

**HIGGINS AREA FIRE  
PROTECTION DISTRICT,  
CALIFORNIA**

**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2017**

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Annual Financial Report**  
**For the Year Ended June 30, 2017**

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## **INTRODUCTORY SECTION**

- **List of Officials**

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**List of Officials**  
**For the Year Ended June 30, 2017**

**Board of Directors**

|                 |                  |
|-----------------|------------------|
| John Boykin     | Chairperson      |
| Donnie Militano | Vice Chairperson |
| Bruce Jones     | Treasurer        |
| Martin Main     | Director         |
| Scott Milligan  | Director         |

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## **FINANCIAL SECTION**

- **Independent Auditor's Report**
- **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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**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, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *District Records*

Records were not available and ready for audit until August 12, 2019.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the District Pension Plan information, District OPEB Plan information 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

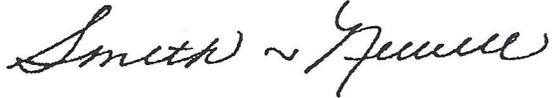
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 December 6, 2019, 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 solely 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 the effectiveness of the District's 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  
December 6, 2019

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## **Basic Financial Statements**

- **Government-Wide Financial Statements**

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Statement of Net Position**  
**June 30, 2017**

|   | <b>Total<br/>Governmental<br/>Activities</b> |
|---|--|
| <b>ASSETS</b>                               |  |
| Cash and investments                        | \$ 2,366,538                                 |
| Receivables:                                |  |
| Accounts                                    | 155  |
| Intergovernmental                           | 47,119                                       |
| Prepaid costs                               | 8,333  |
| Capital assets:                             |  |
| Non-depreciable                             | 862,775                                      |
| Depreciable, net                            | 770,798                                      |
| Total capital assets                        | <u>1,633,573</u>                             |
| <b>Total Assets</b>                         | <u>4,055,718</u>                             |
| <br><b>DEFERRED OUTFLOWS OF RESOURCES</b>   |  |
| Pension adjustments                         | <u>453,456</u>                               |
| <b>Total Deferred Outflows of Resources</b> | <u>453,456</u>                               |
| <br><b>LIABILITIES</b>                      |  |
| Accounts payable                            | 26,870                                       |
| Accrued salaries and benefits               | 23,424                                       |
| Long-term liabilities:                      |  |
| Due within one year                         | 17,479                                       |
| Due in more than one year                   | 27,793                                       |
| Net pension liability                       | 1,019,132                                    |
| Net OPEB liability                          | 18,766                                       |
| <b>Total Liabilities</b>                    | <u>1,133,464</u>                             |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>    |  |
| Pension adjustments                         | <u>86,313</u>                                |
| <b>Total Deferred Inflows of Resources</b>  | <u>86,313</u>                                |
| <br><b>NET POSITION</b>                     |  |
| Investment in capital assets                | 1,633,573                                    |
| Restricted for public protection            | 662,820                                      |
| Unrestricted                                | 993,004                                      |
| <b>Total Net Position</b>                   | <u><u>\$ 3,289,397</u></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, 2017**

| <u>Functions/Programs:</u>           | Program Revenues        |  |  |                                     | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
|--------------------------------------|-------------------------|--|--|-------------------------------------|--|
| Expenses                             | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Total<br>Governmental<br>Activities |  |
| Governmental activities:             |                         |  |  |                                     |  |
| Public protection                    | \$ 1,341,529            | \$ 151,113                               | \$ 343,134                             | \$ -                                | \$ (847,282)   |
| <b>Total Governmental Activities</b> | 1,341,529               | 151,113                                  | 343,134                                | -                                   | (847,282)  |
| <b>Total</b>                         | \$ 1,341,529            | \$ 151,113                               | \$ 343,134                             | \$ -                                | (847,282)  |
| <b>General revenues:</b>             |                         |  |  |                                     |  |
| Taxes:                               |                         |  |  |                                     |  |
| Property taxes                       |                         |  |  |                                     | 1,268,131  |
| Interest and investment earnings     |                         |  |  |                                     | 61,952   |
| Gain on sale of capital assets       |                         |  |  |                                     | 2,380  |
| Miscellaneous                        |                         |  |  |                                     | 4,224  |
| <b>Total General Revenues</b>        |                         |  |  |                                     | 1,336,687  |
| <b>Change in Net Position</b>        |                         |  |  |                                     | 489,405  |
| <b>Net Position - Beginning</b>      |                         |  |  |                                     | 2,799,992  |
| <b>Net Position - Ending</b>         |                         |  |  |                                     | \$ 3,289,397   |

