

**HIGGINS AREA FIRE
PROTECTION DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2015**

HIGGINS AREA FIRE PROTECTION DISTRICT
Annual Financial Report
For the Year Ended June 30, 2015

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INTRODUCTORY SECTION

- List of Officials

HIGGINS AREA FIRE PROTECTION DISTRICT
Board of Directors
For the Year Ended June 30, 2015

Bruce Jones	Chairman	2018
Dan Fitzgerald	Vice-Chairman	2016
Alex Crawford	Treasurer	2016
John Boykin	Director	2018
Donnie Militano	Director	2018

FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Required Supplementary Information**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Higgins Area Fire Protection District
Auburn, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Higgins Area Fire Protection District, California (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

To the Board of Directors
Higgins Area Fire Protection District
Auburn, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1P to the financial statements, in 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement Nos. 68, 69 and 71. The implementation of GASB 68 and 71 resulted in the restatement of beginning net position for the year ended June 30, 2015. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, District Pension Plan - Schedule of Proportionate Share of the Net Pension Liability, District Pension Plan - Schedule of Contributions, District Pension Plan - Notes to the District Pension Plan, District OPEB Plan - Schedule of Funding Progress, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

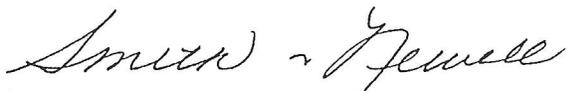
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Directors
Higgins Area Fire Protection District
Auburn, California

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



Smith & Newell, CPAs
Yuba City, California
August 31, 2016

Management's Discussion and Analysis
(Unaudited)

Higgins Area Fire Protection District Management's Discussion and Analysis For the Year Ended June 30, 2015

The Higgins Area Fire Protection District was created in 1977 and is governed by a five-member Board of Directors elected at large. The District's mission is to protect life and property from fire and other hazardous situations in a cost effective manner that consists of four equally important efforts: fire prevention, fire suppression, emergency medical services and training.

As management of the Higgins Area Fire Protection District ("District"), we offer the readers of our financial statements this narrative overview and analysis of financial activities and performance for the fiscal year ended June 30, 2015.

Financial Highlights

- The District's net position at the end of the year was \$2,535,796 which is a decrease of \$472,036 from the previous year.
- Total expenses for District government activities were \$1,746,201 which is a \$284,187 increase from the fiscal year ended June 30, 2014.
- In the District's General fund activities, revenues were \$2,130,026, while expenditures were \$1,713,526.

The resources available for appropriation, which include the prior year's ending fund balance plus current revenue, for all government activities was \$3,453,019, a net increase of \$753,278 from the prior year. A large portion of the increase is a result from revenues paid from strike team responses to other areas of California.

Overview of the Financial Statements

This report is intended to serve as an introduction to the District's basic financial statements and includes three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements to clarify unique accounting policies and financial information.

Government-wide financial statements

The government-wide financial statements consist of a Statement of Net Position and Statement of Activities which provide a broad overview of the District and its activities for the current period. These statements, an analysis of the District as a whole, are prepared using the full accrual basis of accounting.

The *Statement of Net Position* (page 8) provides information on all District assets and liabilities, with the difference between the two reported as Net Position. The net position may serve over time as a useful indicator of the District's financial health, with increases or decreases in the net position, an indicator of whether its financial status is improving or declining.

The *Statement of Activities* (page 9) presents information showing total revenue and expense and the resulting effect on Net Position.

Fund Financial Statements

The District's services are reported in three funds to help control and manage the financial activities for particular purposes (General Operating, AB1600 [Mitigation Fees], and Capital Replacement). The District's fund financial statements begin on page 10 and provide detailed information about these three funds, not the District as a whole.

The District's fund statements are prepared using the modified accrual basis of accounting, which measures cash, and all other financial assets that can be readily converted to cash, and reports essentially the same functions as those reported in the government-wide financial statements.

However, unlike the government-wide financial statements, fund financial statements report operations in more detail and provide a detailed short-term view of inflow and outflow of spendable resources, as well as balances of spendable resources available at the fiscal year end. This information helps determine whether there are more or fewer financial resources that can be spent in the near future.

Financial Analysis

District as a Whole (Government Wide Financials) – Full Accrual Basis

- The District's total net position at fiscal year-end was \$2,535,796, a decrease of \$472,036 resulting primarily from the cumulative effect of change in accounting principle for the net pension liability and receipt of a SAFER Grant to rehire laid-off firefighters. This grant funding will continue into the next fiscal year. The most significant portion of the net position is capital assets in the amount of \$1,614,984 and cash and investments in the amount of \$1,614,984.
- The assets of the District exceeded its liabilities at the close of the most recent period by \$2,535,796 (*net position*). Of this amount, \$260,964 (a decrease of \$429,491 from the prior year) is unrestricted assets and may be used to meet the District's on-going obligations to its creditors.
- The District's total liabilities increased by \$663,728 to \$799,484, mainly due to a decrease of \$22,742 in accounts payables and by an increase of \$686,470 in long-term liabilities.

