

ARCATA FIRE PROTECTION DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2017



This page intentionally left blank.





Arcata Fire District, California
 Annual Financial Report
 For the year ended June 30, 2017

Table of Contents

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents.....	i
Directory of Officials.....	iii
Organizational Chart.....	iv
District Map	v
Stations and Facilities	vi
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	9
Statement of Activities.....	10
<i>Fund Financial Statements:</i>	
Governmental Funds:	
Balance Sheet	11
Reconciliation of General Fund Balance Sheet to the Statement of Net Position	12
Reconciliation of Fund Basis Balance Sheet to Government-wide Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund.....	14
Reconciliation of Fund Based Statements to Government-wide Statement of Activities.....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – General Fund.....	19



**Arcata Fire District, California
Annual Financial Report
For the year ended June 30, 2017**

Table of Contents

	<u>Page</u>
Basic Financial Statements, Continued:	
Notes to Basic Financial Statements	21
Required Supplementary Information:	
Other Post-Employment Benefits (OPEB):	
Schedule of Funding Progress	48
Pension Plan:	
Schedule of Contributions	49
Schedule of the District's Proportionate Share of the Net Pension Liability	50
Internal Control Report	51



**Arcata Fire District, California
Annual Financial Report
For the year ended June 30, 2017**

Directory of officials

District Board of Directors

- Linda Sundberg, President
- John Davis, Vice President
- Elena David, Director
- Randy Mendosa, Director
- Rene Campbell, 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



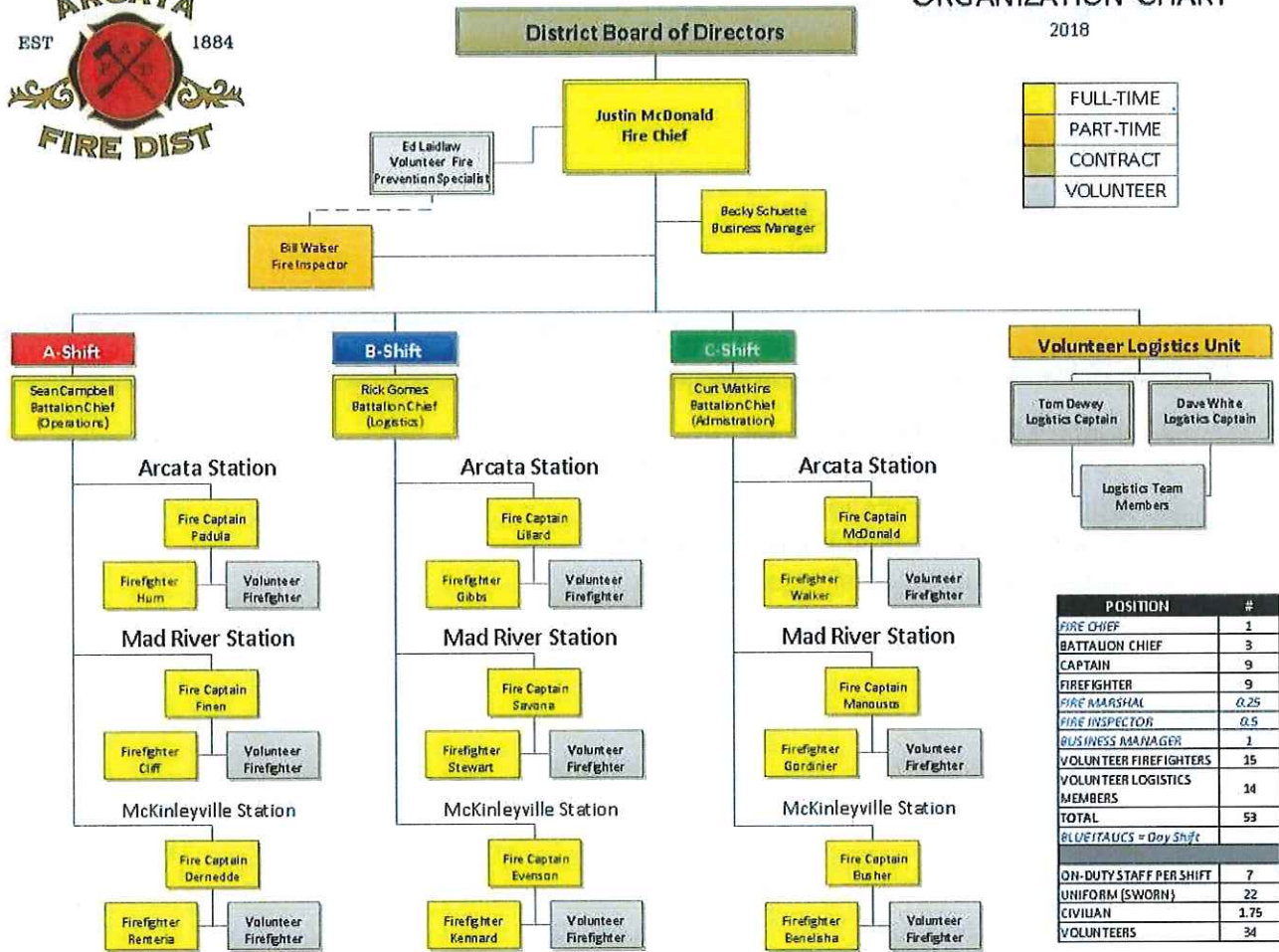
Arcata Fire District, California Annual Financial Report For the year ended June 30, 2017