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

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## **Basic Financial Statements**

- **Fund Financial Statements**

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

|  | <u>General</u>      | <u>Mitigation<br/>Fees</u> | <u>Capital<br/>Replacement</u> | <u>Totals</u>       |
|--|---------------------|----------------------------|--------------------------------|---------------------|
| <b>ASSETS</b>  |                     |                            |                                |                     |
| Cash and investments   | \$ 1,248,477        | \$ 662,665                 | \$ 455,396                     | \$ 2,366,538        |
| Receivables:   |                     |                            |                                |                     |
| Accounts   | -                   | 155                        | -                              | 155                 |
| Intergovernmental  | 47,119              | -                          | -                              | 47,119              |
| Prepaid costs  | 8,333               | -                          | -                              | 8,333               |
| <b>Total Assets</b>  | <u>\$ 1,303,929</u> | <u>\$ 662,820</u>          | <u>\$ 455,396</u>              | <u>\$ 2,422,145</u> |
| <b>LIABILITIES</b>   |                     |                            |                                |                     |
| Accounts payable   | \$ 14,025           | \$ -                       | \$ 12,845                      | \$ 26,870           |
| Accrued salaries and benefits  | 23,424              | -                          | -                              | 23,424              |
| <b>Total Liabilities</b>   | <u>37,449</u>       | <u>-</u>                   | <u>12,845</u>                  | <u>50,294</u>       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>   |                     |                            |                                |                     |
| Unavailable revenue  | 33,397              | -                          | -                              | 33,397              |
| <b>Total Deferred Inflows of Resources</b>   | <u>33,397</u>       | <u>-</u>                   | <u>-</u>                       | <u>33,397</u>       |
| <b>FUND BALANCES</b>   |                     |                            |                                |                     |
| Nonspendable   | 8,333               | -                          | -                              | 8,333               |
| Restricted   | -                   | 662,820                    | -                              | 662,820             |
| Committed  | -                   | -                          | 442,551                        | 442,551             |
| Unassigned   | 1,224,750           | -                          | -                              | 1,224,750           |
| <b>Total Fund Balances</b>   | <u>1,233,083</u>    | <u>662,820</u>             | <u>442,551</u>                 | <u>2,338,454</u>    |
| <b>Total Liabilities, Deferred Inflows of Resources,<br/>    and Fund Balances</b> | <u>\$ 1,303,929</u> | <u>\$ 662,820</u>          | <u>\$ 455,396</u>              | <u>\$ 2,422,145</u> |

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

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of**  
**Net Position - Governmental Activities**  
**June 30, 2017**

|  |                                   |
|--|-----------------------------------|
| <b>Total Fund Balances - Total Governmental Funds</b>  | <b>\$ 2,338,454</b>               |
| 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.                                       | 1,633,573                         |
| Deferred outflows of resources related to pension are not reported in the governmental funds.  | 453,456                           |
| Deferred inflows of resources related to pension are not reported in the governmental funds.   | (86,313)                          |
| Other long term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenues in the governmental funds. | 33,397                            |
| Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.                                   |                                   |
| Compensated absences   | (45,272)                          |
| Net pension liability  | (1,019,132)                       |
| Net OPEB liability   | <u>(18,766)</u>                   |
| <b>Net Position of Governmental Activities</b>   | <b><u><u>\$ 3,289,397</u></u></b> |

