

**ARCATA FIRE PROTECTION DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2018**

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**Arcata Fire District, California  
Annual Financial Report  
For the year ended June 30, 2018**

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**Arcata Fire District, California  
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Directory of officials

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**District Board of Directors**

- Rene Campbell, President
- Elena David, Vice President
- Nicole Johnson, Director
- Randal Mendosa, Director
- David Rosen, Director

**District Officials**

- Justin McDonald, Fire Chief
- Sean Campbell, Battalion Chief – A Shift
- Curt Watkins, Battalion Chief – B Shift
- Rick Gomes, Battalion Chief – C Shift
- Becky Schuette, Business Manager/ Board Clerk



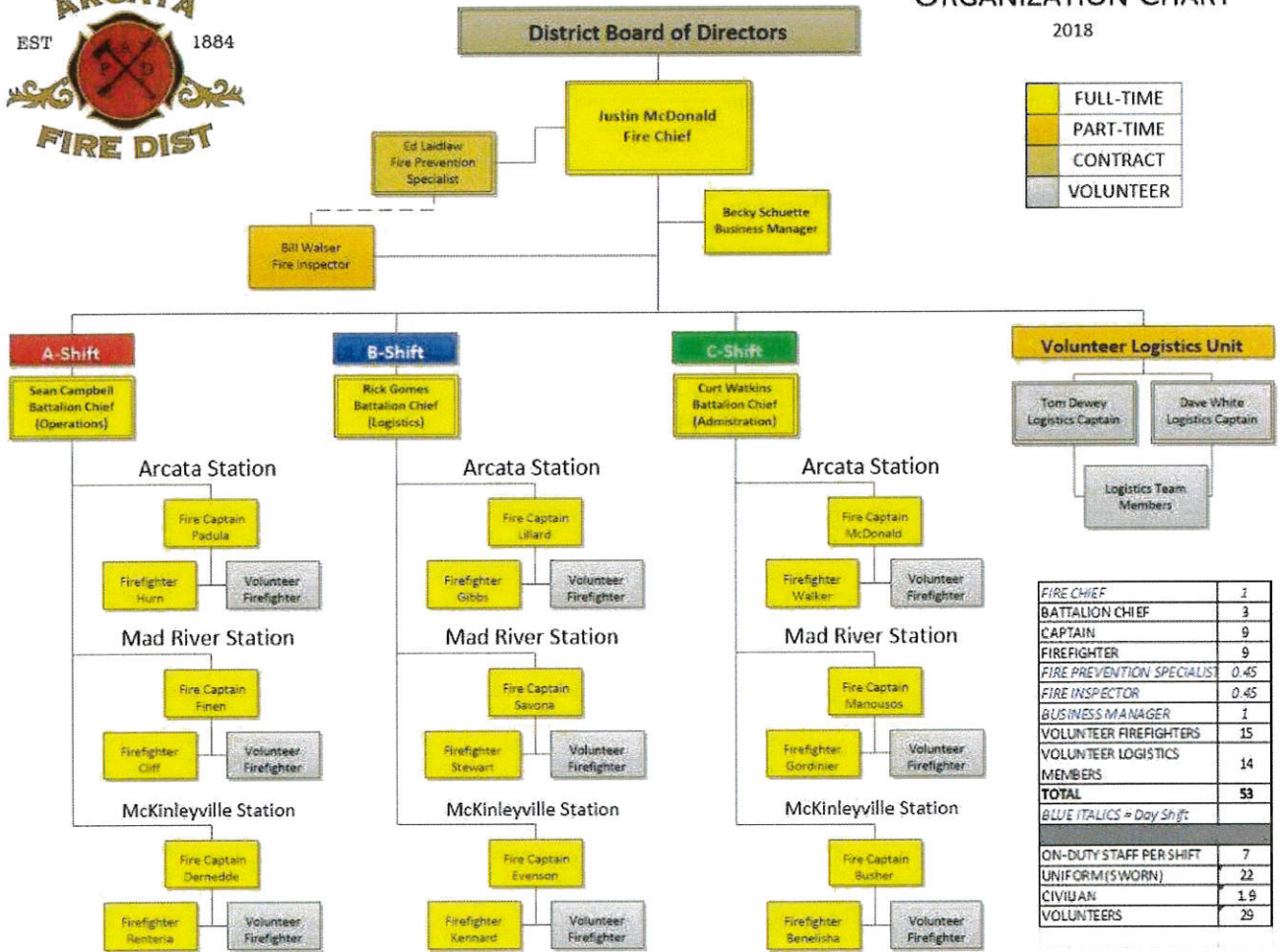
# Arcata Fire District, California Annual Financial Report For the year ended June 30, 2018

## Organizational Chart



### ORGANIZATION CHART

2018

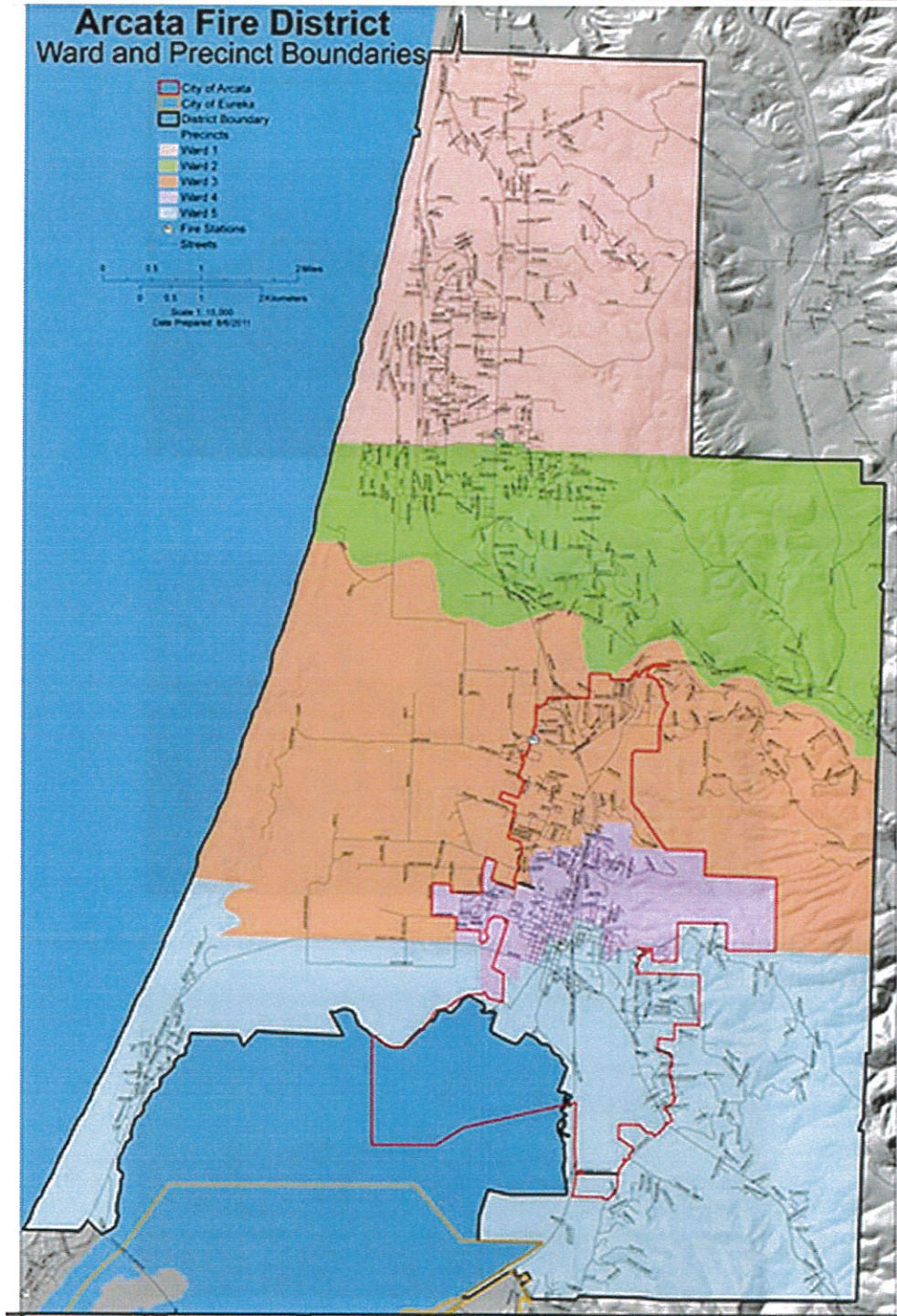


FIRE CHIEF	1
BATTALION CHIEF	3
CAPTAIN	9
FIREFIGHTER	9
FIRE PREVENTION SPECIALIST	0.45
FIRE INSPECTOR	0.45
BUSINESS MANAGER	1
VOLUNTEER FIREFIGHTERS	15
VOLUNTEER LOGISTICS MEMBERS	14
<b>TOTAL</b>	<b>53</b>
<i>BLUE ITALICS = Day Shift</i>	
ON-DUTY STAFF PER SHIFT	7
UNIFORM (SWORN)	22
CIVILIAN	1.9
VOLUNTEERS	29



# Arcata Fire District, California Annual Financial Report For the year ended June 30, 2018

## District Map





# Arcata Fire District, California Annual Financial Report For the year ended June 30, 2018

## Stations and facilities

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### **Arcata Station.**

631 9th Street, Arcata CA 95521



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### **Mad River Station.**

3235 Janes Road, Arcata CA 95521



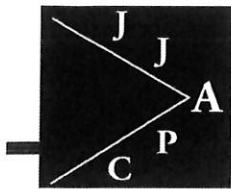
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### **McKinleyville Station & District Headquarters.**

2149 Central Avenue, McKinleyville CA 95519







**JJACPA, Inc.**

A Professional Accounting Services Corp.