Organizational Chart



ORGANIZATION CHART

2018



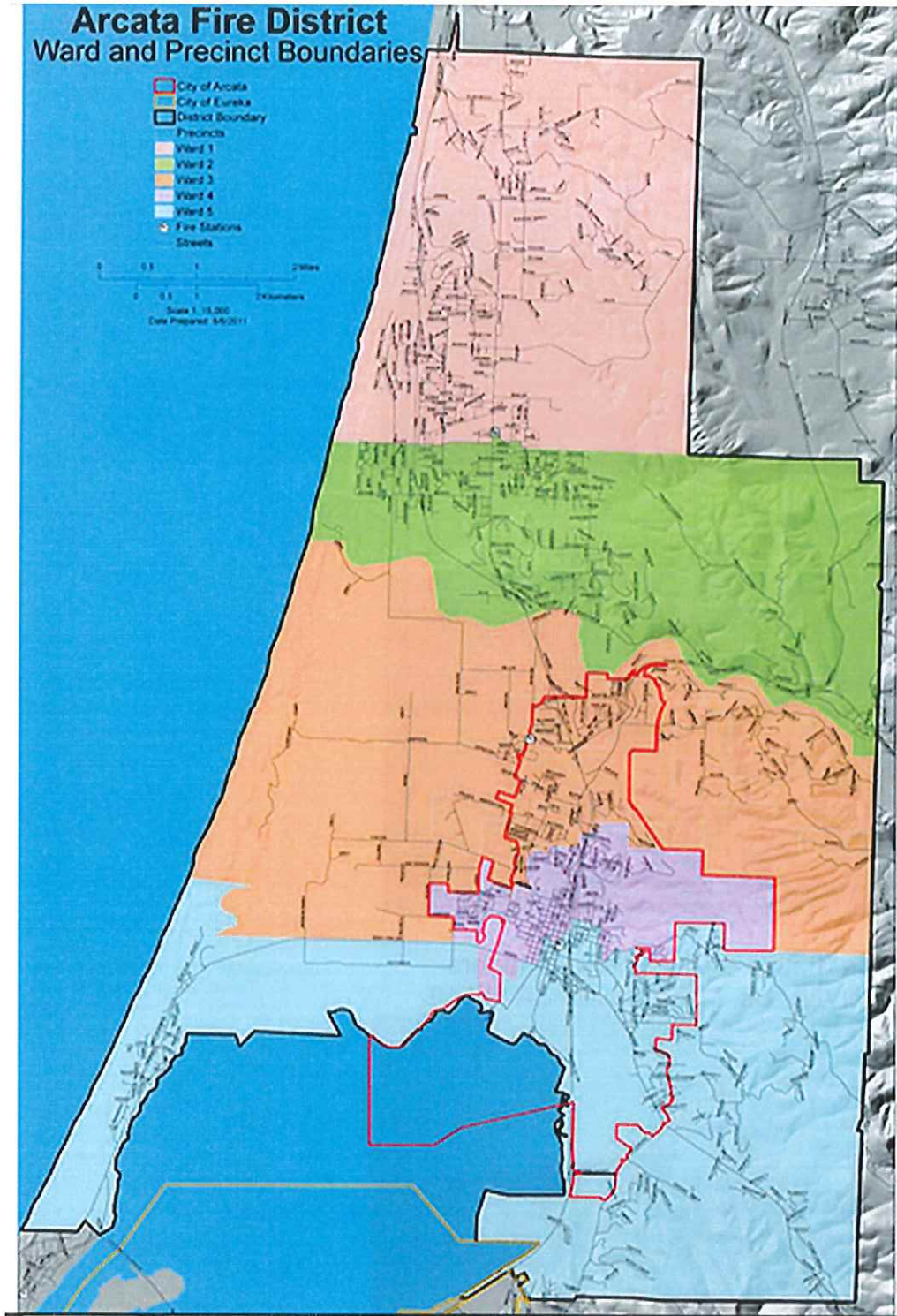
	FULL-TIME
	PART-TIME
	CONTRACT
	VOLUNTEER

POSITION	#
FIRE CHIEF	1
BATTALION CHIEF	3
CAPTAIN	9
FIREFIGHTER	9
FIRE MARSHAL	0.25
FIRE INSPECTOR	0.5
BUSINESS MANAGER	1
VOLUNTEER FIREFIGHTERS	15
VOLUNTEER LOGISTICS MEMBERS	14
TOTAL	53
BLUEITAUCS = Day Shift	
ON-DUTY STAFF PER SHIFT	7
UNIFORM (SWORN)	22
CIVILIAN	1.75
VOLUNTEERS	34



Arcata Fire District, California Annual Financial Report For the year ended June 30, 2017

District Map





**Arcata Fire District, California
Annual Financial Report
For the year ended June 30, 2017**

Stations and facilities

Arcata Station.
631 9th Street, Arcata CA 95521

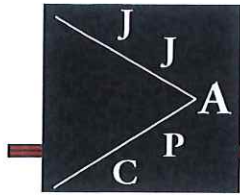


Mad River Station.
3235 Janes Road, Arcata CA 95521



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, 2017, 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, 2016, financial statements in which an unqualified opinion was expressed by other auditors on those financial statements on October 13, 2017.

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, 2017, 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 48 the District's Schedule of Contributions on pages 49, and the Schedule of the District's proportionate Share of the Net Pension Liability on pages 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 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

February 10, 2018



Arcata Fire Protection District Annual Financial Report For the year ended June 30, 2017

Management's Discussion and Analysis

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, 2017. 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.

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 9 and 10 of this report.



**Arcata Fire Protection District
Annual Financial Report
For the year ended June 30, 2017**

Management's Discussion and Analysis, Continued

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.

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 each of the District's most significant funds, called Major Funds. The District's Major Fund 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.

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 23 of this report.



