

NORTH COUNTY FIRE PROTECTION DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2018



NORTH COUNTY FIRE PROTECTION DISTRICT

For the Fiscal Year Ended June 30, 2018

Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	10
Statement of Activities.....	11
Governmental Funds Financial Statements:	
Governmental Funds Balance Sheet.....	12
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position.....	13
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Fund Balances	14
Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Notes to Financial Statements	16

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	50
Budgetary Comparison Schedule – Fire Mitigation Fund.....	51
Schedule of Proportionate Share of the Net Pension Liability	52
Schedule of Pension Contributions.....	53
Schedule of Changes in the District's Total OPEB Liability and Related Ratios.....	54

SUPPLEMENTARY INFORMATION

Balance Sheets – Other Governmental Funds.....	55
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Other Governmental Funds.....	56

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57
---	----

Financial Section



INDEPENDENT AUDITORS' REPORT

Board of Directors
North County Fire Protection District
Fallbrook, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North County Fire Protection District as of and for the fiscal 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North County Fire Protection District, as of June 30, 2018, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1.G.1. to the basic financial statements, the District has changed its method for accounting and reporting for postemployment benefits other than pensions during fiscal year 2017-18 due to the adoption of Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The adoption of this standard required retrospective application resulting in a \$1,644,960 reduction of previously reported net position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

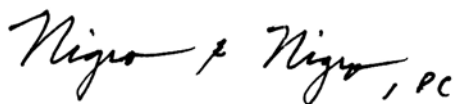
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 9, budgetary comparison information on pages 50 and 51, schedule of proportionate share of the net pension liability on page 52 schedule of contributions on page 53, and schedule of changes in the District's total OPEB liability and related ratios on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual non-major fund financial statements on pages 55 and 56 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 13, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
November 13, 2018

NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2018

Management's Discussion and Analysis (MD&A) offers readers of North County Fire Protection District's financial statements a narrative overview of the District's financial activities for the fiscal year ended June 30, 2018. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased \$2,299,699 as a result of this year's operations.
- Total revenues from all sources increased by 11.5%, or \$2,043,379 from \$17,855,597 to \$19,898,976, from the prior year, primarily due to increases in charges for services of \$484,379, mitigation fees of \$624,614, and property taxes of \$733,498.
- Total expenses for the District's operations increased by 0.10% or \$173,914 from \$17,425,363 to \$17,599,277, from the prior year, primarily due to increases in operations, mainly increases in salaries and benefits.
- The District purchased new capital assets during the year in the amount of \$1,971,163. Depreciation expense was \$827,385.

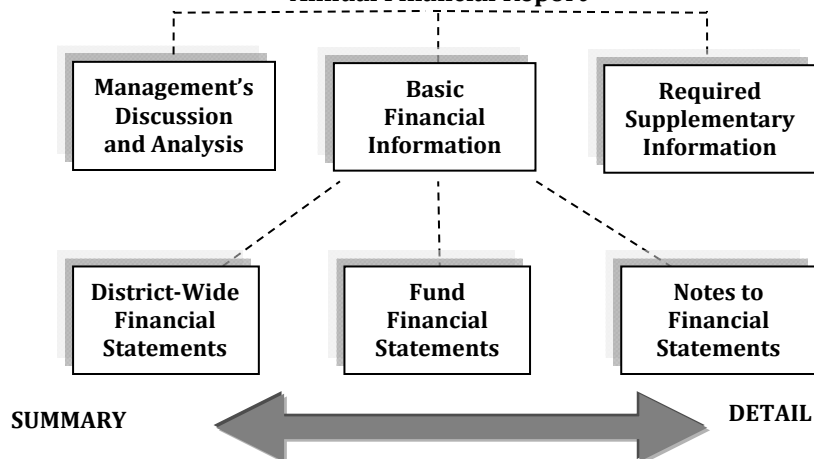
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- *District-wide financial statements* provide both short-term and long-term information about the District's overall financial status.
- *Fund financial statements* focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of North County Fire Protection District's Annual Financial Report



NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds
<i>Scope</i>	Entire District	The activities of the District that are not proprietary or fiduciary, such as fire and ambulance services
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as fire protection, medical transport, and administration. Local property taxes finance most of these activities.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Statement of Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
Assets:			
Current assets	\$ 8,487,822	\$ 6,950,153	\$ 1,537,669
Capital assets, net	11,990,947	10,847,169	1,143,778
Total assets	<u>20,478,769</u>	<u>17,797,322</u>	<u>2,681,447</u>
Deferred outflows of resources	<u>7,907,719</u>	<u>6,853,890</u>	<u>1,053,829</u>
Liabilities:			
Current liabilities	2,254,096	1,911,791	342,305
Non-current liabilities	36,544,385	32,829,291	3,715,094
Total liabilities	<u>38,798,481</u>	<u>34,741,082</u>	<u>4,057,399</u>
Deferred inflows of resources	<u>872,636</u>	<u>1,849,498</u>	<u>(976,862)</u>
Net position (Deficit):			
Net investment in capital assets	5,667,227	5,353,227	314,000
Restricted	1,688,502	1,033,825	654,677
Unrestricted (Deficit)	<u>(18,640,358)</u>	<u>(18,326,420)</u>	<u>(313,938)</u>
Total net position (deficit)	<u>\$ (11,284,629)</u>	<u>\$ (11,939,368)</u>	<u>\$ 654,739</u>

At the end of fiscal year 2018, the District shows a deficit balance in its unrestricted net position of \$11,284,629.

Analysis of Revenues and Expenses

Table A-2: Condensed Statements of Activities

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
Program revenues	\$ 4,876,602	\$ 3,723,753	\$ 1,152,849
Expenses	<u>(17,599,277)</u>	<u>(17,425,363)</u>	<u>(173,914)</u>
Net program expense	(12,722,675)	(13,701,610)	978,935
General revenues	<u>15,022,374</u>	<u>14,131,844</u>	<u>890,530</u>
Change in net position	2,299,699	430,234	1,869,465
Net position:			
Beginning of year	<u>(13,584,328)</u>	<u>(12,369,602)</u>	<u>(1,214,726)</u>
End of year	<u>\$ (11,284,629)</u>	<u>\$ (11,939,368)</u>	<u>\$ 654,739</u>

NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses (continued)

The statement of activities shows how the government's net position changed during the fiscal year. In the case of the District, the operations of the District increased by \$2,299,699.

Table A-3: Total Revenues

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Increase (Decrease)</u>
Program revenues:			
Charges for services	\$ 3,283,297	\$ 2,798,918	\$ 484,379
Mitigation fees	690,030	65,416	624,614
Annexation fees	-	75,000	(75,000)
Operating and capital grant funding	903,275	784,419	118,856
Total program revenues	<u>4,876,602</u>	<u>3,723,753</u>	<u>1,152,849</u>
General revenues:			
Property taxes	14,398,961	13,665,463	733,498
Rental income – cellular towers	88,655	90,936	(2,281)
Investment earnings	59,832	31,586	28,246
Other revenues	474,926	343,859	131,067
Total general revenues	<u>15,022,374</u>	<u>14,131,844</u>	<u>890,530</u>
Total revenues	<u>\$ 19,898,976</u>	<u>\$ 17,855,597</u>	<u>\$ 2,043,379</u>

Total revenues from all sources increased by 11.5%, or \$2,043,379 from \$17,855,597 to \$19,898,976, from the prior year primarily due to increases in charges for services of \$484,379, mitigation fees of \$624,614, and property taxes of \$733,498.

Table A-4: Total Expenses

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Increase (Decrease)</u>
Expenses:			
Operations	\$ 16,521,363	\$ 16,331,365	\$ 189,998
Depreciation expense	827,385	865,123	(37,738)
Interest expense	250,529	228,875	21,654
Total expenses	<u>\$ 17,599,277</u>	<u>\$ 17,425,363</u>	<u>\$ 173,914</u>

Total expenses on a full-accrual basis for the District's operations increased by 0.10% or \$173,914 from \$17,425,363 to \$17,599,277, from the prior year, primarily due to increases in operations, mainly increases in salaries and benefits.

NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2018, the District reported a total fund balance of \$7,735,932. An amount of \$5,318,214 constitutes the District's *unassigned fund balance*.