Condensed Statement of Net Position (Analysis of Overall Financial Position)

	<u>6/30/2014</u>	<u>% of Total</u>	<u>6/30/2015</u>	<u>% of Total</u>	<u>\$ Change</u>	<u>%Change</u>
Current Assets	\$ 1,416,509	45.10%	\$ 1,742,747	51.30%	\$ 326,238	23.03%
Capital Assets	<u>1,727,079</u>	54.90%	<u>1,654,457</u>	48.70%	<u>(72,622)</u>	(4.20%)
Total Assets	<u>3,143,588</u>	100.00%	<u>3,397,204</u>	100.00%	<u>253,616</u>	8.00%
Deferred Outflows of Resources	-	0.00%	173,495	0.00%	173,495	0.00%
Current Liabilities	36,344	26.80%	13,602	1.70%	(22,742)	(62.57%)
Long-term Liabilities	<u>99,412</u>	73.20%	<u>785,882</u>	98.30%	<u>686,470</u>	690.53%
Total Liabilities	<u>135,756</u>	100.00%	<u>799,484</u>	100.00%	<u>663,728</u>	488.91%
Deferred Inflows of Resources	-	0.00%	235,419	0.00%	235,419	0.00%
Total Net Position	<u>\$ 3,007,832</u>	100.00%	<u>\$ 2,535,796</u>	100.00%	<u>\$ (472,036)</u>	15.69%

Condensed Statement of Activities (Changes in Net Position)

	<u>FY 2013/2014</u>	<u>FY 2014/2015</u>	<u>\$ Change</u>	<u>% Change</u>
Program Revenue	\$ 482,031	\$ 919,518	\$ 437,487	90.75%
General Revenue	<u>1,089,542</u>	<u>1,153,336</u>	<u>63,794</u>	5.85%
Total Revenue	<u>1,571,573</u>	<u>2,072,854</u>	<u>501,281</u>	31.89%
Total Expenditures	<u>1,462,014</u>	<u>1,746,201</u>	<u>284,187</u>	19.43%
Excess/Deficiency of Revenue over Expense	<u>109,559</u>	<u>326,653</u>	<u>217,094</u>	198.15%
Beginning Net Position	2,898,273	3,007,832	109,559	3.78%
Cumulative effect of change in Accounting Principle	-	<u>(798,689)</u>	<u>(798,689)</u>	0.00%
Beginning Net Position - Restated	<u>2,898,273</u>	<u>2,209,143</u>	<u>(689,130)</u>	(23.78%)
Ending Net Position	<u>\$ 3,007,832</u>	<u>\$ 2,535,796</u>	<u>\$ 472,036</u>	(15.69%)

District Funds (Governmental Funds) – Modified Accrual Basis

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to focus on near-term inflows and outflows and spendable resources. In addition, these fund financial statements provide a reconciliation to facilitate the comparison between the governmental funds and government-wide statements.

Condensed Revenue and Expense Statement (All District Funds)

	<u>FY 2013/2014</u>	<u>FY 2014/2015</u>	<u>\$ Change</u>	<u>% Change</u>
Total Revenue	\$ 1,479,087	\$ 2,165,340	\$ 686,253	46.39%
Total Expenditures	<u>1,412,062</u>	<u>1,723,874</u>	<u>311,812</u>	<u>22.08%</u>
Excess of Revenue over Expenses	67,025	441,466	374,441	558.65%
Total Fund Balances - Beginning	<u>1,220,654</u>	<u>1,287,679</u>	<u>(67,025)</u>	<u>(5.49%)</u>
Total Fund Balances - Ending	<u>\$ 1,287,679</u>	<u>\$ 1,729,145</u>	<u>\$ 441,466</u>	<u>34.28%</u>

The District had a combined ending fund balance at June 30, 2015 of \$1,729,145 (modified accrual basis) in its three governmental funds, an increase of \$441,466, from the prior year ended June 30, 2014 (see table above). Of the combined total, the General fund, which is the chief operating fund of the District, had an unassigned balance of \$619,606. As a measure of the fund's liquidity, this amount constitutes the balance available for spending at the District's discretion and represents 36.16 percent of the total General fund expenditures. During the current twelve-month period ended June 30, 2015, the General fund's fund balance increased by \$368,500.

Key Factors in the fund balance changes are:

- Actual revenues were more than forecasted revenues by 3.19 percent. In the budgeting process, the District based the budgets on its best estimate of the least amount of expected revenue. In the case of the General fund, property taxes exceeded our estimate by 0.62% while other revenues did not meet budgetary expectations and were under budget by \$11,834.
- Mitigation Fees revenue came in 21.9% over budget. Mitigation Fee revenue received in the current fiscal year is 16.51% less than received in the previous fiscal year. Interest and investment revenue for the General and Mitigation Fees funds were 1668.5% more than budgeted. The District based the budgets on its best estimate of the least amount of expected revenue.
- Personnel Services came in at 3.98% below budget and overall General fund expenditures were 21.97% less than budget. Total Capital asset purchases totaled \$13,344.
- Budgeted expenditures in both the General and Mitigation Fees funds for future stations' reconstruction/pre-construction and land acquisition costs continue to be committed.

General Fund Budgetary Highlights

The budget is based on anticipated cash flows. Revenues are budgeted at the lowest level expected to be collected during the year and expenditures at a level not exceeding expected revenues plus the unexpended balance remaining from the previous fiscal year (carryover). Some differences are due to the fact that actual amounts include items received or paid in a different fiscal year than when earned or incurred.

Over the course of the year, the District revised the General fund budget once. As with the previous fiscal year, the budget was revised on the revenue side to incorporate increased revenues resulting from additional strike-team payments. On the expenditure side, salaries and benefits increased due to the receipt of the SAFER Grant.

Capital Asset and Long-Term Debt Activity

Capital Assets

At the end of the prior fiscal year, the District had \$1,727,079 invested in capital assets, including land, buildings, furniture, firefighting equipment and vehicles. This year, there were additions of \$13,344, no retirements, depreciation expense of \$85,234 reflecting a net decrease in capital assets of \$71,890 and an ending balance at June 30, 2015 of \$1,655,189. This change resulted mainly from the purchase of personal protective equipment (turnouts), 6 SCBA tanks, laptop and preplan software: \$2,838 from fund 6759, \$7,510 from fund 6784, and \$2,996 from fund 6348.

