1,968,000	1,711,872	256,128
Publication printing costs	2,000	2,000	38	1,962
Legal notices	500	500	121	379
Small tools and instruments	5,500	5,500	2,541	2,959
Election expense	1,000	1,000	-	1,000
Special district expense	-	-	-	-
Education and training	4,000	4,000	300	3,700
Gas, oil and fuel	8,000	8,000	6,696	1,304
Lodging	4,000	4,000	-	4,000
Waste disposal	-	-	1,960	(1,960)
Utilities	9,000	9,000	8,840	160
Total services and supplies	<u>2,133,250</u>	<u>2,133,250</u>	<u>1,843,286</u>	<u>289,964</u>
Fixed assets				
Buildings and improvements	6,500	6,500	-	6,500
Equipment	-	-	-	-
Mobile equipment	-	-	-	-
Total fixed assets	<u>6,500</u>	<u>6,500</u>	<u>-</u>	<u>6,500</u>
Other charges				
Interest - other	300	300	67	233
Contribution to other agencies (LAFCO)	2,450	2,450	2,409	41
Total other charges	<u>2,750</u>	<u>2,750</u>	<u>2,476</u>	<u>274</u>
Contingencies				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 2,143,600</u>	<u>\$ 2,143,600</u>	<u>\$ 1,846,835</u>	<u>\$ 296,765</u>
Other financing sources (uses)				
Transfer to capital projects fund	<u>\$ (20,000)</u>	<u>\$ (20,000)</u>	<u>\$ (20,000)</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
 Budgetary Comparison Schedule - Revenues and Expenditures -
 Budget and Actual - Capital Project Fund
 For the Year Ended June 30, 2018

	Final Budget	Amended Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Use of money and property				
Interest	\$ 5,800	\$ 5,800	\$ 11,002	\$ (5,202)
Other financing sources				
Sales of fixed assets - non taxable	-	-	-	-
Total revenues	<u>\$ 5,800</u>	<u>\$ 5,800</u>	<u>\$ 11,002</u>	<u>\$ (5,202)</u>
Expenditures				
Services and supplies				
Maintenance - structure and grounds	\$ -	\$ -	\$ -	\$ -
Contingencies	-	-	-	-
Fixed assets				
Buildings and improvements	100,000	100,000	-	100,000
Equipment	-	-	-	-
Mobile Equipment	823,933	855,800	-	855,800
Total expenditures	<u>\$ 923,933</u>	<u>\$ 955,800</u>	<u>\$ -</u>	<u>\$ 955,800</u>
Other financing sources (uses)				
Transfer from general fund	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ -</u>

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of Net Pension Liability (Asset) and Related Ratios
June 30, 2018
Last 10 Years *

Fiscal year	2017-18	2016-17	2015-16	2014-15
Measurement period**	2016-17	2015-16	2014-15	2013-14
Entity's proportion of net pension liability (asset)	0.00495%	0.00426%	0.025896%	0.203%
Entity's proportionate share of net pension liability (asset)	\$ 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
Plan fiduciary net position as a percentage of the Plan's total pension liability	73.31%	74.06%	102.66%	78.40%
Proportionate share of the aggregate employer contributions	\$ 158,988	\$ -	\$ -	\$ -

Notes to Schedule:

* Fiscal year 2017-18 was the 4th year of implementation; therefore only four years are shown. Additional years presented as they become available.

** Measurement date for the June 30, 2016 is June 30, 2015, June 30, 2017 is June 30, 2016 and June 30, 2018 is June 30, 2017.

PAJARO VALLEY FIRE PROTECTION DISTRICT
Schedule of Contributions
June 30, 2018
Last 10 Years*

Fiscal Year	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 26,182	\$ 18,513	\$ -	\$ -
Contributions in Relation to the				
Actuarially Determined Contribution	(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

*Fiscal year 2017-18 was the 4th year of implementation; therefore only four years are shown.
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), 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.

A handwritten signature in black ink that reads 'Maze + Associates' in a cursive, slightly slanted script.

Pleasant Hill, California
January 24, 2019

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

SCHEDULE OF MATERIAL WEAKNESSES

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

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

2017-01 – 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, 2018. 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 Statement No.75– Other Post-Employment Benefits

GASB Statement No. 81 – Irrevocable Split-Interest Agreements

GASB Statement No. 85 – Omnibus 2017

GASB Statement No. 86 – Certain Debt Extinguishment Issues

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 24, 2019.

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 24, 2019

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