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Chairman and District Board  
of the Arcata Fire Protection District  
Arcata, California

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

We have audited the accompanying basic financial statements of the Arcata Fire Protection District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the District's June 30, 2017 basic financial statements with our report dated February 10, 2018.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and the budgetary comparison information of the Arcata Fire Protection District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–8, the Other Post-Employment Benefits Schedule of Funding Progress on page 44, the District's Schedule of Contributions on pages 53, and the Schedule of the District's proportionate Share of the Net Pension Liability on pages 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.

### *Implementation of New Accounting Standards*

As disclosed in the Note 1 to the financial statements, the District implemented GASB 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).

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 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 District's internal control over financial reporting and compliance.

*JJACPA, Inc.*

**JJACPA, Inc.  
Dublin, California**

October 20, 2018



## Arcata Fire Protection District Annual Financial Report For the year ended June 30, 2018 Management's Discussion and Analysis

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This section of the Arcata Fire Protection District's (District) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2018. The Management's Discussion and Analysis (MD&A) describes the significant changes from the prior year that occurred in general operations and discusses the activities during the year for capital assets and long-term debt. The discussion concludes with a description of currently known facts, decisions and conditions that are expected to impact the financial position of the District's operations. We encourage the reader to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal.

### Annual Report Overview

This annual report consists of a series of financial statements. The District's basic financial statements are comprised of three components: Government-wide financial statements, Fund financial statements and Notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

The *government-wide financial statements* provide the reader with a longer-term view of the District's activities as a whole and comprise the Statement of Net Position and Statement of Activities. The manner of presentation is similar to a private-sector business. Beginning with this Annual Financial Report the District is now subject to a new accounting requirement from the Government Accounting Standards Board ("GASB"), generally referred to as "GASB Statement 75" related to the reporting of "Other Post-Employment Benefits" ("OPEB"). OPEB is defined as the future estimated cost of all benefits available to eligible retirees following their employment with the District such as insured healthcare benefits. The total projected costs of these benefits is reflected in the Government-wide Financial Statements. The new requirements called for these major changes and resulted in a significant impact on the financial statements as reported:

A "Total Other Post-Employment Benefits Liability" was calculated by the District's actuary based on several assumptions such as future retirement age, cost of future insured benefits, trends in healthcare costs, etc., and is presented on the District's Statement of Net Position ("Balance Sheet") in the government-wide financial statements;

OPEB expense is now calculated by the District's actuary and is tied to the fluctuations and changes in total OPEB liability. It is adjusted periodically based on these changes. For this year estimated total OPEB expense appears as a Prior Period Adjustment on Page 6 and is further described on the Statement of Net Position (pg. 12).

Each year's OPEB costs may be deferred (deferred inflows and deferred outflows of resources, recorded in the Statement of Net Position) and amortized over a number of years.

It is important to note that these new reporting requirements apply only to accounting and financial reporting. They are not applicable to funding and are not used by the District to determine contribution requirements.

The actual cost of providing OPEB benefits has not changed – what has changed with this new requirement is how OPEB costs are accounted for and presented in the financial statements. It is the position of the District that, as is the case with many special districts of our size, the OPEB



# Arcata Fire Protection District Annual Financial Report For the year ended June 30, 2018 Management's Discussion and Analysis, Continued

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## Government-wide Financial Statements, Continued

plan will remain non-trusted and on a pay-as-you-go basis. The District will continue to pay those OPEB plan expenses as they come due.

The *Statement of Net Position* presents information about the financial position of the District as a whole, including all its capital assets and long-term liabilities on the full accrual basis. Over time, increases or decreases in net position is one indicator in monitoring the financial health of the District.

The *Statement of Activities* provides information about all the District's revenue and expenses on the full accrual basis, with the emphasis on measuring net revenues or expenses of each specific program. This statement explains in detail the change in Net Position for the year. All of the District's activities in the government-wide financial statements are principally supported by general District revenues such as taxes and user-fee related charges such as ambulance services and inspection fees. The government-wide financial statements also include general government and interest on long-term debt.

The government-wide financial statements use the full accrual basis of accounting method which records revenues when earned and expenses at the time the liability is incurred, regardless of when the related cash flows take place.

The government-wide financial statements can be found on pages 12 and 13 of this report.

## Fund Financial Statements

The *fund financial statements* report the District's operations in more detail than the government-wide financial statements and focus primarily on the short-term activities of the District. The fund financial statements measure only current revenues and expenditures and fund balances; excluding capital assets, long-term debt and other long-term obligations (pg. 14).

The fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the fund financial statements. These financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship or differences between the government-wide and fund financial statements in a reconciliation following the fund financial statements.

The fund financial statements provide detailed information about the District's major fund which is the General Fund. The District currently has no non-major funds.

Comparisons of Budget and Actual financial information are presented for the General Fund.



**Arcata Fire Protection District**  
**Annual Financial Report**  
**For the year ended June 30, 2018**  
**Management's Discussion and Analysis, Continued**

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**Notes to the Basic Financial Statements**

The *notes* provide additional information that is essential to the reader for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 22 of this report.

**Government-wide Overall Financial Analysis**

This analysis focuses on the net position and change in net position of the District's Governmental Activities. Over time, net position may serve as a useful indicator of a government's financial position. The District's net position is reported as follows:

**Governmental Activities**

	<b>Governmental Activities</b>	
	2018	2017
Cash and investments	\$3,378,909	\$3,059,618
Receivables, net	110,581	181,102
Prepaid Expense	21,269	11,277
Capital assets, net	4,244,335	4,581,948
Total assets	7,755,094	7,833,945
Deferred outflows – pension plan	2,181,745	2,197,104
Deferred outflows – OPEB	263,236	-
Total Assets and deferred outflows	\$10,200,075	\$10,031,049
Current liabilities	407,075	326,496
Long-term liabilities	15,536,694	8,737,600
Total liabilities	15,943,769	9,064,096
Deferred inflows – pension plan	127,490	341,681
Deferred inflows – OPEB	682,066	-
Net Position:		
Net investment in capital assets	3,939,543	4,131,717
Unrestricted (deficit)	(10,492,793)	(3,506,445)
Total net position	(6,553,250)	625,272
Total liabilities, deferred outflows, and net position	\$10,200,075	\$10,031,049

The District's total liabilities exceeded total assets by \$8,188,675 as of June 30, 2018. A portion of the net position reflects its investment in capital assets (land, buildings, improvements, equipment and vehicles). The most significant portion (\$9,676,986) reflects the results of the new net OPEB obligation calculation required by GASB Statement 75 which is included in Long-term liabilities.

The remaining balance of net position of (\$10,492,793) is unrestricted and is intended to meet the District's ongoing obligations to its citizens and creditors. The District has an unrestricted net position deficit as of June 30, 2018 and 2017.



**Arcata Fire Protection District**  
**Annual Financial Report**  
**For the year ended June 30, 2018**  
**Management's Discussion and Analysis, Continued**

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**Government-wide Overall Financial Analysis, Continued**

**Governmental Activities, continued**

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position. The narrative that follows describes the individual program expenses, program revenues and general revenues in more detail.

	2018	2017
<u>Expenses</u>		
Fire protection - operations	\$5,461,173	\$4,833,657
Interest on long-term debt	26,872	32,671
Total expenses	\$5,488,045	\$4,866,328
<u>Revenues</u>		
Program revenues:		
Charges for services	62,314	53,793
Operating grants & contributions	292,805	578,319
Capital grants and contributions	-	2,102,564
Total program revenues	335,119	1,740,259
General revenues:		
Property taxes	3,877,091	3,790,669
State timber yield tax	1,513	714
Investment earnings	34,791	22,738
Other revenues	336,263	104,818
Special item: Write off of State obligation	-	27,967
Total general revenues	4,249,658	3,936,936
Change in net position	(883,268)	1,805,284
Net Position:		
Net position - beginning	625,272	(1,180,012)
Prior period adjustment	(6,295,254)	-
Net position – beginning, as adjusted	(5,669,982)	-
Net position – ending	\$ (6,553,250)	\$625,272



**Arcata Fire Protection District**  
**Annual Financial Report**  
**For the year ended June 30, 2018**  
**Management's Discussion and Analysis, Continued**

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**Government-wide Overall Financial Analysis, Continued**

**Expenses**

Fire protection – operations expenses totaled \$5,461,173 for fiscal year 2017-2018. This was a 13% increase from the previous year primarily due to a required change reporting of the District's pension and Other Postemployment Benefits (OPEB) obligations as per GASB 75.