More detailed information about the District's capital assets is presented in Note 4 of the financial statements.

Debt Administration

As was true at the prior fiscal year's end, the District had no long-term debt at June 30, 2015 with respect to financing the purchase of capital assets.

Economic Factors and Next Year's Budget

After several years of steadily declining general property tax revenue, this fiscal year showed an increase. The county's projected tax allocation for next fiscal year shows an increase of 2.0% from the current fiscal year. However, the current fiscal year's actual tax revenues were \$54,093 more than was projected by the county.

The District's pro-rated share of the Proposition 172 one-half cent public safety sales tax, which is renewed annually by agreement with the County of Nevada, has been projected by the County to be \$66,000 for the next fiscal year. The actual received by the District in FY2014/2015 was \$69,268, 8.23% percent above the \$64,000 projected by the County.

The District received a SAFER (Staffing for Adequate Fire and Emergency Response) Grant for \$983,000 over two years which allowed the District to rehire staff that was laid-off in 2012. This funding will continue until March of 2016.

Requests for Information

This financial report is designed to provide a general overview of the Higgins Area Fire Protection District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Business Manager, Higgins Area Fire Protection District, 10106 Combie Road, Auburn, CA 95602.

Basic Financial Statements

- **Government-Wide Financial Statements**

HIGGINS AREA FIRE PROTECTION DISTRICT
Statement of Net Position
June 30, 2015

	<u>Total Governmental Activities</u>
ASSETS	
Cash and investments	
Receivables:	\$ 1,614,984
Intergovernmental	
Prepaid costs	120,830
Capital assets:	6,933
Non depreciable	
Depreciable, net	862,775
Total capital assets	<u>791,682</u>
Total Assets	<u>1,654,457</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension adjustments	
Total Deferred Outflows of Resources	<u>173,495</u>
	<u>173,495</u>
LIABILITIES	
Accounts payable	
Long-term liabilities:	13,602
Due within one year	
Due in more than one year	41,473
Net pension liability	32,438
Net OPEB obligation	702,941
Total Liabilities	<u>9,030</u>
	<u>799,484</u>
DEFERRED INFLOWS OF RESOURCES	
Pension adjustments	
Total Deferred Inflows of Resources	<u>235,419</u>
	<u>235,419</u>
NET POSITION	
Investment in capital assets	
Restricted for:	1,654,457
Public protection	
Unrestricted	620,375
Total Net Position	<u>260,964</u>
	<u>\$ 2,535,796</u>

The notes to the basic financial statements are an integral part of this statement.

HIGGINS AREA FIRE PROTECTION DISTRICT
Statement of Activities
For the Year Ended June 30, 2015

<u>Functions/Programs:</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position Total	
Governmental activities:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Public protection	\$ 1,746,201	\$ 149,448	\$ 770,070	\$ -	\$ (826,683)
Total Governmental Activities	1,746,201	149,448	770,070	-	(826,683)
Total	\$ 1,746,201	\$ 149,448	\$ 770,070	\$ -	(826,683)
General revenues:					
Taxes:					
Property taxes					1,094,715
Interest and investment earnings					55,455
Miscellaneous					3,166
Total General Revenues					1,153,336
Change in Net Position					326,653
Net Position - Beginning					3,007,832
Cumulative effect of change in accounting principle					(798,689)
Net Position - Beginning, Restated					2,209,143
Net Position - Ending					\$ 2,535,796

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements

- **Fund Financial Statements**

HIGGINS AREA FIRE PROTECTION DISTRICT
Balance Sheet
Governmental Funds
June 30, 2015

	General	Mitigation Fees	Capital Fund	Total
ASSETS				
Cash and investments				
Receivables:	\$ 512,378	\$ 620,375	\$ 482,231	\$ 1,614,984
Accounts	120,830	-	-	120,830
Prepaid costs	6,933	-	-	6,933
Total Assets	\$ 640,141	\$ 620,375	\$ 482,231	\$ 1,742,747
LIABILITIES				
Accounts payable	\$ 13,602	\$ -	\$ -	\$ 13,602
Total Liabilities	13,602	-	-	13,602
FUND BALANCES				
Nonspendable	6,933	-	-	6,933
Restricted	-	620,375	-	620,375
Committed	-	-	482,231	482,231
Unassigned	619,606	-	-	619,606
Total Fund Balances	626,539	620,375	482,231	1,729,145
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 640,141	\$ 620,375	\$ 482,231	\$ 1,742,747

The notes to the basic financial statements are an integral part of this statement.

HIGGINS AREA FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Fund Balance Sheet
To the Government Wide Statement of
Net Position - Governmental Activities
June 30, 2015

Total Fund Balance - Total Governmental Funds	\$ 1,729,145
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,654,457
Deferred outflows of resources related to pensions are not reported in the governmental funds.	173,495
Deferred inflows of resources related to pensions are not reported in the governmental funds.	(235,419)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences	(73,911)
Net OPEB obligation	(9,030)
Net pension liability	(702,941)
	(702,941)
Net Position of Governmental Activities	\$ 2,535,796

The notes to the basic financial statements are an integral part of this statement.