Arcata Fire Protection District
Annual Financial Report
For the year ended June 30, 2017

Management's Discussion and Analysis, Continued

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

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Cash and investments	\$3,059,618	\$2,971,064
Receivables, net	181,102	147,676
Prepaid Expense	11,277	71,027
Capital assets, net	4,581,948	2,809,337
Total assets	<u>7,833,945</u>	<u>5,999,104</u>
Deferred outflows – pension plan	2,197,104	1,253,023
Total Assets and deferred outflows	<u>\$10,031,049</u>	<u>\$7,252,127</u>
Current liabilities	326,496	373,531
Long-term liabilities	8,737,600	7,476,214
Total liabilities	<u>9,064,096</u>	<u>7,849,745</u>
Deferred inflows – pension plan	341,681	582,394
Net Position:		
Net investment in capital assets	4,131,717	2,795,640
Unrestricted (deficit)	(3,506,445)	(4,471,233)
Total net position	<u>625,272</u>	<u>(1,180,012)</u>
Total liabilities, deferred outflows, and net position	<u>\$10,031,049</u>	<u>\$7,252,127</u>

The District's total liabilities exceeded total assets by \$1,230,151 as of June 30, 2017. A portion of the net position reflects its investment in capital assets (land, buildings, improvements, equipment and vehicles.)

The remaining balance of net position of (\$3,517,722) 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, 2017 and 2016.



**Arcata Fire Protection District
Annual Financial Report
For the year ended June 30, 2017**

Management's Discussion and Analysis, Continued

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.

	2017	2016
<u>Expenses</u>		
Fire protection - operations	\$4,833,657	\$4,854,982
Interest on long-term debt	32,671	45,071
Total expenses	<u>\$4,866,328</u>	<u>4,900,053</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	53,793	332,687
Operating grants & contributions	578,319	495,182
Capital grants and contributions	2,102,564	-
Total program revenues	<u>1,740,259</u>	<u>827,869</u>
General revenues:		
Property taxes	3,790,669	3,795,949
State timber yield tax	714	716
Investment earnings	22,738	22,094
Other revenues	104,818	15,084
Special item: Write off of State obligation	27,967	-
Total general revenues	<u>3,936,936</u>	<u>3,833,843</u>
Change in net position	1,805,284	(238,341)
Net position - beginning	(1,180,012)	(941,671)
Net position - ending	<u>\$625,272</u>	<u>\$(1,180,012)</u>



**Arcata Fire Protection District
Annual Financial Report
For the year ended June 30, 2017**

Management's Discussion and Analysis, Continued

Government-wide Overall Financial Analysis, Continued

Governmental Activities, continued

Expenses

Fire protection – operations expenses totaled \$4,833,657 for fiscal year 2016-2017. This was a decrease over the prior year of \$21,325 primarily due to an increased staffing to fulfill the FEMA grant obligations and increase to the OPEB obligation offset by a decrease in the net pension obligation accounts.

Debt Administration

In 2006, the District purchased 3 fire engines and 3 command vehicles for an original principal amount of \$1,000,000. In 2011 the District purchased 2 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 \$601,607 with an interest rate of 3.4%. This loan will be paid off January 2021.

Overview of Operations

Fiscal Year 2016-2017 saw many changes to the Fire District. The fiscal year started with changes to the District's administration. Assistant Chief Justin McDonald was promoted to Fire Chief at the end of June 2016. Long time District Secretary, Sally Lindke, retired at the end of July 2016. In a cost savings measure, the District reclassified the District Secretary position to Business Manager and hired Becky Schuette to the new position. Fire Captain Curt Watkins was promoted to Battalion Chief and in October 2016 he along with Battalion Chief Sean Campbell and Rick Gomes were placed on a 24 shift schedule. The Battalion Chief would work the same shift schedule as the career staff. The civilian Fire Prevention Specialist position was eliminated following the departure of Jenny Williamson and the District entered into an agreement with Humboldt Bay Fire JPA for fire prevention services. This arrangement allowed for a cost savings to the District, by eliminating a full-time position. Other cost saving measures were adopted with the conclusion of 2016 by eliminating all part-time positions and the Reserve firefighter program. The District conducted a mid-year budget review to adjust the budget, which was projected to be in a deficit. With additional programs reduced or altogether cut, the District was able to project a \$112,337 surplus. With the FEMA SAFER Grant concluding in October of 2017, these cuts to the Fiscal Year 2016-2017 budget resulted in a savings that was applied to the Fiscal Year 2017-2018 budget in order to preserve three captains and three firefighters staffing the three District Stations. At fiscal year end, the District sustained a surplus of \$142,866.



Arcata Fire Protection District Annual Financial Report For the year ended June 30, 2017

Management's Discussion and Analysis, Continued

Economic Outlook

The Fire District had estimated property tax revenue growth conservatively at 2% for Fiscal Year 2016-2017, and again, a modest 2% projection for Fiscal year 2017-2018. According to the Humboldt County Assessor's office, past years growth in the District has been closer to 4%. There was approximately a 4% growth for the District between 2015-16 and 2016-17. It is unknown if it will continue into 2017-18. By all appearances Arcata Fire District does seem to have healthier value growth than most of the county.

The District's CalPERS retirement costs continue to increase. For Fiscal Year 2016-2017 the District sustained a 1% increase in District retirement contributions and an 11% increase to the Unfunded Accrued Liability payment. With CalPERS's negative investment returns realized, the CalPERS Board of Directors has adopted a policy to amortize those losses over an extended period of 20+ years. This action will assist CalPERS, and local agencies, economically by smoothing the fund values losses and percent contribution rate spiking. Unfortunately District PERS rates will see major increases of 30 to 40% over that period of time.