Table A-5: Governmental Funds Total Expenditures Analysis

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Increase (Decrease)</u>
Expenditures:			
Fire protection and medical transport:			
Salaries and wages	\$ 9,828,013	\$ 8,665,437	\$ 1,162,576
Employee benefits	4,111,569	4,469,159	(357,590)
Contracted service costs	420,912	133,179	287,733
Materials and services	2,540,074	2,810,123	(270,049)
Capital outlay	1,971,163	585,621	1,385,542
Debt service:			
Principal	373,553	276,693	96,860
Interest	251,887	228,643	23,244
Total expenditures	<u>\$ 19,497,171</u>	<u>\$ 17,168,855</u>	<u>\$ 2,328,316</u>

Expenditures on a governmental fund basis remained similar between the two years except for an increase in salaries and wages of \$1,162,576 and an increase in capital outlay of \$1,368,016 for the purchase of the administration building and various equipment.

OPERATIONS FUND BUDGETARY HIGHLIGHTS

The final budgeted expenditures for the District's operational fund at year-end were \$1,529,412 less than actual. Actual revenues were greater than the anticipated budget by \$1,368,016.

NORTH COUNTY FIRE PROTECTION DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested \$1,971,163 in new capital assets, related to the purchase of the administration building and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$827,385.

Table A-5: Capital Assets at Year End, Net of Depreciation

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets:				
Non-depreciable assets	\$ 612,639	\$ 312,921	\$ -	\$ 925,560
Depreciable assets	20,947,044	1,658,242	(578,826)	22,026,460
Accumulated depreciation	<u>(10,712,514)</u>	<u>(827,385)</u>	<u>578,826</u>	<u>(10,961,073)</u>
Total capital assets, net	<u>\$ 10,847,169</u>	<u>\$ 1,143,778</u>	<u>\$ -</u>	<u>\$ 11,990,947</u>

Long-Term Debt

At year-end the District had \$6,323,720 in outstanding long-term debt – an increase of 15.1% from last year – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-6: Outstanding Long-Term Debt at Year-End

<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>\$ 5,493,942</u>	<u>\$ 1,203,331</u>	<u>\$ (373,553)</u>	<u>\$ 6,323,720</u>

FACTORS AFFECTING CURRENT FINANCIAL POSITION

Management has identified conditions exist that could significantly impact the District's current financial and net positions. The District needs to identify funding for future acquisitions as outlined in the District's Capital Equipment replacement plan for both apparatus and facilities. The specific designated funds for such projects were depleted in the past recession with no identified monies to replenish. The District's retirement system through CalPERS is another future uncertainty with ballooning costs due to poor CalPERS return on investments (ROI), adjustments due to retirees living longer, and anticipated changes in assumption rates. In addition, anticipated potential increases in cost for healthcare due to the President's administration changes to the Affordable Care Act (ACA).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the District's Fire Chief at the North County Fire Protection District at 330 South Main Avenue, Fallbrook, California 92028 or (760) 723-2005.

NORTH COUNTY FIRE PROTECTION DISTRICT
Statement of Net Position
June 30, 2018

ASSETS	Governmental Activities
Current assets:	
Cash and investments (Note 2)	\$ 6,808,167
Accrued interest receivable	21,807
Accounts receivable – ambulance billings, net (Note 3)	616,762
Property taxes receivable	56,452
Mitigation fees receivable	126,474
Other receivables	252,265
Deposits with Public Agencies Self-Insurance System	459,081
Prepaid items	<u>146,814</u>
Total current assets	8,487,822
Non-current assets:	
Capital assets – not being depreciated (Note 6)	925,560
Capital assets – being depreciated, net (Note 6)	<u>11,065,387</u>
Total non-current assets	11,990,947
Total assets	20,478,769
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions (Note 10)	<u>7,907,719</u>
Total deferred outflows of resources	7,907,719
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	137,496
Accrued payroll and related liabilities	593,393
Unearned revenue	21,001
Accrued interest payable	42,176
Long-term liabilities – due in one year:	
Compensated absences (Note 8)	1,000,000
Long-term debt (Note 7)	<u>460,030</u>
Total current liabilities	2,254,096
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences (Note 8)	1,023,321
Long-term debt (Note 7)	5,863,690
Workers' compensation claims payable (Note 9)	2,749,945
Net other post-employment benefits obligation (Note 11)	2,237,699
Net pension liability (Note 10)	23,803,269
Pension-related debt – CalPERS side-fund liability (Note 10)	<u>866,461</u>
Total non-current liabilities	36,544,385
Total liabilities	38,798,481
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions (Note 10)	<u>872,636</u>
Total deferred inflows of resources	872,636
NET POSITION	
Net investment in capital assets (Note 5)	5,667,227
Restricted (Note 5)	1,688,502
Unrestricted (Deficit) (Note 5)	<u>(18,640,358)</u>
Total net position	\$ (11,284,629)

NORTH COUNTY FIRE PROTECTION DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

	Governmental Activities
EXPENSES:	
Fire protection, prevention and emergency medical transport:	
Operations	\$ 16,521,363
Depreciation expense	827,385
Interest expense	250,529
Total expenses	<u>17,599,277</u>
PROGRAM REVENUES:	
Charges for services:	
Ambulance services	1,835,405
Fire services – California Office of Emergency Services	1,084,976
Fire prevention	333,309
Mitigation fees	690,030
Administration	29,607
Operating and capital grant funding	903,275
Total program revenues	<u>4,876,602</u>
Net program expense	<u>(12,722,675)</u>
GENERAL REVENUES:	
Property taxes	14,398,961
Rental income – cellular towers	88,655
Investment earnings	59,832
Other revenues	474,926
Total general revenues	<u>15,022,374</u>
Change in net position	<u>2,299,699</u>
Net Position:	
Beginning of year (Deficit), as originally stated	(11,939,368)
Prior period adjustment - change in accounting principle (Note 1.G.1.)	(1,644,960)
Beginning of year (Deficit), as adjusted	<u>(13,584,328)</u>
End of year (Deficit)	<u>\$ (11,284,629)</u>

NORTH COUNTY FIRE PROTECTION DISTRICT
Balance Sheet – Governmental Funds
June 30, 2018

ASSETS	General Fund	Fire Mitigation Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and investments	\$ 5,253,902	\$ 953,789	\$ 600,476	\$ 6,808,167
Accrued interest receivable	14,431	4,886	2,490	21,807
Accounts receivable – ambulance billings, net	616,762	-	-	616,762
Property taxes receivable	55,431	-	1,021	56,452
Mitigation fees receivable	-	126,474	-	126,474
Other receivables	252,265	-	-	252,265
Deposits with Public Agencies Self-Insurance System	459,081	-	-	459,081
Prepaid items	146,814	-	-	146,814
Due from other funds (Note 4)	1,900,000	-	-	1,900,000
Total assets	\$ 8,698,686	\$ 1,085,149	\$ 603,987	\$ 10,387,822
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 136,862	\$ -	\$ 634	\$ 137,496
Accrued payroll and related liabilities	593,393	-	-	593,393
Unearned revenue	21,001	-	-	21,001
Due to other funds (Note 4)	-	1,900,000	-	1,900,000
Total liabilities	751,256	1,900,000	634	2,651,890
Fund Balances: (Note 5)				
Nonspendable	146,814	-	-	146,814
Restricted	-	1,085,149	603,353	1,688,502
Assigned	2,482,402	-	-	2,482,402
Unassigned	5,318,214	(1,900,000)	-	3,418,214
Total fund balance	7,947,430	(814,851)	603,353	7,735,932
Total liabilities and fund balance	\$ 8,698,686	\$ 1,085,149	\$ 603,987	\$ 10,387,822

NORTH COUNTY FIRE PROTECTION DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2018

Fund Balances – Governmental Funds	\$ 7,735,932
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those assets as capital assets.	11,990,947
Deferred outflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred outflows of resources.	7,907,719
Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position as follows:	
Accrued interest payable	(42,176)
Compensated absences	(2,023,321)
Long-term debt	(6,323,720)
Workers' compensation claims payable	(2,749,945)
Net other post-employment benefits payable	(2,237,699)
Net pension liability	(23,803,269)
Pension-related debt – CalPERS side-fund liability	(866,461)
Deferred inflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net position includes those deferred inflows of resources.	<u>(872,636)</u>
Total adjustments	<u>(19,020,561)</u>
Net Position of Governmental Activities	<u><u>\$ (11,284,629)</u></u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2018