HIGGINS AREA FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures,
And Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

REVENUES	General	Mitigation Fees	Capital Fund	Total
Taxes and assessments	\$ 1,214,519	\$ -	\$ -	\$ 1,214,519
Use of money and property	49,785	3,271	2,399	55,455
Intergovernmental revenues	862,556	-	-	862,556
Charges for services	-	29,644	-	29,644
Other revenues	3,166	-	-	3,166
Total Revenues	2,130,026	32,915	2,399	2,165,340
EXPENDITURES				
Current public protection:				
Personal services	1,443,076	-	-	1,443,076
Clothing and uniforms	29,899	-	-	29,899
Household	3,173	-	-	3,173
Communications	9,130	-	-	9,130
Insurance	12,541	-	-	12,541
Maintenance:				
Equipment	15,442	-	-	15,442
Structures and improvements	9,073	-	-	9,073
Automobiles	47,044	-	-	47,044
Memberships	2,329	-	-	2,329
Medical supplies	2,021	-	-	2,021
Miscellaneous	1,124	-	-	1,124
Office supplies	3,786	-	-	3,786
Professional services	52,321	-	-	52,321
Publications and notices	5,330	-	-	5,330
Small tools	5,784	-	-	5,784
Special district expense	47,553	-	-	47,553
Travel	1,014	-	-	1,014
Gasoline	10,607	-	-	10,607
Utilities	9,108	-	-	9,108
Rent	175	-	-	175
Capital outlay	2,996	2,838	7,510	13,344
Total Expenditures	1,713,526	2,838	7,510	1,723,874
Excess of Revenues Over (Under) Expenditures	416,500	30,077	(5,111)	441,466
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	48,000	48,000
Transfers Out	(48,000)	-	-	(48,000)
Total Other Financing Sources (Uses)	(48,000)	-	48,000	-
Net Change in Fund Balances	368,500	30,077	42,889	441,466
Fund Balances - Beginning	258,039	590,298	439,342	1,287,679
Fund Balances - Ending	\$ 626,539	\$ 620,375	\$ 482,231	\$ 1,729,145

The notes to the basic financial statements are an integral part of this statement.

HIGGINS AREA FIRE PROTECTION DISTRICT
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 441,466
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for capital outlay	13,344
Less current year depreciation	(85,966)
Some revenues reported in the statement of activities will not be collected for several months after the District's year end and do not provide current financial resources and therefore are not reported as revenues in the governmental funds.	
Change in unavailable revenues	(92,486)
Certain changes in deferred outflows and deferred inflows of resources reported in the Statement of Activities relate to long-term liabilities and are not reported in the governmental funds.	
Change in deferred outflows of resources related to pensions	49,902
Change in deferred inflows of resources related to pensions	(235,419)
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 the governmental funds.	
Change in compensated absences	18,497
Change in net pension liability	219,341
Change in net OPEB obligation	(2,026)
Change in Net Position of Governmental Activities	\$ 326,653

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements

- **Notes to Basic Financial Statements**

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Higgins Area Fire Protection District is a special district within the County of Nevada governed by an independent five member Board of Directors. The Higgins Area Fire Protection District was established in August 1977. The District was established to provide fire prevention and suppression and rescue services in the Higgins Area of Southwest Nevada County. Revenues are derived principally from the county-wide tax levy and a special assessment on improved parcels within the District. The financial transactions are recorded in the County of Nevada's accounting system.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

Joint Agencies

The District is a participant in Nevada County Fire and Emergency Services Joint Powers Agency, the purpose of which is to provide emergency dispatch and other services. The District participates in the Air Filling Station Services offered. Complete financial information can be obtained from the JPA's office at P.O. Box 3043, Grass Valley, CA 95945. The District is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all the activities of the District. These statements include the financial activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. These statements report the governmental activities of the District, which are normally supported by property taxes and special assessments. The District had no business-type activities at June 30, 2015.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Fund Financial Statements

Fund financial statements of the District are organized into three funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. The funds of the District are organized into the governmental category. The emphasis is placed on major funds, each displayed in a separate column.

The District reports the following major governmental funds:

- The General fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not accounted for through other funds. For the District, the General fund includes such activities as fire protection.
- The Mitigation Fee fund is a special revenue fund used to accumulate mitigation fees collected for new development in the District.
- The Capital fund is a capital projects fund used to accumulate revenue for capital outlay.

C. Basis of Accounting and Measurement Focus

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes, charges for services, certain state and federal grants, and use of money and property are considered susceptible to accrual and are accrued when their receipt occurs within sixty days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported in the governmental activities column in the government-wide statement of net position.

HIGGINS AREA FIRE PROTECTION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments

The District pools all cash and investments, other than cash in a bank deposit account, with the County of Nevada. The Nevada County Treasury is an external investment pool for the District and the District is considered an involuntary participant. The District's share in this pool is displayed in the accompanying financial statements as cash and investments.

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on the amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter based on the participant's average daily cash balance at quarter end in relation to the total pool investments. This method differs from the fair value method used to value investments in these financial statements. In these financial statements, the fair value of the District's investments in the pool was based on unaudited quoted market values as provided by the County Treasurer. The pool has not provided or obtained any legally binding guarantees during the period to support the value of investments.

The County monitors and reviews the management of public funds maintained in the investment pool in accordance with the County investment policy and the California Government Code. The Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the Board of Supervisors every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Nevada's financial statements may be obtained by contacting the County of Nevada Auditor Controller's office at 950 Maidu Ave., Nevada City, CA 95959.

F. Receivables

Receivables for governmental activities consist mainly of amounts due from other governmental entities. Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

G. Other Assets

Inventory

Inventories are recorded as expenditures at the time the inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

Prepaid Costs

Prepayments made for services that will benefit periods beyond June 30, 2015, are recorded as prepaid costs. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, including public domain infrastructure, are defined by the District as an asset with a cost greater than \$500 and a useful life of more than one year. Capital assets are recorded at historical cost, or estimated historical cost if actual is unavailable. Contributed capital assets are recorded at their estimated fair value at the date of donation.