The Fire District has recently completed a modernization of its McKinleyville facility. This modernization project was funded by the Arcata Volunteer Firefighters Association (AVFA), through private funds and a loan, to upgrade both the Arcata and McKinleyville Fire Stations. The AVFA placed a value on the McKinleyville project at \$2,102,564 which will be applied to the District asset values. The relationship with AVFA and the District for the modernization project being memorialized in a Memorandum of Understanding.

The District's income was augmented with revenue by covering CalFire Stations and CalOES callouts. The District received \$169,236 for this during this fiscal year. Additionally, in 2015, the District was awarded a 3 year FEMA Staffing for Adequate Fire and Emergency Response (SAFER) grant. This grant allowed the District to continue to keep all three stations staffed with 2 on-duty plus one additional firefighter assigned to the Arcata Station. The District received \$511,410 in FEMA grant money for Fiscal Year 2016-2017.

In summary, the District remains committed to providing the highest level of emergency and public service, in response to the needs of our community, within its financial constraints.

Financial Contact

This Comprehensive 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
Statement of Net Position
 June 30, 2017

		Governmental Activities	
		2017	2016
ASSETS			
Current assets:			
Cash and investments	\$	3,059,618	\$ 2,971,064
Receivables, net		181,102	147,676
Prepaid Expense		11,277	71,027
Total current assets		<u>3,251,997</u>	<u>3,189,767</u>
Noncurrent assets:			
Capital assets, net		4,581,948	2,809,337
Total noncurrent assets		<u>4,581,948</u>	<u>2,809,337</u>
Total assets		<u>7,833,945</u>	<u>5,999,104</u>
Deferred outflows - Pension plan		2,197,104	1,253,023
Total assets and deferred outflows	\$	<u><u>10,031,049</u></u>	<u><u>\$ 7,252,127</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$	56,871	\$ 77,585
Salaries and benefits payable		105,032	99,128
Interest payable		13,739	17,981
Compensated absences - current portion		12,328	46,895
Current portion of long-term liabilities		138,526	131,942
Total current liabilities		<u>326,496</u>	<u>373,531</u>
Noncurrent liabilities:			
Net pension obligation		4,869,410	4,030,661
Compensated absences		76,190	97,400
Net OPEB obligation		3,341,769	2,731,429
Wells Fargo Equipment Finance		450,231	616,724
Total noncurrent liabilities		<u>8,737,600</u>	<u>7,476,214</u>
Total liabilities		<u>9,064,096</u>	<u>7,849,745</u>
Deferred inflows - Pension plan		341,681	582,394
NET POSITION			
Net investment in capital assets		4,131,717	2,795,640
Unrestricted (deficit)		<u>(3,506,445)</u>	<u>(4,471,233)</u>
Total net position		<u>625,272</u>	<u>(1,180,012)</u>
Total liabilities, deferred inflows, and net position	\$	<u><u>10,031,049</u></u>	<u><u>\$ 7,252,127</u></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, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					2017
Governmental activities:					
Fire protection - operations	\$ 4,833,657	\$ 53,793	\$ 578,319	\$ 2,102,564	\$ (2,098,981)
Interest on long-term debt	32,671	-	-	-	(32,671)
Total governmental activities	<u>\$ 4,866,328</u>	<u>\$ 53,793</u>	<u>\$ 578,319</u>	<u>\$ 2,102,564</u>	<u>\$ (2,131,652)</u>
General revenues:					
Taxes:					
Property taxes					3,780,669
State timber yield tax					714
Investment earnings					22,738
Other Revenues					104,848
Total general revenues					<u>3,908,969</u>
Special item: Write off of State obligation					<u>27,967</u>
Change in net position					<u>1,805,284</u>
Net position:					
Net position - beginning					<u>(1,180,012)</u>
Net position - ending					<u>\$ 625,272</u>

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



Arcata Fire District
Balance Sheet
 General Fund
 June 30, 2017

	<u>Major Fund</u>
	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 3,059,618
Restricted cash and investments	-
Receivables:	
Grants	175,302
Interest	5,800
Prepaid items	11,277
Total assets	<u>\$ 3,251,997</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$56,871
Salaries and benefits payable	105,032
Interest payable	13,739
Compensated absences	12,328
Total liabilities	<u>187,970</u>
Fund balances:	
Nonspendable for prepaid items	11,277
Restricted	-
Assigned	-
Unassigned	3,052,750
Total fund balances	<u>3,064,027</u>
Total liabilities and fund balances	<u>\$ 3,251,997</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, 2017

Total fund balances reported on the governmental fund balance sheet \$ 3,064,027

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. 4,581,948

LONG-TERM ASSETS AND LIABILITIES

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

Deferred outflows	2,197,104	
Deferred inflows	(341,681)	1,855,423

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

Net pension obligation	(4,869,410)	
Compensated absences	(76,190)	
Net OPEB obligation	(3,341,769)	
Long term debt	(588,757)	(8,876,126)

Net position of governmental activities		<u>\$ 625,272</u>
--	--	-------------------