	General Fund	Fire Mitigation Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 14,135,919	\$ -	\$ 263,042	\$ 14,398,961
Charges for services:				
Ambulance services	1,835,405	-	-	1,835,405
Fire services – CA Office of Emergency Services	1,084,976	-	-	1,084,976
Fire prevention	333,309	-	-	333,309
Mitigation fees	-	690,030	-	690,030
Administration	29,607	-	-	29,607
Operating and capital grant funding	903,275	-	-	903,275
Rental income – cellular towers	88,655	-	-	88,655
Investment earnings	47,522	7,895	4,415	59,832
Other revenues	474,926	-	-	474,926
Total revenues	18,933,594	697,925	267,457	19,898,976
EXPENDITURES:				
Fire protection and emergency medical transportation:				
Salaries and wages	9,828,013	-	-	9,828,013
Employee benefits	4,111,569	-	-	4,111,569
Contracted service costs	367,948	-	52,964	420,912
Materials and services	2,460,857	-	79,217	2,540,074
Capital outlay	1,971,163	-	-	1,971,163
Debt service:				
Principal	373,553	-	-	373,553
Interest	251,887	-	-	251,887
Total expenditures	19,364,990	-	132,181	19,497,171
REVENUES OVER(UNDER) EXPENDITURES	(431,396)	697,925	135,276	401,805
OTHER FINANCING SOURCES(USES):				
Issuance of debt - capital leases	1,203,331	-	-	1,203,331
Total other financing sources(uses)	1,203,331	-	-	1,203,331
Net Changes in Fund Balance	771,935	697,925	135,276	1,605,136
FUND BALANCE:				
Beginning of year	7,175,495	(1,512,776)	468,077	6,130,796
End of year	\$ 7,947,430	\$ (814,851)	\$ 603,353	\$ 7,735,932

NORTH COUNTY FIRE PROTECTION DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances – Governmental Funds \$ 1,605,136

Amounts reported for governmental activities in the statement of activities is different because:

Some expenses reported in the statement of activities do not require the use of current financial resources. Therefore, those expenses are not reported as expenditures in governmental funds as follows:

Change in compensated absences	39,235
Change in accrued interest payable	1,358
Change in workers' compensation claims payable	1,391,323
Change in net other post-employment benefits obligations	(180,388)
Change in net pension liability	(870,965)

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those capitalized assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	1,971,163
Depreciation expense	(827,385)

Principal repayment of long-term debt obligations are reported as expenditures in governmental funds. However, principal repayments reduce liabilities in the statement of net position and do not result in expenses in the statement of activities. 373,553

Proceeds from issuance of debt are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuance of debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. (1,203,331)

Total adjustments	<u>694,563</u>
--------------------------	----------------

Change in Net Position of Governmental Activities	<u><u>\$ 2,299,699</u></u>
--	----------------------------

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The North County Fire Protection District (the District) provides fire and emergency medical services to the taxpayers and residents in the Fallbrook, Rainbow, and Bonsall communities of northern San Diego County. The District's governmental powers are exercised through a five-member board of directors.

B. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The District has identified no organizations that are required to be reported as component units.

C. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, other nonexchange transactions, and charges for services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This fund is used to account for all financial resources of the District, except those required to be accounted for in another fund when necessary.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds

Special Revenue Funds:

Fire Mitigation Fund: This fund is used to account for fees collected from builders in the service area that are restricted for the purchase of new capital assets when those assets are needed due to population and infrastructure growth in the service area.

Other Governmental Funds:

Rainbow Subzone-Operations Fund: This fund is used to account for revenues collected and restricted for expenditures made in the Rainbow Subzone service area.

The Rainbow Subzone-Fire Mitigation Fund: This fund is used to account for fees collected from builders in the service area that are restricted for the purchase of new capital assets that are needed due to population and infrastructure growth in the Rainbow Subzone service area.

2. Measurement Focus, Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation, Basis of Accounting (continued)

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Investments

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

1. Cash and Investments (continued)

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

2. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable – ambulance billings consist of amounts owed by individuals for services rendered for ambulance transport. Uncollectable accounts are based on prior experience and management’s assessment of the collectability of existing accounts. As of June 30, 2018, an allowance for doubtful accounts has been recorded for those uncollectable accounts (see Note 3).

3. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District’s policy to capitalize assets costing over \$5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets.

Estimated service lives for the District’s classes of assets are as follows:

<u>Description</u>	<u>Estimated Lives</u>
Structures and Improvements	10-50 years
Hydrants	10 years
Equipment and Vehicles	5-20 years

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

5. Compensated Absences

The District’s policy is to permit full time employees to accumulate earned vacation time and sick leave. Earned vacation time shall be earned by each employee subject to the accrual limitations and policies as defined by District policies. Such unused compensation is calculated at the employees’ then prevalent hourly rate at the time of retirement or termination. Whereas vacation time is compensated at 100% of accumulated hours, sick leave is accrued and compensated only at retirement or termination based on the years of employment.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

6. Pensions

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

7. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

8. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

8. Fund Balances (continued)

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

E. Use of Estimates

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

F. Property Taxes

The San Diego County Assessor's Office assesses all real and personal property within the County each year. The San Diego County Tax Collector's Office bills and collects the District's share of property taxes and voter-approved taxes. The San Diego County Auditor-Controller's Office remits current property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by San Diego County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, because of the adoption of the *alternate method of property tax distribution* known as the Teeter Plan, by the District and San Diego County. The Teeter Plan authorizes the County Auditor-Controller to allocate 100% of the secured property tax billed but not yet received or paid to the District. San Diego County remits tax proceeds to the District in installments during the fiscal year.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements

During the 2017-18 fiscal year, the following GASB Pronouncements became effective:

1. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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.

2. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.
3. In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:
 - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
 - Reporting amounts previously reported as goodwill and “negative” goodwill
 - Classifying real estate held by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

G. New GASB Pronouncements (continued)

- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
 - Classifying employer-paid member contributions for OPEB
 - Simplifying certain aspects of the alternative measurement method for OPEB
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.
4. In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2018, consisted of the following:

<u>Description</u>	<u>Balance</u>
Cash on hand	\$ 118
Demand deposits held with financial institutions	3,208,926
Investments	<u>3,599,123</u>
Total cash and investments	<u>\$ 6,808,167</u>

Demand Deposits

At June 30, 2018, the carrying amount of the District's demand deposits was \$3,208,926, and the financial institutions balances totaled \$3,716,285. The \$507,359 net difference represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositories. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District's bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as SDCPIF).

As of June 30, 2018, approximately \$3.1 million of the District's deposits were exposed to disclosable custodial credit risk because they were in excess of FDIC limits.

Investments

Investments as of June 30, 2018, consisted of the following:

<u>Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>Fair Value June 30, 2018</u>	<u>Maturity 12 Months or Less</u>
California Local Agency Investment Fund (LAIF)	Level 2	Not Rated	\$ 19,169	\$ 19,169
San Diego County Pooled Investment Fund (SDCPIF)	Level 2	AAAf/S1	3,579,954	3,579,954
Total investments			<u>\$ 3,599,123</u>	<u>\$ 3,599,123</u>

Investments Authorized by the California Government Code and District's Investment Policy

The District has adopted an investment policy which allows deposits into financial institutions, LAIF, and the San Diego County Treasury's Pooled Investment Fund. Investment types are authorized by the California Government Code Section 53600 et seq. and Section 5922(d).

California Local Agency Investment Fund (LAIF)

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's investments with LAIF at June 30, 2018, 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 that have embedded forwards or options.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

California Local Agency Investment Fund (LAIF) (continued)

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.

As of June 30, 2018, the District had \$19,169 invested in LAIF, which had invested 2.67% of the pool investment funds in structured notes and medium-term asset-backed securities. The LAIF fair value factor of 0.99813 was used to calculate the fair value of the investments in LAIF.

San Diego County Pooled Investment Fund

The SDCPIF is a local government investment pool managed by the County Treasurer's Office on behalf of the Investment Pool participants. Depositors in the Investment Pool include both mandatory participants, agencies that place their funds in the Investment pool as an investment option. Voluntary participants, including cities, fire districts, and various special districts accounted for approximately 7.88% of the Investment Pool as of June 30, 2018.