Capital assets used in operations are depreciated or amortized using the straight-line method over the assets useful life. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	10-40 years
Structures and improvements	50 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increases values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the result of operations.

I. Property Tax

Nevada County is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County of Nevada up to 1 percent of the full cash value of taxable property, plus other increases approved by the voter and distributed in accordance with statutory formulas.

The valuation/lien date for all taxes is January 1. Secured property tax is due in two 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. Unsecured property tax are due on March 1, and become delinquent, if unpaid on August 31.

The County uses the alternative method of property tax apportionment known as the "Teeter Plan". Under this method of property tax apportionment, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

J. Interfund Transactions

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion to interfund loans) as appropriate and are subject to elimination upon consolidation. Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance in applicable governmental funds to indicate that they are not in spendable form.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Transactions (Continued)

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures repay the funds that initially paid for them. Such reimbursements are reflected as expenditures in the reimbursing fund and reductions to expenditures in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation of the government-wide presentation.

K. Compensated Absences

The District's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, the expenditures related to those obligations are recognized when they mature. The District includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

L. Pensions

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

M. 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. This item relates to the pension adjustments and is reportable on the Statement of Net Position.

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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item which qualifies for reporting in this category. This item relates to the pension adjustments and is reportable on the Statement of Net Position.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Grant Revenues

Certain grant revenues are recognized when specific related expenditures have been incurred. In other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt, or earlier if susceptible to accrual criteria is met.

O. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

P. Implementation of Governmental Accounting Standards Board Statements (GASB)

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. This statement improves 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.

Statement No. 69, Government Combinations and Disposals of Government Operations. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68. This statement addresses an issue regarding application of the transition provisions of Statement No. 68.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Restatement of Net Position

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports these changes as restatements of beginning net position. During the current year a prior period adjustment was made to reflect the proper period costs related to implementing the net pension liability as required by GASB Statement No. 68.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Restatement of Net Position (Continued)

The impact of the restatement on the net position on the government-wide financial statements as previously reported is presented below:

Net Position, June 30, 2014, as previously reported	<u>Governmental Activities</u> \$ 3,007,832
Adjustment associated with:	
Net Pension Liability Adjustment	(798,689)
Total Adjustments	<u>(798,689)</u>
Net Position, July 1, 2014, as restated	<u>\$ 2,209,143</u>

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2015, the District's cash and investments consisted of the following:

Cash:	
Deposits (less outstanding warrants)	\$ 170
Total Cash	<u>170</u>
Investments:	
Nevada County Treasurer's Pool	1,614,814
Total Investments	<u>1,614,814</u>
Total Cash and Investments	<u>\$ 1,614,984</u>

B. Cash

At year end, the carrying amount of the District's cash deposits (including amounts in a checking account) was \$170 and the bank balance was \$170.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District complies with the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments

The District does not have a formal investment policy. At June 30, 2015, all investments of the District were in the County of Nevada investment pool. Under the provisions of the County's investment policy and the California Government Code, the County may invest or deposit in the following:

- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Medium Term Corporate Notes
- Money Market Funds
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Securities of the Federal Government or its Agencies
- California State Registered Warrants, Treasury Notes and Bonds
- Local Agency Obligations
- Certificates of Deposit
- Pass-Through Security

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To limit exposure to fair value losses resulting from increases in interest rates, the County's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the County to meet all projected obligations. The County limits its exposure to interest rate risk inherent in its portfolio by limiting individual maturities to 5 years or less.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a national recognized statistical rating organization. The County's investment policy sets specific parameters by type of investment to be met at the time of purchase. As of June 30, 2015, the District's investment were all pooled with the County Treasury which is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investments in securities through the use of mutual funds or government investment pools.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law and the investment policy of the County contain limitations on the amount that can be invested in any one issuer. As of June 30, 2015, all investments of the District were in the County investment pool which contains a diversification of investments.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, was as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 862,775	\$ -	\$ -	\$ 862,775
Total Capital Assets, Not Being Depreciated	<u>862,775</u>	<u>-</u>	<u>-</u>	<u>862,775</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	658,526	-	-	658,526
Equipment	<u>1,851,211</u>	<u>13,344</u>	<u>-</u>	<u>1,864,555</u>
Total Capital Assets, Being Depreciated	<u>2,509,737</u>	<u>13,344</u>	<u>-</u>	<u>2,523,081</u>
Less Accumulated Depreciation For:				
Buildings and improvements	(343,172)	(20,877)	-	(364,049)
Equipment	<u>(1,302,261)</u>	<u>(65,089)</u>	<u>-</u>	<u>(1,367,350)</u>
Total Accumulated Depreciation	<u>(1,645,433)</u>	<u>(85,966)</u>	<u>-</u>	<u>(1,731,399)</u>
Total Capital Assets, Being Depreciated, Net	<u>864,304</u>	<u>(72,622)</u>	<u>-</u>	<u>791,682</u>
Capital Assets, Net	<u>\$ 1,727,079</u>	<u>(\$ 72,622)</u>	<u>\$ -</u>	<u>\$ 1,654,457</u>

Depreciation

Depreciation expense was charged to governmental activities as follows:

Public Protection	\$ 85,966
Total Depreciation Expense - Governmental Activities	<u>\$ 85,966</u>

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of changes in the long-term liabilities for the year ended June 30, 2015:

<u>Type of Indebtedness</u>	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 92,408	\$ 43,925	(\$ 62,422)	\$ 73,911	\$ 41,473
Total	<u>\$ 92,408</u>	<u>\$ 43,925</u>	<u>(\$ 62,422)</u>	<u>\$ 73,911</u>	<u>\$ 41,473</u>