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, 2017

ASSETS	General			Statement of Net Position
	Fund Balance Sheet	Reclass	Changes in GAAP	
Current assets:				
Cash and investments	\$ 3,059,618	\$ -	\$ -	\$ 3,059,618
Restricted cash and investments	-	-	-	-
Receivables (net)	181,102	-	-	181,102
Other assets	11,277	-	-	11,277
Total current assets	<u>3,251,997</u>	<u>-</u>	<u>-</u>	<u>3,251,997</u>
Noncurrent assets:				
Capital assets, net	-	-	4,581,948	4,581,948
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>4,581,948</u>	<u>4,581,948</u>
Total assets	<u>3,251,997</u>	<u>-</u>	<u>4,581,948</u>	<u>7,833,945</u>
Deferred outflows	<u>-</u>	<u>-</u>	<u>2,197,104</u>	<u>2,197,104</u>
Total assets and deferred outflows	<u>\$ 3,251,997</u>	<u>\$ -</u>	<u>\$ 6,779,052</u>	<u>\$ 10,031,049</u>
	LIABILITIES			
Current liabilities:				
Accounts payable & accrued liabilities	\$56,871	\$ -	\$ -	\$ 56,871
Salaries and benefits payable	105,032	-	-	105,032
Interest payable	13,739	-	-	13,739
Compensated absences	12,328	-	-	12,328
Current portion of long-term liabilities	-	-	138,526	138,526
Total current liabilities	<u>187,970</u>	<u>-</u>	<u>138,526</u>	<u>326,496</u>
Noncurrent liabilities:				
Net pension obligation	-	-	4,869,410	4,869,410
Compensated absences	-	-	76,190	76,190
Net OPEB obligation	-	-	3,341,769	3,341,769
Due after one year	-	-	450,231	450,231
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>8,737,600</u>	<u>8,737,600</u>
Total liabilities	<u>187,970</u>	<u>-</u>	<u>8,876,126</u>	<u>9,064,096</u>
Deferred inflows	<u>-</u>	<u>-</u>	<u>341,681</u>	<u>341,681</u>
	FUND BALANCES/NET POSITION			
Fund balances:				
Restricted	11,277	(11,277)	-	-
Committed	-	-	-	-
Unassigned	3,052,750	(3,052,750)	-	-
Net position:				
Invested in capital assets, net of related debt	-	-	4,131,717	4,131,717
Restricted	-	11,277	-	11,277
Unrestricted	-	3,052,750	(6,570,472)	(3,517,722)
Total fund balances/net position	<u>3,064,027</u>	<u>-</u>	<u>(2,438,755)</u>	<u>625,272</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,251,997</u>	<u>\$ -</u>	<u>\$ 6,779,052</u>	<u>\$ 10,031,049</u>

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, 2017

	Major Fund
	General
	Fund
REVENUES:	
Property taxes	\$ 3,780,669
State timber yield tax	714
Use of money and property	22,738
Intergovernmental	578,319
Charges for services	53,793
Other revenues	104,848
Total revenues	4,541,081
EXPENDITURES:	
Fire protection:	
Salaries	1,936,126
Retirement	769,150
Group Insurance	758,511
Worker's Compensation	84,092
Service and supplies	22,676
Communication	37,676
Food	3,426
Household Expense	6,403
Insurance	10,477
Management Equipment	66,448
Maintenance-Electronics	3,206
Transportation and travel	27,834
Utilities	29,448
Maintenance-Structure	9,555
Medical Supplies	3,528
Dues & Subscription	19,396
Miscellaneous	5
Office expense	5,577
Postage and shipping	1,320
Professional and Specialized service	229,772
Publications and Notices	779
Copies	7,201
Leases - Structures	83,200
Special District expense	108,375
Small tools and equipment	17,475
Training	28,957
Other Expense	10,007
Total Services and Supplies	4,280,620

(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, 2017

Debt service:	
Principal	111,942
Interest expense	32,671
Total expenditures	<u>4,425,233</u>
REVENUES OVER EXPENDITURES	<u>115,848</u>
Net change in fund balances	115,848
FUND BALANCES:	
Beginning of year	<u>2,948,179</u>
End of year	<u>\$ 3,064,027</u>

(concluded)

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

For the year ended June 30, 2017

<u>Functions/Programs</u>	<u>Fund Based</u> <u>Totals</u>	<u>Debt</u> <u>Service/</u> <u>Compensated</u> <u>Absences</u>	<u>Depreciation</u>
Governmental activities:			
Fire protection - operations	\$ 4,280,620	\$ (41,210)	\$ 317,371
Capital outlay	-	-	-
Debt service	144,613	(111,942)	-
Total governmental activities	<u>\$ 4,425,233</u>	<u>\$ (153,152)</u>	<u>\$ 317,371</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, 2017

Capital Asset (Additions)/ Retirements	OPEB	Pension	Government- wide Totals
\$ 12,582	\$ 610,340	\$ (346,046)	\$ 4,833,657
-	-	-	-
-	-	-	32,671
<u>\$ 12,582</u>	<u>\$ 610,340</u>	<u>\$ (346,046)</u>	<u>\$ 4,866,328</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, 2017

Net change in fund balances - total governmental funds \$ 115,848

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

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 contributions	2,102,564	
Depreciation expense	(317,371)	
Capital asset retirements		
Loss from sale of capital assets	(12,582)	
Proceeds from the sale of capital assets	-	1,772,611

LONG TERM DEBT PAYMENTS

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	111,942	
Write off of State obligation	27,967	139,909

ACCRUAL OF NON-CURRENT LIABILITIES

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	346,046	
Change in long-term compensated absences	41,210	
Change in Net OPEB obligation	(610,340)	(223,084)