Pursuant to Section 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasurer's Oversight Committee (TOC) that monitors and reviews the Investment Policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public having expertise in, or an academic background in public finance.

To mitigate credit risk, the Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long-term or "A1" for short-term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by the California Government Code Section 53601, having fair market value of 102% or greater than the amount of the repurchase agreement. The Investment Pool does not hold any investments in structured notes.

The District's investments with the County Treasurer's Office include a portion of the pooled funds invested in asset-backed securities. As of June 30, 2018, the District had \$3,579,954 invested with the SDCPIF, which had invested 2.11% of the pool investment funds in asset-backed securities.

SDPIF has indicated to the District as of June 30, 2018, the value of its portfolio approximated \$9.95 billion and the portfolio holds some derivative products. The SDPIF fair value factor of 0.99264 was used to calculate the fair value of the investments in SDPIF as of June 30, 2018.

Fair Value Measurement Input

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the previous table.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2018, the District's investment in the SDCPIF was rated by Standard & Poor's as AAf/S1 as noted in the table above.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in the SDCPIF.

NOTE 3 – ACCOUNTS RECEIVABLE – AMBULANCE BILLINGS, NET

Accounts receivable – ambulance billings, net as of June 30, 2018, consisted of the following:

<u>Description</u>	<u>Balance</u>
Accounts receivable – ambulance billings	\$ 1,116,762
Allowance for doubtful accounts	<u>(500,000)</u>
Total accounts receivable – ambulance billings, net	<u>\$ 616,762</u>

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2018, consisted of the Fire Mitigation Fund owing \$1,900,000 to the General Fund for borrowing related to the construction of Station No. 5.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2018

NOTE 5 – NET POSITION AND FUND BALANCES

A. Net Position

Net investment in capital assets as of June 30, 2018, consisted of the following:

<u>Description</u>	<u>Balance</u>
Capital assets – not being depreciated	\$ 925,560
Capital assets – being depreciated, net	11,065,387
Long-term debt obligations payable – current portion	(460,030)
Long-term debt obligations payable – noncurrent portion	<u>(5,863,690)</u>
Total net investment in capital assets	<u>\$ 5,667,227</u>

The District has constraints placed on its net position totaling \$1,688,502 through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

As of June 30, 2018, the District has an unrestricted net position deficit of (\$18,640,358). The unrestricted net position deficit resulted from the reporting of the District's net pension liability, the pension-related debt – CalPERS side-fund liability, and the deferred inflows of resources – deferred amounts related to net pension liability per GASB No. 68. At June 30, 2018, the District's net pension liability amounted to \$23,803,269, the pension-related debt – CalPERS side-fund liability amounted to \$866,461, and the deferred inflows of resources related to net pension liability amounted to \$872,636, which totals \$25,542,366. The District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension obligation funding requirements.

B. Fund Balances

At June 30, 2018, fund balances of the District's governmental funds were classified as follows:

<u>Description</u>	<u>General Fund</u>	<u>Fire Mitigation Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid items	\$ 146,814	\$ -	\$ -	\$ 146,814
Restricted:				
Fallbrook – mitigation	-	1,085,149	-	1,085,149
Rainbow subzone – operations	-	-	599,498	599,498
Rainbow subzone – mitigation	-	-	3,855	3,855
Total restricted	<u>-</u>	<u>1,085,149</u>	<u>603,353</u>	<u>1,688,502</u>
Assigned:				
Deposits with Public Agencies Self-Insurance System	459,081	-	-	459,081
Compensated absences	2,023,321	-	-	2,023,321
Total assigned	<u>2,482,402</u>	<u>-</u>	<u>-</u>	<u>2,482,402</u>
Unassigned	<u>5,318,214</u>	<u>(1,900,000)</u>	<u>-</u>	<u>3,418,214</u>
Total fund balances	<u>\$ 7,947,430</u>	<u>\$ (814,851)</u>	<u>\$ 603,353</u>	<u>\$ 7,735,932</u>

NORTH COUNTY FIRE PROTECTION DISTRICT
Notes to Financial Statements
June 30, 2018

NOTE 6 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

	<u>Balance July 1, 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2018</u>
Non-depreciable capital assets:				
Land	\$ 612,639	\$ 270,000	\$ -	\$ 882,639
Construction-in-process	-	42,921	-	42,921
Total non-depreciable capital assets	<u>612,639</u>	<u>312,921</u>	<u>-</u>	<u>925,560</u>
Depreciable capital assets:				
Structures and improvements	10,327,984	669,750	(170,050)	10,827,684
Hydrants	267,523	-	-	267,523
Equipment and vehicles	<u>10,351,537</u>	<u>988,492</u>	<u>(408,776)</u>	<u>10,931,253</u>
Total depreciable capital assets	<u>20,947,044</u>	<u>1,658,242</u>	<u>(578,826)</u>	<u>22,026,460</u>
Accumulated depreciation:				
Structures and improvements	(3,542,993)	(223,310)	170,050	(3,596,253)
Hydrants	(267,523)	-	-	(267,523)
Equipment and vehicles	<u>(6,901,998)</u>	<u>(604,075)</u>	<u>408,776</u>	<u>(7,097,297)</u>
Total accumulated depreciation	<u>(10,712,514)</u>	<u>(827,385)</u>	<u>578,826</u>	<u>(10,961,073)</u>
Total depreciable capital assets, net	<u>10,234,530</u>	<u>830,857</u>	<u>-</u>	<u>11,065,387</u>
Total capital assets, net	<u>\$ 10,847,169</u>	<u>\$ 1,143,778</u>	<u>\$ -</u>	<u>\$ 11,990,947</u>

NOTE 7 – LONG-TERM DEBT OBLIGATIONS PAYABLE

Changes in loan payable amounts for the year ended June 30, 2018, were as follows:

<u>Long-Term Debt</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2018</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Bond payable – Station No. 5	\$ 2,757,000	\$ -	\$ (116,000)	\$ 2,641,000	\$ 123,000	\$ 2,518,000
Capital lease payable – ambulance I	170,870	-	(41,013)	129,857	42,129	87,728
Capital lease payable – ambulance II	208,592	-	(39,172)	169,420	40,406	129,014
Capital lease payable – EKG monitors	-	303,331	-	303,331	60,666	242,665
Loan payable – solar project I	415,056	-	(31,335)	383,721	31,649	352,072
Loan payable – solar project II	217,099	-	(10,430)	206,669	10,535	196,134
Note payable – Station No. 5	1,725,325	-	(89,054)	1,636,271	94,019	1,542,252
Loan payable – administrative building	-	900,000	(46,549)	853,451	57,626	795,825
	<u>\$ 5,493,942</u>	<u>\$ 1,203,331</u>	<u>\$ (373,553)</u>	<u>\$ 6,323,720</u>	<u>\$ 460,030</u>	<u>\$ 5,863,690</u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 7 – LONG-TERM DEBT OBLIGATIONS PAYABLE (continued)

Bond Payable

On September 9, 2013, the District issued bonds for the par amount of \$3,126,000. The proceeds are being used for the ongoing construction at station no. 5. The bond's coupon rate is at 4.35% per annum, and matures on September 1, 2033, with annual debt service payments which include principal and interest. The loan is payable until September 2033. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 123,000	\$ 113,557	\$ 236,557
2020	129,000	108,163	237,163
2021	133,000	102,508	235,508
2022	139,000	96,657	235,657
2023	146,000	90,545	236,545
2024-2028	829,000	350,936	1,179,936
2029-2033	1,028,000	151,858	1,179,858
2034	114,000	2,480	116,480
Total	2,641,000	\$ 1,016,704	\$ 3,657,704
Current	(123,000)		
Long-term	\$ 2,518,000		

Capital Lease Payable – Ambulance I

The District entered into a capital lease for the purchase of an ambulance for \$205,444 at a 2.72% interest rate. Annual principal and interest payments are due on February 25 each year. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 42,129	\$ 3,532	\$ 45,661
2020	43,275	2,386	45,661
2021	44,453	1,209	45,662
Total	129,857	\$ 7,127	\$ 136,984
Current	(42,129)		
Long-term	\$ 87,728		