GASB 75 requires the District to report the value of the entity's OPEB. This standard requires a calculation of a present liability for future non-pension benefits for employees and retirees, also known as the "Total OPEB Liability". The new standard differs in how the liability is disclosed on financial statements.

The old standard recognized the liability within a footnote of the financial statements, with only a portion of the total liability going on the book through the Net OPEB Obligation. GASB 75 does away with the Net OPEB Obligation, requiring the full liability to be recognized immediately on the balance sheet.

Other differences between dictate the *Selecting the Discount Rate*. The discount rate is the rate at which future benefit payments are "brought back" to the present when calculating the liabilities. A lower discount rate therefore results in a *higher* liability. The old standard was vague when it came to choose a discount rate, referring to general rates of return and leaving this to the actuary's best estimate. This led most actuaries to use a rate of about 4%. GASB 75 eliminates this ambiguity, providing a specific external index to set the discount rate.

**Debt Administration**

In 2006, the District purchased three fire engines and three command vehicles, for an original principal amount of \$1,000,000. In 2011 the District purchased two more fire engines and refinanced the \$470,700 remaining on the original loan. At the end of this fiscal year, the District's total outstanding debt amounted to approximately \$450,231 with an interest rate of 3.4%. This loan will be paid off January 2021.

**Overview of Operations**

In preparation and planning of the FY2017-18 budget, the District implemented several cuts and reductions to the budget. In September 2017, the FEMA Staffing for Adequate Fire & Emergency Response (SAFER) Grant concluded. Six FTE (full-time equivalent) firefighter positions were funded through this grant and the District could not support funding the position after the grant concluded. Through attrition, three positions were eliminated and the other three were kept on the condition that additional revenue was received from summertime fire responses for the State revenue recovery efforts and growth in taxes. Summer revenues were up 69% from the prior year, which sustained the three FTE positions. The District also saw another exceptional year in tax revenue, the tax received was up 5.9% from the previous year, primarily due to the continual build-out of the McKinleyville Area. The District also conducted an audit of all property assessments through a consultant. The net change of the assessment corrections was reduction of less than 1%. The Salaries & Benefit portion of the FY17-18 budget reduction process was static. This was, in part, due to the 5% increase in retirement expense and 14% increase in the unfunded accrued liability payment to CalPERS being offset by the reduction of full-time staff. The Service & Supplies portion was reduced by 3.5% however, is likely at the limit of any future reductions.



**Arcata Fire District  
Statement of Net Position**

June 30, 2018

	Governmental Activities	
	2018	2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and investments	\$ 3,378,909	\$ 3,059,618
Receivables, net	110,581	181,102
Prepaid Expense	21,269	11,277
<b>Total current assets</b>	<u>3,510,759</u>	<u>3,251,997</u>
<b>Noncurrent assets:</b>		
Capital assets, net	4,244,335	4,581,948
<b>Total noncurrent assets</b>	<u>4,244,335</u>	<u>4,581,948</u>
<b>Total assets</b>	<u>7,755,094</u>	<u>7,833,945</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pensions	2,181,745	2,197,104
Deferred outflows related to OPEB	263,236	-
<b>Total assets and deferred outflows</b>	<u>\$ 10,200,075</u>	<u>\$ 10,031,049</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 50,508	\$ 56,871
Salaries and benefits payable	165,805	105,032
Interest payable	11,233	13,739
Compensated absences - current portion	34,090	12,328
Current portion of long-term liabilities	145,439	138,526
<b>Total current liabilities</b>	<u>407,075</u>	<u>326,496</u>
<b>Noncurrent liabilities:</b>		
Net pension obligation	5,481,918	4,869,410
Compensated absences	72,998	76,190
Net OPEB obligation	9,676,986	3,341,769
Wells Fargo Equipment Finance	304,792	450,231
<b>Total noncurrent liabilities</b>	<u>15,536,694</u>	<u>8,737,600</u>
<b>Total liabilities</b>	<u>15,943,769</u>	<u>9,064,096</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions	127,490	341,681
Deferred inflows related to OPEB	682,066	-
<b>NET POSITION</b>		
Net investment in capital assets	3,939,543	4,131,717
Unrestricted (deficit)	(10,492,793)	(3,506,445)
<b>Total net position (deficit)</b>	<u>(6,553,250)</u>	<u>625,272</u>
<b>Total liabilities, deferred inflows, and net position</b>	<u>\$ 10,200,075</u>	<u>\$ 10,031,049</u>

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





**Arcata Fire District**  
**Statement of Activities**  
 For the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					2018
<b>Governmental activities:</b>					
Fire protection - operations	\$ 5,461,173	\$ 62,314	\$ 230,262	\$ -	\$ (5,168,597)
Interest on long-term debt	26,872	-	-	-	(26,872)
<b>Total governmental activities</b>	<b>\$ 5,488,045</b>	<b>\$ 62,314</b>	<b>\$ 230,262</b>	<b>\$ -</b>	<b>\$ (5,195,469)</b>
General revenues:					
Taxes:					
Property taxes					3,877,091
State timber yield tax					1,513
Investment earnings					34,791
Other Revenues					398,806
Total general revenues					4,312,201
Change in net position					(883,268)
Net position:					
Net position - beginning					625,272
Prior period adjustment					(6,295,254)
Net position - beginning, as adjusted					(5,669,982)
Net position - ending					\$ (6,553,250)

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

FUND FINANCIAL STATEMENTS





**Arcata Fire District**  
**Balance Sheet**  
 General Fund  
 June 30, 2018

	<u>Major Fund</u>
	<u>General Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 3,378,909
Restricted cash and investments	-
Receivables:	
Grants	36,639
Interest	8,000
Other receivable	65,942
Prepaid items	21,269
<b>Total assets</b>	<u>\$ 3,510,759</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	\$50,508
Salaries and benefits payable	165,805
Interest payable	11,233
Compensated absences	34,090
<b>Total liabilities</b>	<u>261,636</u>
<b>Deferred inflows: Unavailable revenue</b>	<u>62,543</u>
<b>Fund balances:</b>	
Nonspendable for prepaid items	21,269
Unassigned	3,165,311
<b>Total fund balances</b>	<u>3,186,580</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 3,510,759</u>

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



**Arcata Fire District**  
**Reconciliation of the General Fund Balance Sheet**  
**to the Statement of Net Position**

June 30, 2018

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**Total fund balances reported on the governmental fund balance sheet**      \$ 3,186,580

Amounts reported for governmental activities in the Statement of Net Position are different from those reported in the Governmental Funds due to the following:

**CAPITAL ASSETS**

Capital assets amount reported in governmental activities are not current assets or financial resources and therefore are not reported in the Governmental Funds balance sheet.      4,244,335

**LONG-TERM ASSETS AND LIABILITIES**

Pension and OPEB obligations result in deferred outflows and inflows of resources associated with the actuarial value of contributions, assets, and liabilities

Deferred outflows      2,444,981  
Deferred inflows      (809,556)      1,635,425

Deferred inflows for unavailable revenue in the current period are recognized as revenue in the Statement of Activities      62,543

Long-term liabilities is not due and payable in the current period and therefore is not reported in the Governmental Funds

Net pension obligation      (5,481,918)  
Compensated absences      (72,998)  
Net OPEB obligation      (9,676,986)  
Long term debt      (450,231)      (15,682,133)

**Net position of governmental activities**      \$ (6,553,250)

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



**Arcata Fire District**  
**Reconciliation of Fund Basis Balance Sheet to Government-wide**  
**Statement of Net Position**