Change in net position of governmental activities \$ 1,805,284

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, 2017

	Original Budget	Amended Budget	Actual	Variance With Amended Positive (Negative)
REVENUES:				
Property taxes	3,654,598	3,747,823	\$ 3,780,669	\$ 32,846
Use of money and property	23,700	23,700	22,738	(962)
Intergovernmental	526,000	526,000	578,319	52,319
Charges for services	6,000	-	53,793	53,793
Other revenues	118,580	159,718	105,562	(54,156)
Total revenues	4,328,878	4,457,241	4,541,081	83,840
EXPENDITURES:				
Fire protection:				
Salaries	1,947,780	2,011,693	1,936,126	75,567
Benefits	1,291,953	1,291,953	1,697,281	(405,328)
Retiree health insurance	76,731	84,092	22,676	61,416
Service and supplies	692,056	750,020	769,150	(19,130)
Total expenditures	4,008,520	4,137,758	4,425,233	(287,475)
REVENUES OVER EXPENDITURES	320,358	319,483	115,848	(203,635)
OTHER FINANCING SOURCES:				
Proceeds from sales of assets	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balances	320,358	319,483	115,848	(203,635)
FUND BALANCES:				
Beginning of year	2,948,179	2,948,179	2,948,179	-
End of year	\$ 3,268,537	\$ 3,267,662	\$ 3,064,027	\$ (203,635)

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

NOTES TO BASIC FINANCIAL STATEMENTS

Arcata Fire District
Notes to Basic Financial Statements
For the year ended June 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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.

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).

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Government-Wide Statements, Continued

L. Pensions, continued

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.
- 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."

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Equity Classification, continued

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.

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.

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Equity Classification, Continued

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.

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

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Property Tax, continued

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. 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.

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Budgetary Accounting, continued

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.

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 Statements 68 and 71 related to Pension Plans

The GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Implementation of GASB Statements 68 and 71 related to Pension Plans, continued

In addition, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, "Accounting and Financial Reporting for Pensions". The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

In implementing these Statements, 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 the 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.

S. 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, 2017

2. CASH AND INVESTMENTS

At June 30, 2017, the District's pooled cash and investments, classified by maturity, consisted of the following stated at fair market value:

	Balance June 30, 2017
Cash in bank	\$ 422,203
Cash with County	2,212,787
Coast Central - Savings	76
Trust funds	424,302
Petty Cash	250
Total cash equivalents and investments pooled	<u>3,059,618</u>
Restricted cash with fiscal agent	-
Total cash and investments	<u>\$ 3,059,618</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, 2017, the District's permissible investments included the following instruments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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, 2017

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

		Balance June 30, 2017
Accounts Receivable:		
Grant Receivable	97%	\$ 175,302
Interest	3%	<u>5,800</u>
	100%	<u>181,102</u>

These amounts resulted in the following concentrations in receivables:

Other Governments	97%
Financial Institutions	3%

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, 2017, the District has reported \$11,277 of prepaid expense.

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>Governmental activities:</u>				
Nondepreciable assets:				
Land	\$ 224,630	\$ -	\$ -	\$ 224,630
Total nondepreciable assets	<u>224,630</u>	<u>-</u>	<u>-</u>	<u>224,630</u>
Depreciable assets:				
Buildings	259,469	2,082,564	(12,337)	2,329,696
Equipment	4,772,769	20,000	(12,946)	4,779,823
Total depreciable assets	<u>5,032,238</u>	<u>2,102,564</u>	<u>(25,283)</u>	<u>7,109,519</u>
Total	<u>5,256,868</u>	<u>2,102,564</u>	<u>(25,283)</u>	<u>7,334,149</u>
Accumulated depreciation:				
Buildings	\$ (2,447,531)	\$ (317,371)	\$ 12,701	\$ (2,752,201)
Total accumulated depreciation	<u>(2,447,531)</u>	<u>(317,371)</u>	<u>12,701</u>	<u>(2,752,201)</u>
Total net capital assets	<u>\$ 2,809,337</u>	<u>\$ 1,785,193</u>	<u>\$ (12,582)</u>	<u>\$ 4,581,948</u>

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

	Fiscal Year Ended June 30, 2017
Building and Improvements	\$ 39,653
Equipements	100,598
Vehicles	177,120
Total	<u>\$ 317,371</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2017:

	Balance June 30, 2017
Accounts payable and accrued liabilities	\$56,871
Salaries and benefits payable	105,032
Total	<u>\$161,903</u>

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES, Continued

These amounts resulted in the following concentrations in payables:

Vendors 35% Employees 65%

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 \$588,756. The following is a summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Refinance Ferrera Truck Loan	\$ 87,519	\$ -	\$ (87,519)	\$ -	\$ -
New Ferrera Truck Loan	633,180	-	(44,423)	588,757	138,526
Compensated absences	144,295	-	(55,777)	88,518	12,328
Total long-term liabilities	<u>\$ 864,994</u>	<u>\$ -</u>	<u>\$ (187,719)</u>	<u>\$ 677,275</u>	<u>\$ 150,854</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
2018	138,526	29,379
2019	145,439	22,466
2020	152,696	15,209
2021 and thereafter	152,096	7,590
Total	<u>\$ 588,757</u>	<u>\$ 74,644</u>
Due within one year	\$ 138,526	\$ 29,379
Due after one year	450,231	45,265
Total	<u>\$ 588,757</u>	<u>\$ 74,644</u>

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

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, 2017, the District had a compensated absences balance net of \$88,518.

8. NET POSITION/FUND BALANCES

Net Position

As of June 30, 2017, net position is as follows:

<u>Net Position</u>	<u>June 30, 2017</u>
Net investment in capital assets	\$4,131,717
Unrestricted (deficit)	(3,506,445)
Total	<u>\$625,272</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, 2017, the District's Restricted and Committed fund balances are as follows:

<u>Fund Balances</u>	<u>June 30, 2017</u>
Nonspendable for prepaid items	\$ 11,277
Restricted	-
Committed for capital projects	-
Unassigned	3,052,750
Total	<u>\$ 3,064,027</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, 2017

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, 2017, 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, 2017 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 PEPPA 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.