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 7 – LONG-TERM DEBT OBLIGATIONS PAYABLE (continued)

Capital Lease Payable – Ambulance II

The District entered into a capital lease for the purchase of an ambulance for \$208,592 at a 3.15% interest rate. Annual principal and interest payments are due on March 1 each year. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 40,406	\$ 5,337	\$ 45,743
2020	41,678	4,064	45,742
2021	42,991	2,751	45,742
2022	<u>44,345</u>	<u>1,397</u>	<u>45,742</u>
Total	169,420	<u>\$ 13,549</u>	<u>\$ 182,969</u>
Current	<u>(40,406)</u>		
Long-term	<u>\$ 129,014</u>		

Capital Lease Payable – EKG Monitors

The District entered into a capital lease for the purchase of ten EKG monitors for \$303,331 with no interest. Annual principal payments are due on August 1 of each year through 2022. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2019	\$ 60,666
2020	60,666
2021	60,667
2022	60,666
2023	<u>60,666</u>
Total	303,331
Current	<u>(60,666)</u>
Long-term	<u>\$ 242,665</u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 7 – LONG-TERM DEBT OBLIGATIONS PAYABLE (continued)

Loan Payable – Solar Project I

In April 2015, the District purchased a solar power system from the State of California-Energy Resources Conservation and Development Commission for \$475,241, with a loan payable for \$475,241 at a 1.0% interest rate per annum. Principal and interest payments are \$17,704 semi-annually on December 22 and June 22. The loan is payable until December 2029. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 31,649	\$ 3,758	\$ 35,407
2020	31,957	3,450	35,407
2021	32,287	3,120	35,407
2022	32,610	2,797	35,407
2023	32,937	2,470	35,407
2024-2028	169,697	7,340	177,037
2029-2030	<u>52,584</u>	<u>527</u>	<u>53,111</u>
Total	383,721	<u>\$ 23,462</u>	<u>\$ 407,183</u>
Current	<u>(31,649)</u>		
Long-term	<u>\$ 352,072</u>		

Loan Payable – Solar Project II

In fiscal year 2017, the District purchased a solar power system from the State of California-Energy Resources Conservation and Development Commission for \$227,475, with a loan payable for \$227,475 at a 1.0% interest rate per annum. Principal and interest payments are \$12,575 semi-annually on December 22 and June 22. The loan is payable until June 2036. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 10,535	\$ 2,040	\$ 12,575
2020	10,635	1,940	12,575
2021	10,747	1,828	12,575
2022	10,855	1,721	12,576
2023	10,964	1,612	12,576
2024-2028	56,482	6,395	62,877
2029-2033	59,376	3,501	62,877
2034-2036	<u>37,075</u>	<u>652</u>	<u>37,727</u>
Total	206,669	<u>\$ 19,689</u>	<u>\$ 226,358</u>
Current	<u>(10,535)</u>		
Long-term	<u>\$ 196,134</u>		

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 7 – LONG-TERM DEBT OBLIGATIONS PAYABLE (continued)

Note Payable – Station No. 5

On December 29, 2010, the District executed a note payable for Station No. 5 in the principal amount of \$2,200,000 with interest at 3.00% per annum. The note matures on December 1, 2030, with annual payments of \$182,739 which include principal and interest. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 94,019	\$ 88,720	\$ 182,739
2020	99,261	83,478	182,739
2021	104,796	77,943	182,739
2022	110,639	72,100	182,739
2023	116,807	65,931	182,738
2024-2028	689,301	224,392	913,693
2029-2031	<u>421,448</u>	<u>35,398</u>	<u>456,846</u>
Total	1,636,271	<u>\$ 647,962</u>	<u>\$ 2,284,233</u>
Current	<u>(94,019)</u>		
Long-term	<u>\$ 1,542,252</u>		

Loan Payable – Administrative Building

On May 24, 2017, the District entered into an installment agreement for \$900,000 to purchase its administration building. The note is payable monthly through August 2030, and compounds interest at a rate of 3.4% per annum. Future remaining payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 57,626	\$ 28,125	\$ 85,751
2020	59,616	26,135	85,751
2021	61,675	24,076	85,751
2022	63,805	21,946	85,751
2023	66,008	19,742	85,750
2024-2028	365,851	62,903	428,754
2029-2031	<u>178,870</u>	<u>6,922</u>	<u>185,792</u>
Total	853,451	<u>\$ 189,849</u>	<u>\$ 1,043,300</u>
Current	<u>(57,626)</u>		
Long-term	<u>\$ 795,825</u>		

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 8 – COMPENSATED ABSENCES

Compensated absences comprise unpaid vacation leave which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to the compensated absences balance at June 30, 2018 were as follows:

<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
<u>\$ 2,062,556</u>	<u>\$ 764,454</u>	<u>\$ (803,689)</u>	<u>\$ 2,023,321</u>	<u>\$ 1,000,000</u>	<u>\$ 1,023,321</u>

NOTE 9 – WORKERS COMPENSATION

The District is exposed to various risks of loss and has effectively managed risk through a combination of insurance, with deductibles, self-insurance, and employee education and prevention programs. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. In addition, there were no settlements or claims in the past three years that exceeded insurance coverage.

The District is self-insured for workers' compensation benefits. The District is one of nine participants in the Public Agency Self-Insurance System (PASIS). PASIS is a joint-powers authority which was established in 1977 for the purpose of operating and maintaining a cooperative program of self-insurance and risk management for workers' compensation. There is no pooling of workers' compensation liability between the participants, and each participant self-insures their liability up to \$300,000 per occurrence. As of June 30, 2018, the District had \$459,081 on deposit with PASIS.

All members are responsible for paying their own claims and related expenses. PASIS may advance funds to members who have incurred large losses; however, these advances must be repaid.

Excess insurance is purchased above the self-insured retention. As of June 30, 2018, the liability for workers' compensation claims payable was estimated at \$2,749,945.

Changes in workers' compensation claims payable for the year ended June 30, 2018, were as follows:

<u>Description</u>	<u>Balance</u>
Estimated claims balance – July 1, 2017	<u>\$ 4,141,268</u>
Claim payments	<u>(11,907,738)</u>
Revised claims estimate	<u>10,516,415</u>
Change in claims balance	<u>(1,391,323)</u>
Estimated claims balance – June 30, 2018	<u>\$ 2,749,945</u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS

A. General Information About the Pension Plans

The net pension liability balances have a measurement date of June 30, 2017, which are rolled-forward for the District’s fiscal year ended June 30, 2018.

In this footnote, the District’s net pension liability is comprised of a net pension liability balance and the balance of the District’s pension-related debt – CalPERS side-funds as follows:

<u>Description</u>	<u>Balance</u>
Net pension liability	\$ 23,803,269
Pension-related debt – CalPERS side-fund	866,461
Total net pension liability balance for footnote	<u>\$ 24,669,730</u>

The Plans Description Schedule

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<u>Miscellaneous Plans</u>	
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>
	Prior to December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5-years or service	5-years or service
Benefits payments	Monthly for life	Monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.0%
Required member contribution rates	2% to 8%	4 %to 7.25%
Required employer contribution rates	4.13% to 404.07%	4.13% to 404.07%

	<u>Safety Plans</u>	
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>
	Prior to December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5-years or service	5-years or service
Benefits payments	Monthly for life	Monthly for life
Retirement age	50 - 55 & up	50 - 57 & up
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	2.0% to 2.7%
Required member contribution rates	7% to 10.10%	9.50%to 15.25%
Required employer contribution rates	8.87% to 1,011.38%	8.87% to 1,011.38%

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. General Information About the Pension Plans (continued)

Plan Description

The District contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Members Covered by Benefit Terms

At June 30, 2017 (Measurement Date), the following members were covered by the benefit terms:

Plan Members	Miscellaneous Plans		
	Classic Tier 1	PEPRA Tier 2	Total
Active members	5	3	8
Transferred and terminated members	6	1	7
Separated members	2	-	2
Retired members and beneficiaries	27	-	27
Total plan members	40	4	44

Plan Members	Safety Plans		
	Classic Tier 1	PEPRA Tier 2	Total
Active members	51	25	76
Transferred and terminated members	46	3	49
Separated members	11	4	15
Retired members and beneficiaries	63	-	63
Total plan members	171	32	203

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous and Safety members are calculated as a percentage of their plan based the average final 36 months compensation. Retirement benefits for PEPRA Miscellaneous and Safety members are calculated as a percentage of their plan based the average final 36 months compensation.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. General Information About the Pension Plans (continued)

Benefits Provided (continued)

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.15% per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ended June 30, 2017 (the measurement date), the active member contribution rate for the Classic Miscellaneous and Safety Plans and the PEPRA Miscellaneous and Safety Plans are based above in the Plans Description schedule.