NOTE 6: NET POSITION

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **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.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 6: NET POSITION (CONTINUED)

- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - all other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 7: FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2015, fund balance for governmental funds is made up of the following:

- **Nonspendable fund balance** - amounts that cannot be spend because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** - amounts that can only be used for the specific purposes determined by formal action of the District's highest level of decision-making authority. The Board of Directors is the highest level of decision making authority for the District that can, by adoption of an ordinance commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** - amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** - the residual classification for the District's General fund that includes all amounts not contained in the other classifications.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 7: FUND BALANCES (CONTINUED)

The fund balances for all major governmental funds as of June 30, 2015, were distributed as follows:

	<u>General</u>	<u>Mitigation Fees</u>	<u>Capital Fund</u>	<u>Total</u>
Nonspendable:				
Prepaid costs	\$ 6,933	\$ -	\$ -	\$ 6,933
Restricted for:				
Public protection	-	620,375	-	620,375
Committed to:				
Public protection	-	-	482,231	482,231
Unassigned	<u>619,606</u>	<u>-</u>	<u>-</u>	<u>619,606</u>
Total	<u>\$ 626,539</u>	<u>\$ 620,375</u>	<u>\$ 482,231</u>	<u>\$ 1,729,145</u>

Fund Balance Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance), a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted fund balance are available, it is considered that restricted fund balance is depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The Board of Directors adopted a fund balance policy for financial statement reporting on February 15, 2012. The policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures. The policy also provides for the District to establish and maintain a minimum unrestricted fund balance in the General fund equal to two months of annual revenue within the Discretionary Revenue category as defined in the budget.

NOTE 8: PENSION PLANS

A. General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District 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.

HIGGINS AREA FIRE PROTECTION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

NOTE 8: PENSION PLANS (CONTINUED)

A. General Information about the Pension Plans (Continued)

Plan Description (Continued)

Effective January 1, 2013, the District added retirement tiers for both Miscellaneous and Safety Plans for new employees as required under the Public Employee Pension Reform Act (PEPRA). New employees hired on or after January 1, 2013 will be subject to new, lower pension formulas, caps on pensionable income levels and new definitions of pensionable income. In addition, new employees will be required to contribute half of the total normal cost of the pension benefit unless impaired by an existing Memorandum of Understanding. The cumulative effect of these PEPRA changes will ultimately reduce the District's retirement costs. As of the valuation date there were no Safety PEPRA employees.

Summary of Plans and Eligible Participants

Open for New Enrollment	
Miscellaneous PEPRA	Miscellaneous members hired on or after January 1, 2013
Safety PEPRA	Safety employees hired on or after January 1, 2013
Closed to New Enrollment	
Miscellaneous Plan	Miscellaneous members hired before January 1, 2013
Safety Plan	Safety employees hired before January 1, 2013

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. Retirement benefits are paid monthly for life. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Each Plan's specific provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous Plan	2.5% @ 55	50-67	1.426% to 2.418%
Safety Plan	2.0% @ 50	50-55	2.000% to 2.700%

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 all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 8: PENSION PLANS (CONTINUED)

A. General Information about the Pension Plans (Continued)

Contributions (Continued)

	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous Plan	9.671%	8.000%	0.000%
Miscellaneous PEPRA	6.237%	6.250%	0.000%
Safety Plan	13.813%	9.000%	0.000%
Safety PEPRA	11.153%	11.500%	0.000%

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

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous Plan	\$ 13,280	\$ -
Safety Plan	110,313	-

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 each Plan as of June 30, 2014 and 2015 was as follows:

	<u>Proportion June 30, 2014</u>	<u>Proportion June 30, 2015</u>	<u>Change - Increase (Decrease)</u>
Miscellaneous Plan	0.00150%	0.00164%	.00014%
Safety Plan	0.00994%	0.00966%	(.00028)%

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous Plan	\$ 101,885
Safety Plan	601,056
Total Net Pension Liability	<u>\$ 702,941</u>

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 8: PENSION PLANS (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2015, the District recognized pension expense of \$110,615. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 144,429	\$ -
Differences between projected and actual earnings on pension plan investments	-	(205,625)
Difference between District contributions and proportionate share of contributions	29,066	-
Adjustment due to differences in proportions	<u>-</u>	<u>(29,794)</u>
Total	<u>\$ 173,495</u>	<u>(\$ 235,419)</u>

\$144,429 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2016	(\$ 51,666)
2017	(51,666)
2018	(51,613)
2019	(51,408)
Thereafter	<u>-</u>
Total	<u>(\$ 206,353)</u>

Actuarial Assumptions

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

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3%-14.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	Derived using CalPERS membership data for all funds

(1) Depending on age, service, and type of employment

(2) Net of pension plan investment and administrative expenses, including inflation

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 8: PENSION PLANS (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 8: PENSION PLANS (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate (Continued)

The following table 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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	<u>2.0%</u>	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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 each Plan as of the measurement date, calculated using the discount rate for each 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:

	<u>1% Decrease 6.50%</u>	<u>Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Miscellaneous Plan	\$ 153,273	\$ 101,885	\$ 59,238
Safety Plan	1,043,160	601,056	236,782

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District contributes to California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit postemployment healthcare plan administrator ("the Retiree Health Plan). The coverage is available to employees who meet the requirements for retirement from the District under the CalPERS plan in which the individual participates and who completes 15 or more years of permanent, full-time service with the District.