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

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

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

A. General Information about the Pension Plans, Continued

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, 2017, 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, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous	
	Miscellaneous	Safety
Contributions - employer	\$ 9,094	\$ 607,694
Contributions - employee (paid employer)	-	-

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

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

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

As of June 30, 2017, the District reported a net pension liability for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous First Tier	\$ 57,361
Safety	4,812,049
Total Net Pension Liability	<u>\$ 4,869,410</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, 2015	0.00143%	0.09687%	0.05872%
Proportion- June 30, 2016	<u>0.00165%</u>	<u>0.09291%</u>	<u>0.05627%</u>
Change-Increase/(Decrease)	-0.00022%	0.00396%	0.00245%

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

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

For the year ended June 30, 2017, the District recognized pension expense of \$616,788. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected economic experience	\$ -	\$ 46,125
Changes in assumptions	-	207,606
Differences between Projected and Actual Investment Earnings	1,021,356	-
Differences between Employer's Contributions and Proportionate Share of Contributions	258,018	-
Change in Employer's Proportion Pension Contributions Subsequent to Measurement Date	300,942.00	87,950
	616,788	-
Total	<u>\$ 2,197,104</u>	<u>\$ 341,681</u>

\$616,788 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, 2017.

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
2018	\$ 2,083	\$ 258,616	\$ 260,699
2019	3,161	223,388	226,548
2020	12,249	473,282	485,531
2021	6,461	259,395	265,856
2022	-		
Thereafter	-		
	<u>23,954</u>	<u>1,214,681</u>	<u>1,238,634</u>

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

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

Actuarial Assumptions -The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Assumptions	
Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment Rate of Return	7.50% net pension plan investment and administrative expenses; includes inflation
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, 2015 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 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

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

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (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 fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Year 11+ ²
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

(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, 2017

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% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous	97,291	57,361	24,361
Safety	7,009,621	4,812,049	3,008,067
Total	7,106,912	4,869,410	3,032,428

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, 2017, 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, 2017.

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.

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the District and/or the employee associations. The District is currently funding this OPEB obligation on a pay-as-you-go basis. For the year ended June 30, 2017, the District paid \$239,270 in health care costs for its retirees and their covered dependents.

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan for the year ended June 30, 2017:

Annual required contribution (ARC)	\$ 877,429
Interest on net OPEB Obligation	109,257
Adjustment to annual required contribution	<u>(137,076)</u>
Annual OPEB cost (expense)	849,610
Employer contributions made	<u>(239,270)</u>
Increase (Decrease) in net OPEB obligation	610,340
Net OPEB Obligation - beginning of year	<u>2,731,429</u>
Net OPEB Obligation - end of year	<u><u>\$ 3,341,769</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$ 566,972	35%	\$ 2,142,761
6/30/16	803,690	27%	2,731,429
6/30/17	849,610	28%	3,341,769

Funded Status and Funding Progress

The funded status of the plan as July 1, 2015, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 8,471,549
Actuarial value of Plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ 8,471,549
Funded ratio (actuarial value of Plan assets/AAL)	0.0%
Covered payroll (active Plan participants)	\$ 1,653,952
UAAL as a percentage of covered payroll	512.2%

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued

Funded Status and Funding Progress, continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an investment interest rate of 4.0% per annum, a projected salary increase of 3.25% per annum and a general inflation rate of 3.00% per annum.

12. NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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 Statements No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2017. The District will implement this Statement in fiscal year ending June 30, 2018.

Arcata Fire District
Notes to Basic Financial Statements, continued
For the year ended June 30, 2017

12. NEW ACCOUNTING PRONOUNCEMENTS, Continued

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 will implement 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 will take 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 will take effect for financial statements starting with the fiscal year that ends June 30, 2017. 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 will take effect for financial statements starting with the fiscal year that ends December 31, 2017. The District will implement 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 will take effect for financial statements starting with the fiscal year that ends June 30, 2017, 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 will take 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 will implement this statement, as applicable, to its financial statements for the year ending June 30, 2018.

Required Supplementary Information

Arcata Fire District

Required Supplementary Information - Schedule of Funding Progress

June 30, 2017

Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a)-(b)]/(c)
7/1/2009	\$4,277,158	\$ -	\$ 4,277,158	0.0%	\$ 1,331,261	321.3%
7/1/2012	5,669,066	-	5,669,066	0.0%	1,283,821	441.6%
7/1/2015	7,936,281	-	7,936,281	0.0%	1,601,891	495.4%

Arcata Fire District
Required Supplementary Information - Schedule of Contributions
Miscellaneous and Safety Plans
Last 10 Fiscal Years*

	<u>2016</u>
Contractually required contribution (actuarially determined)	\$ 449,026
Contributions in relation to the actuarially determined contributions	<u>(449,026)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 1,707,706
Contribution as a percentage of covered-employee payroll	26.29%

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, only 2016 was available. Additional years will be presented as they become available.

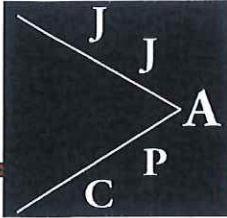
Arcata Fire District
Required Supplementary Information - Schedule of the District's Proportionate
Share of the Net Pension Liability
 Miscellaneous and Safety Plans
 Last 10 Fiscal Years*

	<u>2016</u>
Plan's Proportion of the Net Pension Liability/(Asset)	0.00165%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	<u>\$ 4,869,410</u>
Plan's Covered-Employee Payroll	<u>\$ 1,707,706</u>
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payro	285.14%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	84.00%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 402,019

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, only 2016 was available. Additional years will be presented as they become available.



JJACPA, Inc.

A Professional Accounting Services Corp.

**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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 10, 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.

February 10, 2018

JJACPA, Inc.