For the year ended June 30, 2018, the contributions made to the Plan were as follows:

Contribution Type	Miscellaneous Plans		
	Classic Tier 1	PEPRA Tier 2	Total
	Contributions – employer	\$ 271,622	\$ 25,828
Contributions – members	34,423	24,270	58,693
Total contributions	\$ 306,045	\$ 50,098	\$ 356,143

Contribution Type	Safety Plans		
	Classic Tier 1	PEPRA Tier 2	Total
	Contributions – employer	\$ 1,888,958	\$ 120,791
Contributions – members	496,906	116,122	613,028
Total contributions	\$ 2,385,864	\$ 236,913	\$ 2,622,777

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

A. General Information About the Pension Plans (continued)

Pension-Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the District’s agent multiple-employer public employee defined benefit pension plan. As a result, the District’s defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost-sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost-sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost-sharing multiple-employer plan was to smooth out the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District’s annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District’s CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side-Fund falls under the definition of pension-related debt and is recorded as liability on the District’s financial statements aside from the District’s net pension liability.

Annual payments on the CalPERS Side-Fund represent principal and interest payments on the pension-related debt. Debt principal and interest expense is blended into the CalPERS pension benefit rate by individual class of District employee and repaid to CalPERS each payroll period throughout the fiscal year. The following is a pay-down schedule of the remaining payments of the District’s CalPERS Side-Fund at a 7.50% interest rate, which was reduced by CalPERS in fiscal year 2012 for fiscal years 2012 and beyond as follows:

Pension Related Debt	Balance July 1, 2017	Additions	Payments	Balance June 30, 2018
CalPERS Side-Fund – Miscellaneous	\$ 928,716	\$ -	\$ (62,255)	\$ 866,461
CalPERS Side-Fund – Safety	467,243	-	(467,243)	-
	<u>\$ 1,395,959</u>	<u>\$ -</u>	<u>\$ (529,498)</u>	<u>\$ 866,461</u>

The following represents the District’s repayment schedules for the pension-related debt as follows:

Pension Related Debt – CalPERS Side-Fund – Miscellaneous Classic Plan

Fiscal Year	Principal	Interest	Total
2019	\$ 69,683	\$ 60,281	\$ 129,964
2020	78,953	54,910	133,863
2021	89,038	48,841	137,879
2022	100,004	42,011	142,015
2023	111,921	34,355	146,276
2024	124,866	25,798	150,664
2025	138,917	16,257	155,174
2026	153,079	5,676	158,755
Total	<u>\$ 866,461</u>	<u>\$ 288,129</u>	<u>\$ 1,154,590</u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. 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 requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the CalPERS Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability for PERF C. The crossover test results can be found on CalPERS' website at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

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.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Discount Rate (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds’ asset classes, expected compound (geometric) 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 to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rate of return by asset class.

<u>Investment Type</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation 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%
	<u>100.0%</u>		

¹ An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

² An expected inflation rate-of-return of 3.0% is used for years 11+.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate</u>	<u>Current Discount</u>	<u>Discount Rate +</u>
	<u>- 1%</u>	<u>Rate 7.15%</u>	<u>1%</u>
	<u>6.15%</u>		<u>8.15%</u>
CalPERS – Miscellaneous Plan	<u>\$ 4,327,067</u>	<u>\$ 3,139,416</u>	<u>\$ 2,155,781</u>

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate</u>	<u>Current Discount</u>	<u>Discount Rate +</u>
	<u>- 1%</u>	<u>Rate 7.15%</u>	<u>1%</u>
	<u>6.15%</u>		<u>8.15%</u>
CalPERS – Safety Plan	<u>\$ 33,580,952</u>	<u>\$ 21,530,314</u>	<u>\$ 11,679,519</u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Pension Plan Fiduciary Net Position

Detail information about the plan’s fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS’ website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the CalPERS Miscellaneous and Safety Plans:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2016 (Measurement Date)	\$ 7,904,147	\$ 5,045,554	\$ 2,858,593
Balance as of June 30, 2017 (Measurement Date)	\$ 8,634,521	\$ 5,495,105	\$ 3,139,416
Change in Plan Net Pension Liability	\$ 730,374	\$ 449,551	\$ 280,823

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability
CalPERS – Safety Plan:			
Balance as of June 30, 2016 (Measurement Date)	\$ 76,958,123	\$ 58,048,642	\$ 18,909,481
Balance as of June 30, 2017 (Measurement Date)	\$ 86,127,003	\$ 64,596,689	\$ 21,530,314
Change in Plan Net Pension Liability	\$ 9,168,880	\$ 6,548,047	\$ 2,620,833

Allocation of Pension Amounts to Individual Employers

CalPERS has prepared separate GASB 68 Accounting Valuation Reports for the miscellaneous risk pool and the safety risk pool. The Schedules of Employer Allocations provide allocation factors by employer for rate plans within the miscellaneous and safety risk pools based on the following allocation methodology:

The Schedules of Employer Allocations includes two ratios:

- 1) *Actuarial Accrued Liability* – Determined based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2016 used for funding purposes.
- 2) *Market Value of Assets* – Determined based on the sum of the Market Value of Assets (MVA) from the most recent Actuarial Valuation Report as of June 30, 2016 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Allocation of Pension Amounts to Individual Employers (continued)

The Schedules of Employer Allocations is based on Actuarial Valuation Reports that are one year in appears. As such, there will be a one year lag between the time an employer enters the Plan and the fiscal year the employer is first included on the Schedule of Employer Allocations. Employers joining the Plan during the fiscal year ended June 30, 2017, will be included in the Schedule of Employer Allocations as of and for the fiscal year ended June 30, 2018.

The employers' proportionate share percentages of the miscellaneous and safety risk pools were first determined at the rate plan level. The employer's total proportion of the respective miscellaneous and safety risk pools reflects the sum of the proportions of the respective miscellaneous and safety rate plans.

When applying the allocation methodology to the collective miscellaneous or safety risk pool pension amounts, employers should determine proportionate shares using the employer allocation factors as follows:

- 1) *Total Pension Liability* (TPL) – Allocate based on the employer's share of the Actuarial Accrued Liability.
- 2) *Fiduciary Net Position* (FNP) – Allocate based on the employer's share of the Market Value of Assets plus Additional Payments.
- 3) *Net Pension Liability* (NPL) – After completing the above calculations, subtract FNP from TPL to calculate the employer's NPL.
- 4) *Deferred Outflows of Resources, Deferred Inflows of Resources* – Allocate based on the employer's share of the Actuarial Accrued Liability.
- 5) *Pension Expense* – After completing the above calculations, calculate the employer's share of collective pension expense based on the employer's share of changes in net pension liability, changes in deferred outflows and deferred inflows of resources, and the employer's contributions for the fiscal year ended June 30, 2017. The Schedule of Collective Pension Amounts does not reflect employer-specific amounts such as changes in proportion, differences between actual employer contributions and employer's proportionate shares of contributions, and employer contributions to PERF C subsequent to the measurement date as defined in GASB Statement No. 68 paragraphs 54, 55, and 57. Appropriate treatment of such amounts is the responsibility of the employers.