For qualifying retirees, the District contributes \$100 per month toward health insurance premiums during the first five years of retirement. At the end of the 5 years, the District subsidy ends. This benefit is available whether the retiree elects to continue his/her coverage through the District's medical program or through a separate arrangement. However, this benefit is not available to offset the cost of other healthcare, such as dental or vision coverage. In the event of the retiree's death prior to the end of the 5 year period, benefits are discontinued; there are no survivor benefits payable.

B. Funding Policy

The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB 45 for employers in plans with fewer than one hundred total plan members. 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 actuarial liabilities over a period not to exceed thirty years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, the District's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time. The Board of Directors reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for the retiree health plan.

Annual Required Contribution	\$ 2,063
Interest on Net OPEB Obligation	280
Adjustments to the ARC	(317)
Annual OPEB Cost	2,026
Contributions Made	-
Increase in Net OPEB Obligation	2,026
Net OPEB Obligation Beginning	7,004
Net OPEB Obligation Ending	<u>\$ 9,030</u>

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the current and prior two years:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
June 30, 2013	\$ 1,803	\$ 600	33.28%	\$ 5,116
June 30, 2014	1,888	-	0.00%	7,004
June 30, 2015	2,026	-	0.00%	9,030

D. Funded Status and Funding Progress

As of July 1, 2012, present value of the actuarial accrued liability for benefits was \$13,875, all of which was unfunded. The covered payroll (annual payroll of employees covered by the plan) was \$583,918 and the ratio of the UAAL to the covered payroll was 2.38 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, number of employees that chose to participate and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information (as it becomes available) that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. 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 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

All assets and liabilities are computed as of July 1, 2012.

The annual rate of return on assets used to pay for benefits is assumed to be 4.00 percent (assumed rate of return on general assets). The rate of return for assets in a trust is assumed to be 7.00 percent.

The cost of living as measured by the Consumer Price Index (CPI) is assumed to increase at the rate of 3.25 percent per year.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

Salaries are assumed to increase annually at 3.25 percent.

The unfunded actuarial accrued liability determined from this valuation is amortized at a level percentage of pay over a rolling 30 year period.

NOTE 10: 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 has joined together with other special districts in the State to participate in Northern California Special Districts Insurance Authority. This joint venture is a public entity risk pool which serves as a common risk management and insurance program for workers compensation coverage for 17 member special districts. The District has also joined together with other fire districts in the State to participate in Northern California Fire District Association. This joint venture is a public entity risk pool which serves as a common risk management and insurance program for liability and automobile coverage for its member fire districts.

The District pays an annual premium to both of these joint ventures for its insurance coverage. The agreements with the joint ventures provide that they will be self-sustaining through member premiums and will reinsure through commercial companies for excess coverage.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11: OTHER INFORMATION

A. Subsequent Event

Management has evaluated events subsequent to June 30, 2015 through August 31, 2016, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**Required Supplementary Information
(Unaudited)**

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District Pension Plans
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2015
Last 10 Years*

	2015
Miscellaneous Plan	
Proportion of the net pension liability	0.00164%
Proportionate share of the net pension liability	\$ 101,885
Covered employee payroll	51,183
Proportionate share of the net pension liability as a percentage of covered employee payroll	199.06%
Plan fiduciary net position as a percentage of the total pension liability	73.70%
Safety Plan	
Proportion of the net pension liability	0.00966%
Proportionate share of the net pension liability	\$ 601,056
Covered employee payroll	567,182
Proportionate share of the net pension liability as a percentage of covered employee payroll	105.97%
Plan fiduciary net position as a percentage of the total pension liability	81.79%

* The District implemented GASB 68 for fiscal year June 30, 2015, therefore only one year is shown.

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District Pension Plans
Schedule of Contributions
For the Year Ended June 30, 2015
Last 10 Years*

	2015
Miscellaneous Plan	
Contractually required contribution (actuarially determined)	\$ 13,280
Contributions in relation to the actuarially determined contributions	(13,280)
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 51,183
Contributions as a percentage of covered employee payroll	25.95%
Safety Plan	
Contractually required contribution (actuarially determined)	\$ 110,313
Contributions in relation to the actuarially determined contributions	(110,313)
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 567,182
Contributions as a percentage of covered employee payroll	19.45%

* The District implemented GASB 68 for fiscal year June 30, 2015, therefore only one year is shown.

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
Notes to District Pension Plans
For the Year Ended June 30, 2015

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

There were no changes in assumptions or benefits in calculating the net pension liability.

NOTE 2: SCHEDULE OF CONTRIBUTIONS

Methods and assumptions used to determine the contribution rates were as follows:

Valuation Date	June 30, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.3% to 14.2% depending on age, service and type of employment
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 years

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Funding Progress
For the Year Ended June 30, 2015

SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress - Other Post Employment Benefits (OPEB) presents a consolidated snapshot of the District's ability to meet current and future liabilities with the plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension plan. The closer the plan is to a 100 percent funded status, the better position it will be in to meet all of its future liabilities.

The table below shows a two year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll for the District OPEB Plan.