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, 2017**

|   | General             | Mitigation<br>Fees | Capital<br>Replacement | Totals              |
|---|---------------------|--------------------|------------------------|---------------------|
| <b>REVENUES</b>                                     |                     |                    |                        |                     |
| Taxes and assessments                               | \$ 1,389,821        | \$ -               | \$ -                   | \$ 1,389,821        |
| Use of money and property                           | 48,198              | 7,054              | 6,700                  | 61,952              |
| Intergovernmental revenues                          | 337,543             | -                  | -                      | 337,543             |
| Charges for services                                | -                   | 29,423             | -                      | 29,423              |
| Other revenues                                      | 4,224               | -                  | -                      | 4,224               |
| <b>Total Revenues</b>                               | <b>1,779,786</b>    | <b>36,477</b>      | <b>6,700</b>           | <b>1,822,963</b>    |
| <b>EXPENDITURES</b>                                 |                     |                    |                        |                     |
| Current public protection:                          |                     |                    |                        |                     |
| Salaries and benefits                               | 1,193,662           | -                  | -                      | 1,193,662           |
| Clothing and uniforms                               | 7,055               | -                  | -                      | 7,055               |
| Household   | 5,758               | -                  | -                      | 5,758               |
| Communications                                      | 11,723              | -                  | -                      | 11,723              |
| Insurance   | 14,818              | -                  | -                      | 14,818              |
| Maintenance:  |                     |                    |                        |                     |
| Equipment   | 10,259              | -                  | -                      | 10,259              |
| Structures and improvements                         | 18,014              | -                  | -                      | 18,014              |
| Automobiles   | 43,893              | -                  | -                      | 43,893              |
| Memberships   | 3,186               | -                  | -                      | 3,186               |
| Medical supplies                                    | 6,702               | -                  | -                      | 6,702               |
| Miscellaneous                                       | 5,496               | -                  | -                      | 5,496               |
| Office supplies                                     | 5,376               | -                  | -                      | 5,376               |
| Professional services                               | 49,413              | -                  | -                      | 49,413              |
| Publications and notices                            | 4,973               | -                  | -                      | 4,973               |
| Small tools   | 4,628               | -                  | -                      | 4,628               |
| Special district expense                            | 59,130              | -                  | -                      | 59,130              |
| Travel  | 4,480               | -                  | -                      | 4,480               |
| Gasoline  | 10,994              | -                  | -                      | 10,994              |
| Utilities   | 9,633               | -                  | -                      | 9,633               |
| Rent  | 52                  | -                  | -                      | 52                  |
| Capital outlay                                      | -                   | 7,989              | 133,196                | 141,185             |
| <b>Total Expenditures</b>                           | <b>1,469,245</b>    | <b>7,989</b>       | <b>133,196</b>         | <b>1,610,430</b>    |
| <b>Excess of Revenues Over (Under) Expenditures</b> | <b>310,541</b>      | <b>28,488</b>      | <b>(126,496)</b>       | <b>212,533</b>      |
| <b>OTHER FINANCING SOURCES (USES)</b>               |                     |                    |                        |                     |
| Proceeds from the sale of capital assets            | 2,380               | -                  | -                      | 2,380               |
| <b>Total Other Financing Sources (Uses)</b>         | <b>2,380</b>        | <b>-</b>           | <b>-</b>               | <b>2,380</b>        |
| <b>Net Change in Fund Balances</b>                  | <b>312,921</b>      | <b>28,488</b>      | <b>(126,496)</b>       | <b>214,913</b>      |
| <b>Fund Balances - Beginning</b>                    | <b>920,162</b>      | <b>634,332</b>     | <b>569,047</b>         | <b>2,123,541</b>    |
| <b>Fund Balances - Ending</b>                       | <b>\$ 1,233,083</b> | <b>\$ 662,820</b>  | <b>\$ 442,551</b>      | <b>\$ 2,338,454</b> |

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, 2017**

|  |                   |
|--|-------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>  | <b>\$ 214,913</b> |
| <br>Amounts reported for governmental activities in the statement of activities are different because:   |                   |
| <br>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  | 141,185           |
| Less current year depreciation   | (82,551)          |
| Various adjustments  | 17                |
| <br>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   | 5,591             |
| <br>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 pension  | 260,322           |
| Change in deferred inflows of resources related to pension   | 204,396           |
| <br>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   | 8,473             |
| Change in net pension liability  | (257,971)         |
| Change in net OPEB liability   | (4,970)           |
| <b>Change in Net Position of Governmental Activities</b>   | <b>\$ 489,405</b> |

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

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## **Basic Financial Statements**

- **Notes to Basic Financial Statements**

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**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.

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.

The District is a participant in Fire District's Association of California - Fire Agencies Self Insurance System (FDAC-FASIS), the purpose of which is to provide workers' compensation benefits to each member agency including claims administration and program administration. FDAC-FASIS is composed of approximately 200 members and is governed by a board of directors appointed by the members. Complete financial information can be obtained from the Association office at 1831 K Street, Sacramento, California 95814. 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. 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, intergovernmental revenues and special assessments. The District had no business-type activities at June 30, 2017.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (Continued)**

**Government-Wide Financial Statements (Continued)**

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.