Governmental Activities

June 30, 2018

ASSETS	General		Changes in GAAP	Statement of Net Position
	Fund Balance Sheet	Reclass		
<b>Current assets:</b>				
Cash and investments	\$ 3,378,909	\$ -	\$ -	\$ 3,378,909
Restricted cash and investments	-	-	-	-
Receivables (net)	110,581	-	-	110,581
Other assets	21,269	-	-	21,269
<b>Total current assets</b>	<b>3,510,759</b>	<b>-</b>	<b>-</b>	<b>3,510,759</b>
<b>Noncurrent assets:</b>				
Capital assets, net	-	-	4,244,335	4,244,335
<b>Total noncurrent assets</b>	<b>-</b>	<b>-</b>	<b>4,244,335</b>	<b>4,244,335</b>
<b>Total assets</b>	<b>3,510,759</b>	<b>-</b>	<b>4,244,335</b>	<b>7,755,094</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	-	-	2,181,745	2,181,745
Deferred outflows related to OPEB	-	-	263,236	263,236
<b>Total assets and deferred outflows</b>	<b>\$ 3,510,759</b>	<b>\$ -</b>	<b>\$ 6,689,316</b>	<b>\$ 10,200,075</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable & accrued liabilities	\$50,508	\$ -	\$ -	\$ 50,508
Salaries and benefits payable	165,805	-	-	165,805
Interest payable	11,233	-	-	11,233
Compensated absences	34,090	-	-	34,090
Current portion of long-term liabilities	-	-	145,439	145,439
<b>Total current liabilities</b>	<b>261,636</b>	<b>-</b>	<b>145,439</b>	<b>407,075</b>
<b>Noncurrent liabilities:</b>				
Net pension obligation	-	-	5,481,918	5,481,918
Compensated absences	-	-	72,998	72,998
Net OPEB obligation	-	-	9,676,986	9,676,986
Due after one year	-	-	304,792	304,792
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>15,536,694</b>	<b>15,536,694</b>
<b>Total liabilities</b>	<b>261,636</b>	<b>-</b>	<b>15,682,133</b>	<b>15,943,769</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows: Unavailable revenue	62,543	-	(62,543)	-
Deferred inflows related to pensions	-	-	127,490	127,490
Deferred inflows related to OPEB	-	-	682,066	682,066
	<b>62,543</b>	<b>-</b>	<b>747,013</b>	<b>809,556</b>
<b>FUND BALANCES/NET POSITION</b>				
<b>Fund balances:</b>				
Restricted	21,269	(21,269)	-	-
Unassigned	3,165,311	(3,165,311)	-	-
<b>Net position:</b>				
Net investment in capital assets	-	-	3,939,543	3,939,543
Unrestricted	-	3,186,580	(13,679,373)	(10,492,793)
<b>Total fund balances/net position</b>	<b>3,186,580</b>	<b>-</b>	<b>(9,739,830)</b>	<b>(6,553,250)</b>
<b>Total liabilities, deferred inflows, and net position</b>	<b>\$ 3,510,759</b>	<b>\$ -</b>	<b>\$ 6,689,316</b>	<b>\$ 10,200,075</b>

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



**Arcata Fire District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**General Fund**

For the year ended June 30, 2018

	<b>Major Fund</b>
	<b>General</b>
	<b>Fund</b>
<b>REVENUES:</b>	
Property taxes	\$ 3,877,091
State timber yield tax	1,513
Use of money and property	34,791
Intergovernmental	230,262
Charges for services	62,314
Other revenues	319,728
<b>Total revenues</b>	<b>4,525,699</b>
<b>EXPENDITURES:</b>	
Fire protection:	
Salaries	1,936,061
Retirement	809,045
Group Insurance	724,803
Worker's Compensation	66,967
Uniforms	16,359
Communication	25,843
Food	1,868
Household Expense	7,747
Insurance	13,073
Management Equipment	52,469
Maintenance-Electronics	2,321
Transportation and travel	32,353
Utilities	33,722
Maintenance-Structure	10,828
Medical Supplies	2,314
Dues & Subscription	17,306
Miscellaneous	988
Office supplies	1,611
Postage and shipping	995
Professional and Specialized service	213,833
Publications and Notices	288
Copies	6,807
Leases - Structures	96,000
Special District expense	126,930
Small tools and equipment	28,863
Training	24,889
<b>Total Fire protection</b>	<b>4,254,283</b>

(continued)

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



**Arcata Fire District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**General Fund, continued**  
For the year ended June 30, 2018

Debt service:	
Principal	138,526
Interest expense	26,872
<b>Total expenditures</b>	<b>4,419,681</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>106,018</b>
<b>OTHER FINANCING SOURCES:</b>	
Transfers to Arcata Volunteer Fire Association	(14,842)
Proceeds from sales of assets	31,377
<b>Total other financing sources</b>	<b>16,535</b>
<b>Net change in fund balances</b>	<b>122,553</b>
<b>FUND BALANCES:</b>	
Beginning of year	3,064,027
End of year	<b>\$ 3,186,580</b>

(concluded)

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

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**Arcata Fire District**  
**Reconciliation of Fund Based Statements to**  
**Government-wide Statement of Activities**

For the year ended June 30, 2018

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<u>Functions/Programs</u>	<u>Fund Based Totals</u>	<u>Debt Service/ Compensated Absences</u>	<u>Depreciation</u>
<b>Governmental activities:</b>			
Fire protection - operations	\$ 4,254,283	\$ (3,192)	\$ 311,336
Debt service	165,398	(138,526)	-
<b>Total governmental activities</b>	<u>\$ 4,419,681</u>	<u>\$ (141,718)</u>	<u>\$ 311,336</u>

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



**Arcata Fire District**  
**Reconciliation of Fund Based Statements to**  
**Government-wide Statement of Activities, continued**

For the year ended June 30, 2018

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Capital Asset (Additions)/ Retirements	OPEB	Pension	Government- wide Totals
\$ 26,277	\$ 39,963	\$ 832,506	\$ 5,461,173
-	-	-	26,872
<u>\$ 26,277</u>	<u>\$ 39,963</u>	<u>\$ 832,506</u>	<u>\$ 5,488,045</u>

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



**Arcata Fire District**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**

For the year ended June 30, 2018

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<b>Net change in fund balances - total governmental funds</b>		\$ 122,553
Amounts reported for governmental activities in the Statement of Activities are different because of the following:		
<b>CAPITAL ASSET TRANSACTIONS</b>		
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense:		
Capital asset additions	15,223	
Depreciation expense	(311,336)	
Capital asset retirements	(41,500)	(337,613)
<b>LONG TERM DEBT PAYMENTS</b>		
Issuance of long term debt is an other financing source in the governmental funds, but in the Statement of Net Position the issuance increases long term liabilities:		
Capital leases		138,526
<b>CHANGES IN NON-CURRENT LIABILITIES AND DEFERRED INFLOWS</b>		
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in net pension obligation	(832,506)	
Change in long-term compensated absences	3,192	
Change in Net OPEB obligation	(39,963)	(869,277)
Some receivables are deferred in the governmental funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the Statement of Activities.		
		-
<b>Change in net position of governmental activities</b>		<b>\$ (945,811)</b>

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



**Arcata Fire District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget to Actual - General Fund**  
 For the year ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance With Amended Positive (Negative)
<b>REVENUES:</b>				
Property taxes	3,805,465	3,906,567	\$3,877,091	\$ (29,476)
State timber yield tax	714	714	1,513	799
Use of money and property	23,500	23,500	34,791	11,291
Intergovernmental	248,068	459,202	230,262	(228,940)
Charges for services	110,900	111,000	62,314	(48,686)
Other revenues	164,184	303,635	319,728	16,093
<b>Total revenues</b>	<b>4,352,831</b>	<b>4,804,618</b>	<b>4,525,699</b>	<b>(278,919)</b>
<b>EXPENDITURES:</b>				
Fire protection:				
Salaries	1,774,591	1,774,591	1,936,061	(161,470)
Benefits	1,569,951	1,559,225	1,532,096	27,129
Retiree health insurance	93,800	93,800	68,719	25,081
Service and supplies	912,933	928,870	717,407	211,463
Debt service:				
Principal	-	-	138,526	-
Interest	-	-	26,872	-
<b>Total expenditures</b>	<b>4,351,275</b>	<b>4,356,486</b>	<b>4,419,681</b>	<b>102,203</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>1,556</b>	<b>448,132</b>	<b>106,018</b>	<b>(342,114)</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfers to Arcata Volunteer Fire Association	-	-	(14,842)	-
Proceeds from sales of assets	-	-	31,377	31,377
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>16,535</b>	<b>31,377</b>
<b>Net change in fund balances</b>	<b>1,556</b>	<b>448,132</b>	<b>122,553</b>	<b>(310,737)</b>
<b>FUND BALANCES:</b>				
Beginning of year	3,064,027	3,064,027	3,064,027	-
End of year	<u>\$3,065,583</u>	<u>\$3,512,159</u>	<u>\$3,186,580</u>	<u>\$ (310,737)</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**



**Arcata Fire Protection District  
Annual Financial Report  
For the year ended June 30, 2018  
Management's Discussion and Analysis, Continued**

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**Economic Outlook**

In 2018, the county of Humboldt produced a document called 2018-2019 Seven-Year Financial Forecast (<https://humboldt.gov/DocumentCenter/View/63012/7-Year-Financial-Forecast>). The following is an excerpt from that document and it gives a brief synopsis of the local economy.