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL As a % of Payroll ([a-b]/c)
July 1, 2009	\$ 14,729	\$ -	\$ 14,729	0.0%	\$ 731,915	2.01%
July 1, 2012	13,875	-	13,875	0.0%	583,918	2.38%

HIGGINS AREA FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	\$ 1,129,000	\$ 1,207,000	\$ 1,214,519	\$ 7,519
Use of money and property	1,000	1,000	49,785	48,785
Intergovernmental revenues	683,000	841,000	862,556	21,556
Other revenues	14,300	15,000	3,166	(11,834)
Total Revenues	<u>1,827,300</u>	<u>2,064,000</u>	<u>2,130,026</u>	<u>66,026</u>
EXPENDITURES				
Current general government:				
Personal services	1,492,552	1,503,000	1,443,076	59,924
Clothing and uniforms	22,300	23,000	29,899	(6,899)
Household	12,000	12,000	3,173	8,827
Communications	9,000	9,000	9,130	(130)
Insurance	16,000	16,000	12,541	3,459
Maintenance:				
Equipment	23,000	23,000	15,442	7,558
Structures and improvements	11,000	12,000	9,073	2,927
Automobiles	34,000	39,000	47,044	(8,044)
Memberships	3,000	3,000	2,329	671
Medical supplies	5,000	5,000	2,021	2,979
Miscellaneous	1,000	-	1,124	(1,124)
Office Supplies	8,000	8,000	3,786	4,214
Professional services	51,000	97,000	52,321	44,679
Publications and notices	4,000	6,000	5,330	670
Small tools	11,000	11,000	5,784	5,216
Special district expense	80,000	83,000	47,553	35,447
Travel	5,000	5,000	1,014	3,986
Gasoline	27,000	30,000	10,607	19,393
Utilities	9,500	11,000	9,108	1,892
Rent	1,000	1,000	175	825
Contingencies	112,900	289,000	-	289,000
Capital outlay	10,000	10,000	2,996	7,004
Total Expenditures	<u>1,948,252</u>	<u>2,196,000</u>	<u>1,713,526</u>	<u>482,474</u>
Excess of Revenues Over (Under) Expenditures	<u>(120,952)</u>	<u>(132,000)</u>	<u>416,500</u>	<u>548,500</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	(48,000)	(48,000)	(48,000)	-
Total Other Financing Sources (Uses)	<u>(48,000)</u>	<u>(48,000)</u>	<u>(48,000)</u>	<u>-</u>
Net Change in Fund Balance	(168,952)	(180,000)	368,500	548,500
Fund Balances - Beginning	258,039	258,039	258,039	-
Fund Balances - Ending	<u>\$ 89,087</u>	<u>\$ 78,039</u>	<u>\$ 626,539</u>	<u>\$ 548,500</u>

HIGGINS AREA FIRE PROTECTION DISTRICT
Budgetary Comparison Schedule
Mitigation Fees - Major Special Revenue Fund
For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Use of money and property	\$ 2,000	\$ 2,000	\$ 3,271	\$ 1,271
Charges for services	25,000	25,000	29,644	4,644
Total Revenues	<u>27,000</u>	<u>27,000</u>	<u>32,915</u>	<u>5,915</u>
EXPENDITURES				
Capital outlay	45,000	45,000	2,838	42,162
Total Expenditures	<u>45,000</u>	<u>45,000</u>	<u>2,838</u>	<u>42,162</u>
Net Change in Fund Balance	(18,000)	(18,000)	30,077	48,077
Fund Balances - Beginning	<u>590,298</u>	<u>590,298</u>	<u>590,298</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 572,298</u>	<u>\$ 572,298</u>	<u>\$ 620,375</u>	<u>\$ 48,077</u>

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
Notes to Budgetary Comparison Schedules
For the Year Ended June 30, 2015

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

Formal budgetary integration is employed as a management control device during the year. The District presents a comparison of annual budgets to actual results for all governmental funds except for the capital projects fund. The amount reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The following procedures are performed by the District in establishing the budgetary data reflected in the financial statements:

- (1) The District Fire Chief submits to the board a recommended draft budget for the fiscal year commencing the following July 1. The budget includes recommended expenditures and the means of financing them.
- (2) The Board reviews the recommended budget at regularly scheduled meetings, which are open to the public. The Board also conducts a public hearing on the recommended budget to obtain comments from interested persons.
- (3) Prior to July 1, the budget is adopted through the passage of a resolution.
- (4) From the effective date of the budget, which is adopted, the amounts stated therein, as recommended expenditures become appropriations. The Board may amend the budget by motion during the fiscal year.

The District does not use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

OTHER REPORT AND SCHEDULE

- **Other Report**
- **Schedule of Findings and Recommendations**

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Higgins Area Fire Protection District
Auburn, 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 and each major fund of the Higgins Area Fire Protection District, California (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 31, 2016.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations, that we consider to be a significant deficiency. (2015-001)

To the Board of Directors
Higgins Area Fire Protection District
Auburn, California

Compliance and Other Matters

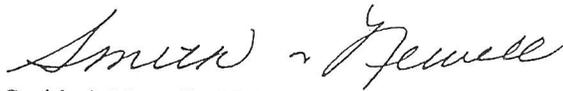
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Smith & Newell, CPAs
Yuba City, California
August 31, 2016

HIGGINS AREA FIRE PROTECTION DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2015

2015-001 Year-End Closing Process (Significant Deficiency)

Condition

At the time of our audit fieldwork, we noted the financial statements as presented to us for audit contained misstatements that required adjustments. We noted multiple balance sheet accounts that had not been reconciled and adjusted prior to the time of fieldwork. Many of these adjustments were noted as a part of the audit process.

Cause

The District did not adequately review all accounts prior to the audit fieldwork. The process to close the District's accounting record and produce the annual financial report is labor intensive and the reports produced by the accounting system can require additional analysis and reconciliation.

Criteria

Government Auditing Standards require independent auditors to evaluate all unadjusted misstatements of financial statements. Also, producing timely audited financial statements is more difficult when adjustments are not recorded prior to the start of the annual audit.

Effect of Condition

The financial statements as presented to us for audit contained misstatements and required adjustment.

Recommendation

We recommend that the District strive to record all adjustments in a timely manner so that required adjustments can be recorded prior to the start of the annual audit.

Corrective Action Plan

The District will implement in 2015-16.