An employer's proportionate share of pension amounts for PERF C equals the sum of the employer's proportionate share of pension amounts for the respective miscellaneous and safety risk pools.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Proportionate Share of Net Pension Liability and Pension Expense

The District’s proportionate share of the net pension liability was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year	Fiscal Year	
	Ending June 30, 2018	Ending June 30, 2017	
CalPERS – Miscellaneous Plan			
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.07964%	0.08229%	-0.00265%
Percentage of Plan (PERF C) Net Pension Liability	0.03166%	0.03304%	-0.00138%

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year	Fiscal Year	
	Ending June 30, 2018	Ending June 30, 2017	
CalPERS – Safety Plan			
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.36033%	0.36510%	-0.00477%
Percentage of Plan (PERF C) Net Pension Liability	0.21710%	0.21853%	-0.00143%

For the year ended June 30, 2018, the District recognized pension expense in the amounts of \$762,058 and \$2,757,208 for the Classic Miscellaneous and Safety plans, respectively, which total \$3,519,266.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Type of Account	Balance as of July 1, 2017	Additions	Deletions	Balance as of June 30, 2018
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 268,384	\$ 297,450	\$ (268,384)	\$ 297,450
CalPERS – Safety Plan	2,341,264	2,009,749	(2,341,264)	2,009,749
Sub-total	2,609,648	2,307,199	(2,609,648)	2,307,199
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	76,211	8,915	-	85,126
CalPERS – Safety Plan	21,167	61,381	-	82,548
Sub-total	97,378	70,296	-	167,674
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	129,807	116,360	-	246,167
CalPERS – Safety Plan	75,232	-	(27,862)	47,370
Sub-total	205,039	116,360	(27,862)	293,537
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	465,370	-	(383,885)	81,485
CalPERS – Safety Plan	3,469,170	-	(2,673,819)	795,351
Sub-total	3,934,540	-	(3,057,704)	876,836
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	7,285	-	(4,381)	2,904
CalPERS – Safety Plan	-	251,525	-	251,525
Sub-total	7,285	251,525	(4,381)	254,429
Changes in assumptions:				
CalPERS – Miscellaneous Plan	-	360,300	-	360,300
CalPERS – Safety Plan	-	3,647,744	-	3,647,744
Sub-total	-	4,008,044	-	4,008,044
Total deferred outflows of resources	\$ 6,853,890	\$ 6,753,424	\$ (5,699,595)	\$ 7,907,719

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

B. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

<u>Type of Account</u>	<u>Balance as of July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2018</u>
Deferred Inflows of Resources:				
Difference between actual and proportionate share of employer contributions:				
CalPERS – Safety Plan	\$ 147,642	\$ -	\$ (79,237)	\$ 68,405
Sub-total	<u>147,642</u>	<u>-</u>	<u>(79,237)</u>	<u>68,405</u>
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	26,373	-	(10,604)	15,769
CalPERS – Safety Plan	717,989	-	(344,047)	373,942
Sub-total	<u>744,362</u>	<u>-</u>	<u>(354,651)</u>	<u>389,711</u>
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	41,603	-	41,603
CalPERS – Safety Plan	161,953	-	(96,374)	65,579
Sub-total	<u>161,953</u>	<u>41,603</u>	<u>(96,374)</u>	<u>107,182</u>
Changes in assumptions:				
CalPERS – Miscellaneous Plan	89,414	-	(61,941)	27,473
CalPERS – Safety Plan	706,127	-	(426,262)	279,865
Sub-total	<u>795,541</u>	<u>-</u>	<u>(488,203)</u>	<u>307,338</u>
Total deferred inflows of resources	<u>\$ 1,849,498</u>	<u>\$ 41,603</u>	<u>\$ (1,018,465)</u>	<u>\$ 872,636</u>

A summary of deferred outflows and deferred inflows is shown here:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 2,307,199	\$ -
Difference between actual and proportionate share of employer contributions	167,674	68,405
Adjustment due to differences in proportions	293,537	389,711
Differences between expected and actual experience	254,429	107,182
Differences between projected and actual earnings on pension plan investments	876,836	-
Changes in assumptions	<u>4,008,044</u>	<u>307,338</u>
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 7,907,719</u>	<u>\$ 872,636</u>

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 10 – PENSION PLANS (continued)

C. Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

The District will recognize \$2,307,199 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2019, as noted on the prior page.

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,021,252
2020	2,610,685
2021	1,609,713
2022	<u>(513,767)</u>
Total	<u><u>\$ 4,727,883</u></u>

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2017 is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other receiving a cash fund.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. General Information about the OPEB Plan

Plan description

The District provides other postemployment benefits (OPEB) to employees who retire from the District and meet certain eligibility requirements. The contribution requirements of single-employer plan members and the District are established and may be amended by the Board of Directors. The District implemented its OPEB plan in the fiscal year ended June 30, 2014 when the District joined CalPERS for medical insurance for its employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

A. General Information about the OPEB Plan (continued)

Benefits provided

Following is a description of the current retiree benefit plan:

	Firefighters	Miscellaneous
Benefit types provided	Medical only	Medical only
Duration of Benefits	Lifetime	Lifetime
Required Service	CalPERS Retirement	CalPERS Retirement
Minimum Age	CalPERS Retirement	CalPERS Retirement
Dependent Coverage	Surviving Spouse only	Surviving Spouse only
District Contribution %	100% to cap	100% to cap
District Cap	Minimum employer contribution under PEMHCA*	Minimum employer contribution under PEMHCA*

* \$133 per month in 2018 indexed to Medical component of the CPI

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	31
Active employees	75
Total	106

B. Total OPEB Liability

The District’s total OPEB liability of \$2,237,699 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.80%
Inflation	2.75%
Salary Increases	2.75% per annum, in aggregate
Investment Rate of Return	3.80%
Mortality Rate	CalPERS Membership Data
Pre-Retirement Turnover	CalPERS Membership Data
Healthcare Trend Rate	4%

Mortality, Retirement & Turnover Assumptions

The mortality assumptions are based on the 2014 CalPERS Active and Retiree Mortality for Miscellaneous and Safety Employees table created by CalPERS.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

B. Total OPEB Liability (continued)

The retirement assumptions are based on the 2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees, the 2009 CalPERS 2.7%@55 Rates for Miscellaneous Employees, and the 2009 PERS 3%@55 FIRE RX tables created by CalPERS.

The turnover assumptions are based on the 2009 CalPERS Turnover for Miscellaneous Employees and Sworn Fire Employees tables created by CalPERS.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.8 percent. The projection of cash flows used to determine the discount rate assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The Bond Buyer 20 Bond Index was used.

C. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	<u>\$ 2,107,355</u>
Changes for the year:	
Service cost	99,422
Interest	80,966
Benefit payments	<u>(50,044)</u>
Net changes	130,344
Balance at June 30, 2018	<u><u>\$ 2,237,699</u></u>

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>2.80%</u>	Discount Rate <u>3.80%</u>	1% Increase <u>4.80%</u>
\$ 2,642,583	\$ 2,237,699	\$ 1,912,716

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease <u>3.00%</u>	Healthcare Cost Trend Rates <u>4.00%</u>	1% Increase <u>5.00%</u>
\$ 1,933,925	\$ 2,237,699	\$ 2,579,463

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

D. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$180,388. At June 30, 2018, the District reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

NOTE 12 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

NOTE 13 – JOINT VENTURES

The District is a member of the North County Dispatch Joint Powers Authority (Authority). The Authority was formed on June 11, 1984, and other member agencies include the North County Fire Protection District, and the cities of Vista, San Marcos, Solana Beach, Oceanside, Encinitas, and Carlsbad. The purpose of the Authority is to provide dispatching and emergency communication services for fire protection, security, and medical services. Each member provides an annually determined contribution towards the ongoing operation of the Authority. In the event of dissolution of the Authority, available assets shall be distributed to the member agencies in proportion to the aggregate contribution made by each agency during the entire term of the agreement.

The activities of the Authority are supervised by a board of directors consisting of eight directors who are appointed by each member's governing body. The District's share of the Authority's assets, liabilities, net position, and changes therein are not available and not material to the District's financial statements. Separate financial statements of the Authority are available at 16936 El Fuego Drive (P.O. Box 1206), Rancho Santa Fe, CA 92067.

NORTH COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

Years Ended June 30, 2018

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in routine litigation incidental to its business and may be subject to claims and litigation from outside parties. After consultation with legal counsel, management believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 15 – RISK MANAGEMENT

The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2018:

General liability: \$1,000,000 per occurrence and \$3,000,000 aggregate. The District purchased additional excess coverage layers: \$10 million per occurrence and \$20 million aggregate for general and auto liability, which increases the limits on the insurance coverage noted above.

Auto liability: \$1,000,000 liability limits and deductibles applied to specific vehicles with a \$1,000 deductible on Comprehensive and Collision, and other vehicles have a \$1,000 deductible on Comprehensive and on Collision.