*The Humboldt Economic Index is a report produced by the Economics Department at Humboldt State University. It measures changes in the local economy using data from local business and organizations. The report includes a Composite Index which is a weighted combination of six individual sectors of the local economy. The November 2017 report states the Composite Index is up 0.4 points from this time last year. Retail sales have dipped 8.5 points lower when compared to October 2016. The Index of Home Sales has increased from this time last year by 2.2 points; moreover, the bigger issue is the availability of affordable housing and housing stock in general. The median home price compared to this time last year was \$305,000 versus \$300,000 at the time of this report. The seasonally adjusted unemployment rate for Humboldt County decreased from 4.5 to 4.1 percent, which is comparable to the state rate decreasing from 5.1 to 4.9 percent. The national unemployment rate dipped slightly from 4.4 compared to 4.1 in October 2017.*

*The numbers for local building permits have leveled off, and still remain low compared to pre-recession levels. Local building permit numbers when compared to the prior year for the same period reflect a slight gain of 1.4 points. However, overall, local building permits are relatively flat and show no significant deviation from October 2016.*

*The median home price for Humboldt County however is slightly is down from October 2016's price of \$305,000 to \$300,000 for October 2017. While home sales continue to grow statewide, single-family home inventory continued to drop. A reduction in the number of available homes on the market also impacts the availability and price for rental housing.*

The expenditures have outpaced the revenues of the District for the last few years. By enacting cuts and relying on summer revenues, the District has remained able to keep all three stations staffed. This concerning imbalance needs to be addressed soon by utilizing new revenue sources. Staff reductions, station closures and deferred maintenance are inadequate methods to use to address the ever-increasing pension and retirement liabilities that continue to loom in the District's future.

**Financial Contact**

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances. Questions about this Report should be directed to the Fire Chief, at 2149 Central Avenue, McKinleyville CA 95519.

Respectfully submitted,

*Justin G. McDonald*

Justin G. McDonald, Fire Chief

**Arcata Fire District**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. On June 15, 1987, GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The District applies all GASB pronouncements to its activities.

**A. Description of the Reporting Entity**

The Arcata Fire Protection District (District) was incorporated on June 1, 1944 as a Special District under the laws and regulations of the State of California (State). The District was formed with the approval of the Humboldt County Board of Supervisors, to provide more efficient fire protection and emergency medical services. The principal act that governs the District is the Fire Protection District Law of 1987.

The District provides fire protection, rescue, and emergency medical services to the area surrounding the City of Arcata, including McKinleyville, Manilla, and Bayside. A five-member board of directors, elected by voters, governs the District.

These financial statements present financial information for the District, which represents the primary government. No component units were determined to exist; therefore, none are included in these financial statements.

**B. Basis of Presentation**

*Government-Wide Financial Statements*

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Amounts reported as *program revenues* include 1) charges to residents for fire protection services, or privileges provided by a given function or segment 2) grants and contributions for fire protection services. All taxes and internally dedicated resources are reported as *general revenues* rather than program revenues.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Presentation, continued**

In the government-wide financial statement, equity is reported as net position, and is made up of cumulative net earnings from operations, non-operating revenue and expenses, and capital contributions. The net position is reported in the following categories:

Net investment in capital assets- consists of capital assets, net of accumulated depreciation, reduced by balance owed on any borrowings used in the acquisition, construction or improvement of those assets.

Restricted - refers to that portion of net position that has constraints upon its use imposed by contributors, creditors, such as through debt covenants, or by laws of other governmental entities, or constraints by law through constitutional provisions or enabling legislation.

Unrestricted - net position is the component of net position that does not meet the definition of either "net investment in capital assets" or "restricted."

*Governmental Fund Financial Statements*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized by governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type; and,
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least five percent of the corresponding total for all governmental funds combined.

**C. Measurement Focus**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

On the government-wide Statement of Net Position and the Statement of Activities, governmental and business-type activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with activities are reported. Fund equity is classified as Net Position, which serves as an indicator of financial position.



**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Governmental Fund Financial Statements, continued*

**C. Measurement Focus, continued**

In the fund financial statements, the “current financial resources” measurement focus is used for governmental funds. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**D. Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means the amount is collectible within the current period or soon enough thereafter to pay current liabilities. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end, with the exception of grant revenues. Grant revenues are considered to be available if collected within 180 days of the end of the current fiscal period.

Property taxes, fire flow taxes, permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

**E. Cash Deposits and Investments**

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**F. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables

and payables between funds within governmental activities are eliminated in the Statement of Net Position. The District currently reports no interfund transactions, including receivables and payables at year-end.

**G. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, fire flow taxes, intergovernmental subventions or grants, interest earnings, and expense reimbursements.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, fire flow tax, and intergovernmental subventions since they are usually both measurable and available. Non-exchange transactions collectible but not available, such as property tax, are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. The District estimates and records an allowance for doubtful accounts based on prior experience.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. In the governmental fund financial statements, prepaid items are offset with nonspendable fund balance to indicate they do not constitute current resources available for appropriation.

**I. Capital Assets**

The District's capital assets are valued at historical cost or estimated historical cost, if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Policy has set the capitalization threshold for reporting at \$5,000 and with a useful life greater than one year.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over assets estimated useful life using the straight-line method of depreciation. No depreciation is recorded in the year of disposition.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Capital Assets, continued**

The range of estimated useful lives by type of asset is as follows:

Buildings and improvement	30 years
Vehicles	10-25 years
Equipment	5-15 years

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**J. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report 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(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District reports deferred outflows of resources for its pension plan.

In addition to liabilities, the statement of financial position will sometimes report 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources for its pension plan.

*Government-Wide Statements*

**K. Compensated Absences**

Employees accrue vacation, sick, holiday, administrative leave and compensatory time off benefits. District employees have vested interests in the amount of accrued time off, with the exception of sick leave and administrative leave, and are paid on termination. Most District employees earn annual vacation leave of 12 to 42 days, depending how long they have been employed, and whether they work a 56 hour work week or a 40 hour work week. Also, annually employees may carry over between 50 to 75 days to the next calendar year. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The general fund is used to liquidate compensated absences.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Government-Wide Statements, Continued*

**L. Pensions**

The District recognizes a net pension liability, which represents the District's proportionate share of the excess of the total pension liability over the fiduciary net position of the Plan reflected in an actuarial report provided by California Public Employees' Retirement System (CalPERS).

The net pension liability is measured as of the District's prior Plan year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change in the liability. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources relating to pensions and pension expense, information about the fiduciary net position of the District's pension plan with CalPERS and additions to/deductions from the plan's 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 benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

**M. Equity Classification**

Equity is classified as net position and is displayed in three components:

- a. *Net investment in capital assets* – 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.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**M. Equity Classification, continued**

- b. *Restricted net position* – consists of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, or by laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

*Fund Financial Statements*

Governmental fund equity is classified as fund balance. Fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. The classifications for governmental funds are defined as follows by the District’s Fund Balance Policy:

***Nonspendable Fund Balance***

- Assets that will never convert to cash (prepaid items, inventory)
- Assets that will not convert to cash soon enough to affect the current period (long-term notes or loans receivable).
- Resources that must be maintained intact pursuant to legal or contractual requirements (the principal of an endowment).

***Restricted Fund Balance***

- Resources that are subject to externally enforceable legal restrictions imposed by parties altogether outside the government (creditors, grantors, contributors and other governments).
- Resources that are subject to limitations imposed by law through constitutional provisions or enabling legislation.

***Committed Fund Balance***

- Self-imposed limitations set in place prior to the end of the period (encumbrances, economic contingencies and uncertainties).
- Limitation at the highest level of decision-making (Board) that requires formal action at the same level to remove.
- Board Resolution is required to be taken to establish, modify, or rescind a fund balance commitment.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**M. Equity Classification, Continued**

***Assigned Fund Balance***

- Amounts in excess of nonspendable, restricted, and committed fund balance in funds other than the general fund automatically are reported as assigned fund balance.
- Fund Balance committed to pay for the subsequent year's budget deficit. The amount is equal to the projected excess of budgeted expenditures over budgeted revenues by fund.
- Assigned amounts for a specific purpose are as authorized by the District's Fire Chief or Administrative Services Director through its fund balance policy.

***Unassigned Fund Balance***

- Residual net resources.
- Total fund balance in the general fund in excess of nonspendable, restricted, committed and assigned fund balance (surplus).
- Excess of nonspendable, restricted, and committed fund balance over total fund balance (deficit).

***Fund Balance Policy***

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain unrestricted fund balance in its District funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed and unassigned fund balances are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

**N. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**O. Property Tax**

The County of Humboldt is responsible for assessing, collecting and apportioning property taxes for the District. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The District recognizes property taxes when the individual installments are due, provided they are collected within 60 days after year-end.

Secured property taxes are levied on or before the first day of September of each year. They become a lien on real property on March 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid. If the

delinquent taxes are not paid at the end of five years, the property is sold at public auction and the proceeds are used to pay the delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates, but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on March 1, and become delinquent, if unpaid on August 31.

The District participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The State Revenue and Taxation Code allow counties to distribute secured real property, assessment, and supplemental property taxes on an accrual basis resulting in full payment to taxing agencies each fiscal year. Any subsequent delinquent payments and penalties and interest during a fiscal year will revert to the County.