JJACPA, Inc.
Dublin, CA

ARCATA FIRE DISTRICT
Changes and Comments

1. Cover page: A logo was added to the new report.
2. Table of Contents:
 - a. Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position was changed to “Reconciliation of General Fund Balance Sheet to the Statement of Net Position (p.12)
 - b. Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund was changed to “Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund” (p.14)
 - c. Reconciliation of Fund Basis Statements to Government-Wide Statement of Activities was changed to “Reconciliation of Fund Based Statements to Government-Wide Statement of Activities (p.16)
 - d. Required Supplementary Information:
 - i. “Other Post-Employment Benefits (OPEB) – added Heading. “Schedule of Funding Progress” on p.48 and;
 - ii. “Pension Plan”- Added Heading. “Schedule of Contributions” on p.49 and “Schedule of District’s Proportionate Share of Net Pension Liability” on p. 50 was added.
 - e. “Internal Control Report” moved to p. 51
3. A blank page with a logo was removed on (p. vii)
4. Audit Report- “Other information” paragraph was deleted.
5. MD&A
 - a. “Annual Report Overview”- A change was made to the last sentence (p.3) – This report also contains required supplementary information in addition to the basic financial statements.
 - b. The sentence introducing the “Government-wide Overall Financial analysis was added to the new report. (See p. 5). Also “Restricted” line was removed from the BS report.
 - c. Statement of Activities – Revenues - Capital grants and contributions was added with \$2,102,564 balance for 2017. Operating grants & contributions - \$576,319 and \$495,182 for 2017 and 2016 respectively. See p. 6.
 - d. Expenses – The second sentence was reworded to reflect the changes (p.6 for old and p.7 for the report).
6. Basic Financial Statements
 - a. Governmental Fund heading was changed to “General fund” (p.13)
 - b. Governmental Fund heading was changed to “General fund” (p.14)
 - c. Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund was changed to “General Fund” on (p. 14.). Also a footer was added and “continued”
 - d. Governmental funds was changed to “General fund” p.15

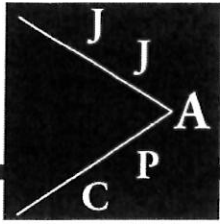
7. Notes to Basic Financial Statements
 - a. Description of Reporting Entity – Third paragraph beginning with “A required by GAAP...,” Was removed on p. 21
 - b. Property Tax – The last sentence was deleted on p.29.
 - c. Fire Flow Taxes - paragraph was removed
 - d. Budgetary Accounting – minor changes were made on p.29-30.
 - e. Risk Management – was fixed on p. 37 (p.38 –on old report)
 - f. PERS – the contributions recognized as part of pension expense for plan were corrected on p.38 (p.39 – old report). The amounts were interposed. And the percentage of “Miscellaneous” 0.00017% was corrected to 0.00165% -proportion –June 30, 2016 on p.39 (p.40 old report). A total column line was added on p.40 (see p.41 –old report). A total line was added in p.43.
 - g. OPEB – was added to the report on p.43.
8. Require Supplementary Information – Were corrected on pp.48-49 (see pp.47-48 old report)

ARCATA FIRE DISTRICT
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AND
COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS
JUNE 30, 2017

Arcata Fire District
For the year ended June 30, 2017

Table of Contents

	<u>Page(s)</u>
Communication with Those Charged with Governance letter	1-4
Management Representation letter	5-7



JJACPA, Inc.

A Professional Accounting Services Corp.

February 10, 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, 2017 and have issued our report thereon dated February 10, 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 September 15, 2017, 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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended June 30, 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 February 10, 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.

February 10, 2018

JJACPA, Inc.
7080 Donlon Way, Suite #204
Dublin, CA 94568

Dear Mr. Arch:

This representation letter is provided in connection with your audit of the financial statements of Arcata Fire Protection District (District) as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the District in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of February 10, 2018.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated September 15, 2017, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The financial statements referred to above have been fairly presented in accordance with U.S. GAAP and include all properly classified funds, required supplementary information, and notes to the basic financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. With regard to nonaudit services performed by you, we acknowledge and our responsibility to:
 - a. Assume all management responsibilities;
 - b. Oversee the services by designating an individual who possesses suitable skill, knowledge, or experience;
 - c. Evaluate the adequacy and results of the services performed; and
 - d. Accept responsibility for the results of the services.
6. Significant assumptions used by us in making accounting estimates are reasonable.
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
9. The effects of uncorrected misstatements summarized in the attached schedule⁶ and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
10. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements which codifies FASB Accounting Standards

Codification™ (ASC) 450, Contingencies, and we have not consulted a lawyer concerning litigation, claims, or assessments.

11. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
12. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
13. All funds and activities are properly classified.
14. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
15. All net position components and fund balance classifications have been properly reported.
16. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
17. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
18. All interfund and intra-entity transactions and balances have been properly classified and reported.
19. Special items and extraordinary items have been properly classified and reported.
20. Deposit and investment risks have been properly and fully disclosed.
21. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
22. All required supplementary information is measured and presented within the prescribed guidelines.
23. Nonexchange and exchange financial guarantees, either written or oral, under which it is more likely than not that a liability exists have been properly recorded, or if we are obligated in any manner, are disclosed.

Information Provided

24. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
25. All transactions have been recorded in the accounting records and are reflected in the financial statements.
26. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
27. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
28. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors, regulators, or others.
29. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

30. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
31. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
32. We have a process to track the status of audit findings and recommendations.
33. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
34. We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
35. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
36. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
37. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
38. The District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
39. We have disclosed to you all guarantees, whether written or oral, under which the District is contingently liable.
40. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
41. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
42. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
43. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.



Justin McDonald, Fire Chief