**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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 Fees fund is a special revenue fund used to accumulate mitigation fees collected for new development in the District.
- The Capital Replacement 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

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**F. Receivables**

Receivables for governmental activities consist mainly of general and intergovernmental revenues. 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, 2017, are recorded as prepaid costs. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**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 acquisition value at the date of donation.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Capital Assets (Continued)**

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

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

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase 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 is due on March 1 and becomes 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.

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.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Interfund Transactions (Continued)**

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 a long-term liability in the government-wide statements. The current portion of this liability 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. Pension**

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

**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 outflows from changes in the net pension liability 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 two items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for receivables that have not been received within the modified accrual period. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item relates to the inflows from changes in the net pension liability and is reportable on the statement of net position.

**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.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 (GASB) Statements**

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

**Statement No. 74**, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement improves the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

**Statement No. 77**, Tax Abatement Disclosures. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenue.

**Statement No. 78**, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have certain characteristics.

**Statement No. 80**, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments.

**Statement No. 82**, Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73. This statement addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, and Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement specifically addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 2: CASH AND INVESTMENTS**

**A. Financial Statement Presentation**

As of June 30, 2017, the District's cash and investments consisted of the following:

|                                      |    |           |
|--------------------------------------|----|-----------|
| Cash:                                |    |           |
| Deposits (less outstanding warrants) | \$ | 715       |
| Total Cash                           |    | 715       |
| Investments:                         |    |           |
| Nevada County Treasurer's Pool       |    | 2,365,823 |
| Total Investments                    |    | 2,365,823 |
| Total Cash and Investments           | \$ | 2,366,538 |

**B. Cash**

At year end, the carrying amount of the District's cash deposits (including amounts in a checking account) was \$715 and the bank balance was \$715.

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. The entire amount of the District's deposits are insured by the Federal Deposit Insurance Corporation.

**C. Investments**

The District does not have a formal investment policy. At June 30, 2017, 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 Securities

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

**C. Investments (Continued)**

Fair Value of Investments - The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The District's position in external investment pools is in itself regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the District's investment in external investment pools are not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2017, the District had the following recurring fair value measurements:

| Investment Type                          | Fair Value          | Fair Value Measurements Using |                   |                   |
|--|---------------------|-------------------------------|-------------------|-------------------|
|  |                     | Level 1                       | Level 2           | Level 3           |
| Investments by Fair Value Level          |                     |                               |                   |                   |
| None                                     | \$ _____ -          | \$ _____ -                    | \$ _____ -        | \$ _____ -        |
| Total Investments Measured at Fair Value | -                   | <u>\$ _____ -</u>             | <u>\$ _____ -</u> | <u>\$ _____ -</u> |
| Investments in External Investment Pool  |                     |                               |                   |                   |
| Nevada County Treasurer's Pool           | <u>2,365,823</u>    |                               |                   |                   |
| Total Investments                        | <u>\$ 2,365,823</u> |                               |                   |                   |

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, 2017, the District's investments were all held with the County of Nevada investment pool 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 a local government's indirect investments in securities through the use of mutual funds or government investment pools.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

**C. Investments (Continued)**

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, 2017, all investments of the District were in the Nevada County investment pool which contains a diversification of investments.

**NOTE 3: CAPITAL ASSETS**

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

|  | Balance<br>July 1, 2016 | Additions        | Adjustments/<br>Retirements | Balance<br>June 30, 2017 |
|--|-------------------------|------------------|-----------------------------|--------------------------|
| 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                 | 3,653            | -                           | 662,179                  |
| Equipment                                    | <u>1,869,465</u>        | <u>137,532</u>   | <u>( 157,905)</u>           | <u>1,849,092</u>         |
| Total Capital Assets, Being Depreciated      | <u>2,527,991</u>        | <u>141,185</u>   | <u>( 157,905)</u>           | <u>2,511,271</u>         |
| Less Accumulated Depreciation For:           |                         |                  |                             |                          |
| Buildings and improvements                   | ( 384,494)              | ( 20,815)        | -                           | ( 405,309)               |
| Equipment                                    | <u>( 1,431,350)</u>     | <u>( 61,736)</u> | <u>157,922</u>              | <u>( 1,335,164)</u>      |
| Total Accumulated Depreciation               | <u>( 1,815,844)</u>     | <u>( 82,551)</u> | <u>157,922</u>              | <u>( 1,740,473)</u>      |
| Total Capital Assets, Being Depreciated, Net | <u>712,147</u>          | <u>58,634</u>    | <u>17</u>                   | <u>770,798</u>           |
| Total Capital Assets, Net                    | <u>\$ 1,574,922</u>     | <u>\$ 58,634</u> | <u>\$ 17</u>                | <u>\$ 1,633,573</u>      |