**P. Budgetary Accounting**

The District Board of Directors establishes budgets for the General Fund. Budgetary control is legally maintained at the fund level for these funds. The budget includes appropriations (budgeted expenditures) on a line-item basis and the means of financing them (budgeted revenues.) The coordinators of the Budget are the Fire Chief and the Business Manager or designee(s), with direct support from each division in the District.

Budget development begins with a mid-year Budget review in January or during a month selected by the Fire Chief. The mid-year review is a detailed analysis of District revenue and expenditure line items for the current fiscal year. The District fiscal year is from July 1 through June 30 of the next calendar year.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**P. Budgetary Accounting, continued**

The mid-year review is published and distributed to the Board, staff and general public for consideration during the month of January or during a month selected by the Fire Chief. The mid-year financial analysis provides the starting point for next fiscal year's Budget.

Administrators receive a written Budget Packet and a written Budget Timeline in February that provides detailed instructions and deadlines for the Budget process. Administrators meet with the Fire Chief or designated representative and submit the following for the next fiscal year: 1) goals and objectives, 2) preliminary Budget requests, 3) personnel requests and 4) capital equipment requests. During this time, revenue sources are projected by the Fire Chief and Accountant.

A draft Budget is compiled for review by the Fire Chief, Business Manager or designated representative(s). Individual meetings with each division are held with the Fire Chief or designated representative as deemed necessary by the Fire Chief. Programs, projects and staffing are reviewed in these sessions and approval is dependent on available funding and Fire Chief's recommendation.

Recommendations and revisions from division review sessions are incorporated into the Proposed Budget. The Proposed Budget is submitted to the Board in May for detailed review, public comment and Board direction in a public meeting. Public requests and concerns are considered during this time.

After deliberation and final changes, the Budget is adopted by the Board of Directors. Preferably the Budget is adopted in June, prior to the beginning of the next fiscal year. In the event of unusual circumstances, the Budget may be adopted after the beginning of the fiscal year. Regardless, in accordance with Health and Safety Code Section 13895, the final Budget is adopted by October 1 of each fiscal year.

Formal budgetary integration is employed as a management control device during the year for all funds. Budgeted and actual revenues and expenditures are reviewed monthly by the Board and budget amendments and transfers are made as needed. The Accountant monitors appropriations on a division basis and conveys this information to the Fire Chief who can approve appropriation transfers so long as appropriations in total by fund do not change.

This approach allows the Fire Chief to hold division heads accountable. The District reports expenditures and appropriations on a line-item basis to the Board.

Only the Board may approve amendments to appropriations in total by fund. This approach allows the Board to hold the Fire Chief accountable for the overall District operations.

Budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. Budgeted amounts presented in the financial statements are as originally adopted and as amended by the Board. Supplemental amendments to the budget were adopted by the Board and have been included in the budget to actual statement.



**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Q. Use of Estimates**

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

**R. Implementation of GASB 75 related to Other Post Employment Benefit Plans**

The GASB has 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 supersedes 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.

In implementing these Statements, the District recognizes a net OPEB liability, which represents the District's proportionate share of the excess of the total OPEB liability over the fiduciary net position of the Plan. The net OPEB liability is measured as of the District's prior Plan year-end. Changes in the net OPEB liability are recorded, in the period incurred, as expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change in the liability.

**S. Prior Period Adjustment**

Due to the District's adoption of GASB 75, net position was adjusted at June 30, 2018. The following is a reconciliation of the total net position as previously reported at July 1, 2017, to the restated net position.

	<b>Governmental Activities</b>
Net Position at June 30, 2017	\$ 625,272
Adjustment:	
Adoption of GASB 75, OPEB	(6,295,254)
Total Adjustments	<u>(6,295,254)</u>
Net Position at July 1, 2017, as adjusted	<u>\$ (5,669,982)</u>

The adjustment results from the total OPEB cost less any Plan assets being recorded to reflect a net OPEB liability. Prior year amounts only reflected the annual required contribution, which is only a portion of the total liability for which the amount has been recorded in the Statement of Financial Position in accordance with GASB 75. The actuarial funding method attempts to spread recognition of total expected costs on a level basis over the life of the plan, and as such sets the "incidence of cost". GASB 75 specifically requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the Entry Age Actuarial Cost

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**S. Prior Period Adjustment, continued**

Method, with each period's service cost determined as a level percentage of pay and contributes to the total liability.

**T. Comparative Data**

Comparative data for the prior year has been presented in the accompanying Management, Discussion, and Analysis in order to provide an understanding of changes in the government's financial position and operations.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**2. CASH AND INVESTMENTS**

At June 30, 2018, the District's pooled cash and investments, classified by maturity, consisted of the following stated at fair market value:

	Balance June 30, 2018
Cash in bank	\$ 245,592
Cash with County	2,265,886
Coast Central - Savings	78
Trust funds	867,353
Petty Cash	-
Total cash equivalents and investments pooled	<u>3,378,909</u>
Restricted cash with fiscal agent	-
Total cash and investments	<u>\$ 3,378,909</u>

California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. During the year ended June 30, 2018, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	50%	50%
Bankers' Acceptances	180 days	40%	30%
High-Grade Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	30%
LAIF	N/A	None	None
Local Government Investment Pools	N/A	None	None
Medium-term Corporate Notes	5 years	30%	30%
Money Market Mutual Funds	N/A	20%	10%
Collateralized Negotiable Investments	5 years	50%	50%

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**3. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30, 2018:

Receivables		
Grants	93%	\$ 102,581
Interest	7%	8,000
	100%	<u>\$ 110,581</u>

These amounts resulted in the following concentrations in receivables:

Other Governments	93%
Financial Institutions	7%

Amounts do not indicate a significant concentration (greater than 25%) with any single customer or agency.

**4. PREPAID ITEMS**

The prepaid expenses consist of expendable supplies held for consumption and are recorded as expenses when consumed. As of June 30, 2018, the District has reported \$21,269 of prepaid expense.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
<b>Governmental activities:</b>				
<b>Nondepreciable assets:</b>				
Land	\$ 224,630	\$ -	\$ -	\$ 224,630
<b>Total nondepreciable assets</b>	<u>224,630</u>	<u>-</u>	<u>-</u>	<u>224,630</u>
<b>Depreciable assets:</b>				
Buildings	2,329,696	-	-	2,329,696
Equipment & Vehicles	4,779,823	15,223	(240,941)	4,554,105
<b>Total depreciable assets</b>	<u>7,109,519</u>	<u>15,223</u>	<u>(240,941)</u>	<u>6,883,801</u>
<b>Total</b>	<u>7,334,149</u>	<u>15,223</u>	<u>(240,941)</u>	<u>7,108,431</u>
<b>Accumulated depreciation:</b>				
Depreciable assets	\$ (2,752,201)	\$ (311,336)	\$ (199,441)	\$ (2,864,096)
<b>Total accumulated depreciati</b>	<u>(2,752,201)</u>	<u>(311,336)</u>	<u>(199,441)</u>	<u>(2,864,096)</u>
<b>Total net capital assets</b>	<u>\$ 4,581,948</u>	<u>\$ (296,113)</u>	<u>\$ (41,500)</u>	<u>\$ 4,244,335</u>

Depreciation expense for capital assets was charged to categories as follows:

	Fiscal Year Ended June 30, 2018
Building and Improvements	\$ 61,243
Equipment	68,192
Vehicles	181,901
<b>Total</b>	<u>\$ 311,336</u>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consisted of the following at June 30, 2018:

	Balance June 30, 2018
Accounts payable and accrued liabilities	\$50,508
Salaries and benefits payable	165,805
<b>Total</b>	<u>\$216,313</u>

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES, Continued**

These amounts resulted in the following concentrations in payables:

Vendors 23%                      Employees 77%

Amounts do not indicate a significant concentration (greater than 25%) with any single vendor or employee.

**7. LONG-TERM LIABILITIES**

The District's balance on long-term liabilities was \$450,231. The following is a summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Wells Fargo Equipment Financing	\$ 588,757	\$ -	\$ (138,526)	\$ 450,231	\$ 145,439
Compensated absences	88,518	18,570	-	107,088	34,090
Total long-term liabilities	<u>\$ 677,275</u>	<u>\$ 18,570</u>	<u>\$ (138,526)</u>	<u>\$ 557,319</u>	<u>\$ 179,529</u>

**Lease/Purchase Agreement**

On March 14, 2011 the District entered into a lease/purchase agreement in the amount of \$832,930 for two new Ferrara Engines. Principal and interest amounts are paid in annual payments in the amount of \$76,018 for six years beginning January 2012, followed by three payments of \$167,905 and the final payment of \$159,685.