Required Supplementary Information

NORTH COUNTY FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

	Adopted Original Budget	Revised Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Property taxes	\$ 13,905,000	\$ 13,905,000	\$ 14,135,919	\$ 230,919
Charges for services:				
Ambulance services	1,700,000	1,700,000	1,835,405	135,405
Fire services – CA OES	60,000	60,000	1,084,976	1,024,976
Fire prevention	130,000	130,000	333,309	203,309
Administration	25,000	25,000	29,607	4,607
Operating and capital grant funding	786,584	976,572	903,275	(73,297)
Rental income – cellular towers	85,000	85,000	88,655	3,655
Interest earnings	25,000	25,000	47,522	22,522
Other revenues	593,404	659,006	474,926	(184,080)
Total revenues	17,309,988	17,565,578	18,933,594	1,368,016
EXPENDITURES:				
Current:				
Salaries and wages	8,952,460	9,101,244	9,828,013	(726,769)
Employee benefits	4,122,642	3,989,985	4,111,569	(121,584)
Contracted service costs	590,000	590,000	367,948	222,052
Materials and services	2,468,363	2,597,420	2,460,857	136,563
Capital outlay	763,000	913,137	1,971,163	(1,058,026)
Debt service:				
Principal	391,905	391,905	373,553	18,352
Interest	251,887	251,887	251,887	-
Total expenditures	17,540,257	17,835,578	19,364,990	(1,529,412)
REVENUES OVER(UNDER) EXPENDITURES	(230,269)	(270,000)	(431,396)	2,897,428
OTHER FINANCING SOURCES(USES):				
Transfers in	200,000	200,000	-	(200,000)
Transfers in from reserves	220,269	760,000	-	(760,000)
Transfers out from reserves	(190,000)	(690,000)	-	690,000
Issuance of debt - capital leases	-	-	1,203,331	1,203,331
Total other financing sources(uses)	230,269	270,000	1,203,331	933,331
Net Changes in Fund Balance	\$ -	\$ -	771,935	\$ 3,830,759
FUND BALANCE:				
Beginning of year			7,175,495	
End of year			\$ 7,947,430	

NORTH COUNTY FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule – Fire Mitigation Fund
For the Fiscal Year Ended June 30, 2018

	Adopted Original Budget	Revised Final Budget	Actual	Variance Positive (Negative)
REVENUES:				
Mitigation fees	\$ 195,000	\$ 195,000	\$ 690,030	\$ 495,030
Interest earnings	5,000	5,000	7,895	2,895
Total revenues	200,000	200,000	697,925	497,925
EXPENDITURES:				
Current:				
Materials and services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER(UUNDER) EXPENDITURES	200,000	200,000	697,925	497,925
OTHER FINANCING SOURCES(USES):				
Transfers (out)	(200,000)	(200,000)	-	200,000
Total other financing sources(uses)	(200,000)	(200,000)	-	200,000
NET CHANGES IN FUND BALANCE	\$ -	\$ -	697,925	\$ 697,925
FUND BALANCE:				
Beginning of year (Deficit)			(1,512,776)	
End of year (Deficit)			\$ (814,851)	

NORTH COUNTY FIRE PROTECTION DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS)

Measurement Date:	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's Proportion of the Net Pension Liability	0.248756%	0.251564%	0.248810%	0.272930%
District's Proportionate Share of the Net Pension Liability	\$ 24,669,730	\$ 21,768,074	\$ 17,078,153	\$ 16,983,012
District's Covered-Employee Payroll	\$ 6,671,377	\$ 6,461,980	\$ 6,452,080	\$ 6,429,039
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>369.78%</u>	<u>336.86%</u>	<u>264.69%</u>	<u>264.16%</u>
Pension Liability	<u>78.96%</u>	<u>74.35%</u>	<u>78.96%</u>	<u>78.67%</u>

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

Notes to the Schedule:

Changes of Assumptions and Methods:

In Fiscal Year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50 percent to 7.00 percent, which is to be phased-in over a three-year period (7.50 percent to 7.375 percent, 7.375 percent to 7.25 percent, and 7.25 percent to 7.00 percent) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In Fiscal Year 2014-15, the financial reporting discount rate was increased from 7.50 percent to 7.65 percent resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50 percent during this period, and remained adjusted for administrative expenses.

NORTH COUNTY FIRE PROTECTION DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2018

Last Ten Fiscal Years*
California Public Employees' Retirement System (CalPERS)

Fiscal Year:	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Actuarially Determined Contribution ¹	\$ 2,307,199	\$ 2,609,648	\$ 2,249,592	\$ 1,929,643	\$ 1,905,899
Contribution in Relation to the Actuarially Determined Contribution ¹	<u>(2,307,199)</u>	<u>(2,609,648)</u>	<u>(2,249,592)</u>	<u>(1,929,643)</u>	<u>(1,905,899)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll ²	<u>\$ 6,905,639</u>	<u>\$ 6,671,377</u>	<u>\$ 6,461,980</u>	<u>\$ 6,452,080</u>	<u>\$ 6,429,039</u>
Contributions as a Percentage of Covered-Employee Payroll	<u>33.41%</u>	<u>39.12%</u>	<u>34.81%</u>	<u>29.91%</u>	<u>29.65%</u>

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

¹ Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

NORTH COUNTY FIRE PROTECTION DISTRICT

*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2018*

Last 10 Fiscal Years*

	2018
Total OPEB liability	
Service cost	\$ 99,422
Interest	80,966
Benefit payments	<u>(50,044)</u>
Net change in total OPEB liability	130,344
Total OPEB liability - beginning	<u>2,107,355</u>
Total OPEB liability - ending	<u><u>\$ 2,237,699</u></u>
Covered-employee payroll	<u>\$ 6,905,639</u>
Total OPEB liability as a percentage of covered- employee payroll	<u>32.40%</u>

Notes to Schedule:

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

Supplementary Information

NORTH COUNTY FIRE PROTECTION DISTRICT
Balance Sheets – Other Governmental Funds
For the Fiscal Year Ended June 30, 2018

	<u>Rainbow Subzone</u>		<u>Total</u>
	<u>Operations Fund</u>	<u>Fire Mitigation Fund</u>	
ASSETS			
Assets:			
Cash and investments	\$ 596,684	\$ 3,792	\$ 600,476
Accrued interest receivable	2,427	63	2,490
Property taxes receivable	1,021	-	1,021
Total assets	<u>\$ 600,132</u>	<u>\$ 3,855</u>	<u>\$ 603,987</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued expenses	\$ 634	\$ -	\$ 634
Total liabilities	<u>634</u>	<u>-</u>	<u>634</u>
Fund Balances: (Note 5)			
Restricted	<u>599,498</u>	<u>3,855</u>	<u>603,353</u>
Total fund balance	<u>599,498</u>	<u>3,855</u>	<u>603,353</u>
Total liabilities and fund balance	<u>\$ 600,132</u>	<u>\$ 3,855</u>	<u>\$ 603,987</u>

NORTH COUNTY FIRE PROTECTION DISTRICT*Schedule of Revenues, Expenditures, and Changes in Fund Balance – Other Governmental Funds**For the Fiscal Year Ended June 30, 2018*

	Rainbow Subzone		
	Operations	Fire Mitigation	
	Fund	Fund	Total
REVENUES:			
Property taxes	\$ 263,042	\$ -	\$ 263,042
Investment earnings	4,144	271	4,415
Total revenues	267,186	271	267,457
EXPENDITURES:			
Current:			
Contracted service costs	52,964	-	52,964
Materials and services	79,217	-	79,217
Total expenditures	132,181	-	132,181
Net Changes in Fund Balance	135,005	271	135,276
FUND BALANCE:			
Beginning of year	464,493	3,584	468,077
End of year	\$ 599,498	\$ 3,855	\$ 603,353

Other Independent Auditors' Report



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

Board of Directors
North County Fire Protection District
Fallbrook, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North County Fire Protection District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise North County Fire Protection District's basic financial statements, and have issued our report thereon dated November 13, 2018.

Internal Control Over Financial Reporting

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

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. *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.

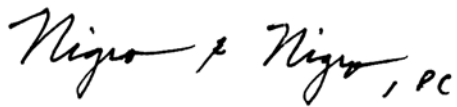
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
November 13, 2018