The following is the debt service obligations of the District

Year Ending June 30,	Principal	Interest
2019	\$ 145,439	\$ 22,466
2020	152,696	15,209
2021	152,096	7,590
Total	<u>\$ 450,231</u>	<u>\$ 45,265</u>
Due within one year	\$ 145,439	\$ 22,466
Due after one year	304,792	22,799
Total	<u>\$ 450,231</u>	<u>\$ 45,265</u>

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**7. LONG-TERM LIABILITIES, continued**

**Compensated Absences**

The District records employee absences, such as vacations, illness, deferred overtime, and holidays, for which it is expected that employees will be paid compensated absences. As at June 30, 2018, the District had a compensated absences balance net of \$107,088.

**8. NET POSITION/FUND BALANCES**

**Net Position**

As of June 30, 2018, net position is as follows:

<u>Net Position</u>	<u>June 30, 2018</u>
Net investment in capital assets	\$3,939,543
Unrestricted (deficit)	(10,492,793)
Total	<u><u>\$(6,553,250)</u></u>

Restricted balances are for the same purposes as fund balance restrictions because external restriction requirements are the same. See descriptions of the restrictions below.

**Fund Balance**

As of June 30, 2018, the District's Restricted and Committed fund balances are as follows:

<u>Fund Balances</u>	<u>June 30, 2018</u>
Nonspendable for prepaid items	\$ 21,269
Restricted	-
Committed for capital projects	-
Unassigned	3,165,311
Total	<u><u>\$ 3,186,580</u></u>

The District considers restricted amounts to have been spent prior to unrestricted amounts when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Committed, assigned, and unassigned amounts, in this order, are considered to have been spent when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**9. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District purchases insurance coverage from FAIRA (Fire Agencies Insurance Risk Authority). FAIRA provides coverage for automobile, general liability, errors and omissions losses and property as follows:

Auto liability -combined single limit	\$1,000,000
General aggregate	2,000,000
Management liability	1,000,000
Cyber-crime liability	1,000,000
Umbrella liability	10,000,000
Each occurrence or wrongful act	1,000,000
Garagekeepers legal liability	250,000

For the fiscal year ended June 30, 2018, the annual premium to FAIRA was \$10,477.

The County of Humboldt, Risk Management Division, Workers Compensation Program, a risk sharing pool administered by the County, provides worker's compensation benefits for its members. The premium paid to the County for the fiscal year ended June 30, 2018 was \$84,092.

Management believes coverage maintained is sufficient to preclude any significant uninsured losses to the District.

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**A. General Information about the Pension Plans**

**Plan Descriptions** - All qualified full-time employees are eligible to participate in the District's Miscellaneous First Tier Plan and Miscellaneous PEPRA Plan (The Plans), agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.



**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan	
	First Tier	PEPRA
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7%	6.5%
Required employer contribution rates	26.62%	6.7%

**Contributions** - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is based on the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous	
	Miscellaneous	Safety
Contributions - employer	\$ 9,108	\$ 658,858
Contributions - employee (paid employer)	-	-

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

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

As of June 30, 2018, the District reported a net pension liability for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous First Tier	\$ 68,269
Safety	5,413,649
Total Net Pension Liability	<u>\$ 5,481,918</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Proportion- June 30, 2017	0.00165%	0.09291%	0.05627%
Proportion- June 30, 2018	<u>0.00173%</u>	<u>0.09060%</u>	<u>0.05528%</u>
Change-Increase/( Decrease)	0.00008%	-0.00231%	-0.00100%

For the year ended June 30, 2018, the District recognized pension expense of \$413,676. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected economic experience	\$ 54,166	\$ 15,736
Changes in assumptions	798,108.00	61,226
Differences between Projected and Actual Investment Earnings	174,134	-
Differences between Employer's Contributions and Proportionate Share of Contributions	240,809	908
Change in Employer's Proportion	246,562.00	49,620
Pension Contributions Subsequent to Measurement Date	667,966	-
Total	<u>\$ 2,181,745</u>	<u>\$ 127,490</u>

\$667,966 reported as deferred outflows of resources related to contributions subsequent to the measurement date and other contribution differences, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

June 30,	Miscellaneous	Safety	Total
2019	12,313	484,325	496,638
2020	13,451	596,707	610,159
2021	7,363	374,049	381,412
2022	(1,911)	(100,008)	(101,920)
2023	-	-	-
Thereafter	-	-	-
	<u>31,216</u>	<u>1,355,073</u>	<u>1,386,290</u>

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

**Actuarial Assumptions** – The June 30, 2016 valuation was rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions.

Actuarial Assumptions	
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funs
Post-retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

The underlying mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study 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 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Year 11+ <sup>2</sup>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	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%	-0.55%	-90.00%

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

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

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued**

Sensitivity of the 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 for the Plan, calculated using the discount rate for Plan, 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:

	Discount Rate-1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Miscellaneous	\$ 115,193	\$ 68,269	\$ 29,405
Safety	8,003,241	5,413,649	3,296,788
Total	<u>\$ 8,118,434</u>	<u>\$ 5,481,918</u>	<u>\$ 3,326,193</u>

***Pension Plan Fiduciary Net Position*** -Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

***Payable to the Pension Plans*** - At June 30, 2018, the District reported a payable of \$56,126 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

**11. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

***Plan Description***

The District provides post-employment health care benefits through a single employer defined benefit plan. Retirees who are age 50 or over are eligible to obtain medical coverage. Medical coverage is also provided for the surviving spouse of retired employees and the surviving spouse of active employees who upon death had attained age 50 and who had a minimum of 10 years of service with the District. The Plan does not provide a publicly available financial report.

Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital Care Act (PEMHCA). Retirees who are age 50 (age 52, if a miscellaneous employee new to PERS on or after January 1, 2013) with 5 years of State or public agency service or (b) an approved disability retirement; or over are eligible to obtain medical coverage.

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

The District provides continuation of medical and dental coverage to its retiring employees. These benefits create the following types of OPEB liabilities:

- **Explicit subsidy liabilities:** An “explicit subsidy” exists when the employer contributes directly toward the cost of retiree healthcare. In this program, the District contributes a portion of retiree medical premiums for qualifying retirees. The Patient Protection and Affordable Care Act (ACA) includes a 40% excise tax on high-cost employer-sponsored health coverage. Any portion of such future excise tax paid by the employer is also a form of explicit subsidy.
- **Implicit subsidy liabilities:** An “implicit subsidy” exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. In the CalPERS medical program, the same monthly premiums are charged for active employees and for pre-Medicare retirees. CalPERS has confirmed that the claims experience of these members is considered together in setting premium rates. For Medicare-eligible members different monthly premiums are charged. CalPERS has confirmed that only the claims experience of Medicare eligible members is considered in setting Medicare-eligible premium rates.

***Employees Covered by benefit terms***

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

Active employees	23
Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to, but not yet receiving benefits	-
<b>Total Number of participants</b>	<b>40</b>

***District Contribution to the Plan***

District contributions to the Plan may occur as benefits are paid to retirees and/or to an irrevocable OPEB trust. Benefit payments may occur in the form of direct payments for premiums and taxes (“explicit subsidies”) and/or indirect payments to retirees in the form of higher premiums for active employees (“implicit subsidies”).

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

The charts below show the benefits paid by the District on behalf of retirees (a) during the measurement period and (b) during the year following the measurement period but prior to the end of fiscal year ending 2018.

Employer Contributions During the Measurement Period, July 1, 2016 through June 30, 2017.	
Employer Contributions to the Trust	\$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	244,222
Implicit contributions	24,924
Total Employer Contributions During the Measurement Period	\$269,146
Employer Contributions Subsequent to the Measurement Date, July 1, 2017 through June 30, 2018	
Employer Contributions to the Trust	\$ -
Employer Contributions in the Form of Direct Benefit Payments (not reimbursed by trust)	222,645
Implicit contributions	40,591
Total Employer Contributions Subsequent to the Measurement Date	\$263,236

**Net OPEB Liability**

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

<b>Actuarial Assumptions:</b>	
Discount Rate	2.49% - 3.13%
Inflation	2.75%
Salary Increases	3.25% per annum
Investment Rate of Return	2.49% - 3.13%
Mortality Rate <sup>(1)</sup>	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover <sup>(2)</sup>	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	5.00% - 7.50%



**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

Notes:

(1) Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

(2) The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

**Discount Rate**

The District has been and continues to finance its OPEB liability on a pay-as-you-go basis. With the District's approval, the discount rates used in this valuation are based on the S&P Municipal Bond 20 Year High Grade Index. As of the beginning and end of the Measurement Period, this index indicates discount rates of 2.68% as of June 30, 2016 and 3.13% as of June 30, 2017.

**Changes in the OPEB Liability**

The changes in the net OPEB liability for the Plan are as follows:

	<b>Total OPEB Liability (a)</b>	<b>Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (c) = (a) - (b)</b>
<b>Balance at Fiscal Year Ending 6/30/2017</b> <i>Measurement Date 6/30/2016</i>	\$ 9,906,169	\$ -	\$ 9,906,169
<b>Changes During the Period:</b>			
Service Cost	524,580	-	524,580
Interest Cost	275,938	-	275,938
Expected Investment Income	-	-	-
Employer Contributions	-	269,146	(269,146)
Changes in Benefit Terms	-	-	-
Benefit Payments	(269,146)	(269,146)	-
Assumption Changes	(760,555)	-	(760,555)
Plan Experience	-	-	-
<b>Net Changes in Fiscal Year 2017-2018</b>	<b>(229,183)</b>	<b>-</b>	<b>(229,183)</b>
<b>Balance at Fiscal Year Ending 6/30/2018</b> <i>Measurement Date 6/30/2017</i>	<b>\$ 9,676,986</b>	<b>\$ -</b>	<b>\$ 9,676,986</b>

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The discount rate used for the fiscal year end 2018 is 3.13%. The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (2.13%)	Current Discount Rate 3.13%	1% Increase (4.13%)
Change in Discount Rate			
Net OPEB Liability	\$ 11,492,972	\$ 9,676,986	\$ 8,256,749

***Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates***

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017 (Healthcare Cost Trend Rate was assumed to start at 7.5% and grade down to 5% for years 2024 and thereafter):

	Current Trend -1%	Current Trend	Current Trend +1%
Change in Healthcare Cost Trend Rate			
Net OPEB Liability	\$ 7,985,519	\$ 9,676,986	\$ 12,132,269

***Recognition of Deferred Outflows and Deferred Inflows of Resources***

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

**11. OTHER POST EMPLOYMENT BENEFITS, Continued**

***OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB***

For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$722,029. As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 263,236	\$ -
Changes of assumptions	-	682,066
Net difference between projected and actual earnings on and actual earnings on OPEB plan	-	-
<b>Total</b>	<u>\$ 263,236</u>	<u>\$ 682,066</u>

The \$263,236 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (78,489)
2020	(78,489)
2021	(78,489)
2022	(78,489)
2023	(78,489)
Thereafter	(289,621)

**Arcata Fire District**  
**Notes to Basic Financial Statements, continued**  
**For the year ended June 30, 2018**

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**12. NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has 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 interperiod 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. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2018. The District implemented this statement, as applicable, to its financial statements for the year ending June 30, 2018.

The GASB has issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans." The requirements of this Statement took effect for financial statements starting with the fiscal year that ends December 31, 2016. This Statement was not applicable to the District's financial statements.

The GASB has issued Statement No. 80, "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14." The requirements of this Statement took effect for financial statements starting with the fiscal year that ends June 30, 2018. This Statement was not applicable to the District's financial statements.

The GASB has issued Statement No. 81, "Irrevocable Split-Interest Agreements." The requirements of this Statement took effect for financial statements starting with the fiscal year that ends December 31, 2017. The District implemented this statement, as applicable, to its financial statements for the year ending June 30, 2018.

The GASB has issued Statement No. 82, "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73." The requirements of this Statement took effect for financial statements starting with the fiscal year that ends June 30, 2018, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions took effect for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The District implemented this statement, as applicable, to its financial statements for the year ending June 30, 2018.

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## Required Supplementary Information

**Arcata Fire District**  
**Required Supplementary Information - Schedule of Contributions**

<b>Miscellaneous Plan</b>		
Last 10 Fiscal Years*	2017	2016
Contractually required contribution (actuarially determined)	9,108	8,185
Contributions in relation to the actuarially determined contributions	<u>(9,108)</u>	<u>(8,185)</u>
Contribution deficiency (excess)	-	-
Covered-employee payroll	1,848,645	1,707,706
Contribution as a percentage of covered-employee payroll	0.49%	0.48%
<b>Safety Plan</b>		
Last 10 Fiscal Years*	2017	2016
Contractually required contribution (actuarially determined)	658,858	597,511
Contributions in relation to the actuarially determined contributions	<u>(658,858)</u>	<u>(597,511)</u>
Contribution deficiency (excess)	-	-
Covered-employee payroll	1,848,645	1,707,706
Contribution as a percentage of covered-employee payroll	35.64%	34.99%

Notes to Schedule

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation and pensionable compensation that would possibly go into the determination of retirement benefits are included.

\*- Due to change in CalPERS reporting information, 2016 was the first year available. Additional years will be presented as they become available.

**Arcata Fire District**  
**Required Supplementary Information - Schedule of the District's Proportionate**  
**Share of the Net Pension Liability**

Miscellaneous Plan Last 10 Fiscal Years*	2017	2016
Plan's Proportion of the Net Pension Liability/(Asset)	0.00173%	0.00170%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 68,269	\$ 57,351
Plan's Covered-Employee Payroll	<u>\$ 1,848,645</u>	<u>\$ 1,707,706</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	3.69%	3.36%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	79.99%	80.66%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 10,339	\$ 8,909
Safety Plan Last 10 Fiscal Years*	2017	2016
Plan's Proportion of the Net Pension Liability/(Asset)	0.09060%	0.09290%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	<u>\$ 5,413,649</u>	<u>\$ 4,812,049</u>
Plan's Covered-Employee Payroll	<u>\$ 1,848,986</u>	<u>\$ 1,707,706</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	292.79%	281.78%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	70.75%	70.28%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 503,052	\$ 393,111

**Notes to Schedule**

1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

\* - Due to a change in CalPERS reporting information, 2016 was the first year available. Additional years will be presented as they become available.



**Arcata Fire District**  
**Required Supplementary Information - Schedule of**  
**Changes in the Net OPEB Liability and Related Ratios**  
for the Measurement Periods Ended June 30,

	2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 524,580
Interest on the total OPEB liability	275,938
Differences between expected and actual experience	-
Changes of benefit terms	-
Changes of assumptions	(760,555)
Benefit payments	(269,146)
<b>Total OPEB liability - beginning</b>	<u>9,906,169</u>
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 9,676,986</u></u>
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 269,146
Net Investment income	-
Benefit payments	(269,146)
<b>Net change in plan fiduciary net position</b>	-
<b>Plan fiduciary net position - beginning</b>	-
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ -</u></u>
 <b>Net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 9,676,986</u></u>
 Covered-employee payroll	\$ 1,848,645
Net OPEB liability as a percentage of covered-employee payroll	523.46%

**Notes to Schedule**

1) GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. However, since this is the initial year of implementation, only one year is currently available

## Arcata Fire District

### Required Supplementary Information - Schedule of Contributions

June 30, 2018

Fiscal Year Ended June 30,	2018
Actuarially Determined Contribution (ADC)	\$ 269,146.00
Contributions in relation to the ADC	(269,146.00)
Contribution deficiency ( excess)	\$ -
Covered-employee payroll	1,848,645.00
Contributions as a percentage of covered-employee payroll	14.56%

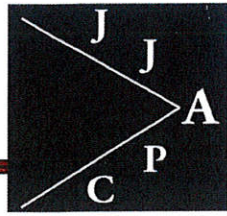
#### Notes to Schedule

1)GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. However, since this is the initial year of implementation, only one year is currently available

#### Actuarial Methods and Assumptions

Valuation Date	June 30, 2017
Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets (\$0; plan is not yet funded)
Discount Rates	3.13% on June 30, 2017 2.49% on June 30, 2016
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years.
Assumed Wage inflation	3.0% per year; used to determine amortization payments if developed on a level percent of pay basis.
Inflation Rate	2.75%

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**JJACPA, Inc.**

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**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***

**Independent Auditor's Report**

The Board of Directors  
Arcata Fire Protection District  
Arcata, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the Arcata Fire Protection District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2018 .

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 entity'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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

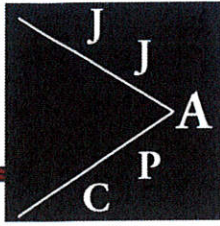
October 20, 2018

*JJACPA, Inc.*

**JJACPA, Inc.**  
**Dublin, CA**



**ARCATA FIRE DISTRICT**  
**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AND**  
**COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS**  
**JUNE 30, 2018**



**JJACPA, Inc.**

A Professional Accounting Services Corp.

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October 20, 2018

To the Board of Directors  
Arcata Fire District  
Arcata, California

We have audited the financial statements of the Arcata Fire District (District) as of and for the year ended June 30, 2018 and have issued our report thereon dated October 20, 2018. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated March 21, 2018, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.



## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the District changed its method of accounting for pensions by adopting Governmental Accounting Standards Board (GASB) Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". 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. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are useful lives of capital assets ("useful lives").

Management's estimate of the useful lives is based on experience with and observation of capital assets, by category (e.g. infrastructure) as well as industry standards, when applicable (i.e. buildings). We evaluated the key factors and assumptions used to develop the useful lives and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to commitments and contingencies.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated October 20, 2018.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

## **Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the Management's Discussion and Analysis and considered whether such information or the manner of its presentation was materially inconsistent with its presentation in the financial statements.

## **Communication of Internal Control Related Matters**

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 entity'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.

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

Very truly yours,

*Joseph J. Arch*

JOSEPH J. ARCH, CPA  
President/CEO  
JJACPA, INC.