**Depreciation**

Depreciation expense was charged to governmental activities as follows:

|  |                  |
|--|------------------|
| Public Protection                                    | \$ 82,551        |
| Total Depreciation Expense – Governmental Activities | <u>\$ 82,551</u> |

**NOTE 4: LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

| Type of Indebtedness | Balance<br>July 1, 2016 | Additions        | Retirements        | Balance<br>June 30, 2017 | Amounts<br>Due Within<br>One Year |
|----------------------|-------------------------|------------------|--------------------|--------------------------|-----------------------------------|
| Compensated Absences | \$ 53,745               | \$ 17,936        | (\$ 26,409)        | \$ 45,272                | \$ 17,479                         |
| Total                | <u>\$ 53,745</u>        | <u>\$ 17,936</u> | <u>(\$ 26,409)</u> | <u>\$ 45,272</u>         | <u>\$ 17,479</u>                  |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 5: 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.
- **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 6: 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, 2017, fund balance for governmental funds is made up of the following:

- **Nonspendable fund balance** - amounts that cannot be spent 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 Board action, 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.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 6: FUND BALANCES (CONTINUED)**

- **Unassigned fund balance** - the residual classification for the District's General fund that includes all amounts not contained in the other classifications.

The fund balances for all governmental funds as of June 30, 2017, were distributed as follows:

|                        | <u>General<br/>Fund</u> | <u>Mitigation<br/>Fees</u> | <u>Capital<br/>Replacement</u> | <u>Totals</u>       |
|------------------------|-------------------------|----------------------------|--------------------------------|---------------------|
| <b>Nonspendable:</b>   |                         |                            |                                |                     |
| Prepaid costs          | \$ 8,333                | \$ -                       | \$ -                           | \$ 8,333            |
| <b>Restricted for:</b> |                         |                            |                                |                     |
| Public protection      | -                       | 662,820                    | -                              | 662,820             |
| <b>Committed to:</b>   |                         |                            |                                |                     |
| Public protection      | -                       | -                          | 442,551                        | 442,551             |
| <b>Unassigned</b>      | <u>1,224,750</u>        | <u>-</u>                   | <u>-</u>                       | <u>1,224,750</u>    |
| <b>Total</b>           | <u>\$ 1,233,083</u>     | <u>\$ 662,820</u>          | <u>\$ 442,551</u>              | <u>\$ 2,338,454</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 7: PENSION PLAN**

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

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the District's separate Safety and Miscellaneous (all other) Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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, 2017**

**NOTE 7: PENSION PLAN (CONTINUED)**

**A. General Information about the Pension Plan (Continued)**

**Plan Description (Continued)**

Effective January 1, 2013, the District added retirement tiers for both the Miscellaneous and Safety Rate Tiers 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.

**Summary of Rate Tiers and Eligible Participants**

|                          |   |
|--------------------------|---|
| Open for New Enrollment  |   |
| Miscellaneous PEPRA      | Miscellaneous members hired on or after January 1, 2013 |
| Safety PEPRA             | Safety members hired on or after January 1, 2013        |
| Closed to New Enrollment |   |
| Miscellaneous            | Miscellaneous members hired before January 1, 2013      |
| Safety                   | 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 the plan are applied as specified by the Public Employees' Retirement Law.

Each Rate Tier's specific provisions and benefits in effect at June 30, 2017, are summarized as follows:

|               | <u>Benefit<br/>Formula</u> | <u>Retirement<br/>Age</u> | <u>Monthly Benefits as a %<br/>of Eligible Compensation</u> |
|---------------|----------------------------|---------------------------|---|
| Miscellaneous | 2.5% @ 55                  | 55                        | 2.5%  |
| Safety        | 2.0% @ 50                  | 50                        | 2.0%  |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7: PENSION PLAN (CONTINUED)**

**A. General Information about the Pension Plan (Continued)**

**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.

|                     | <u>Employer<br/>Contribution<br/>Rates</u> | <u>Employee<br/>Contribution<br/>Rates</u> | <u>Employer Paid<br/>Member<br/>Contribution Rates</u> |
|---------------------|--|--|--|
| Miscellaneous       | 10.069%                                    | 8.000%                                     | 0.000%   |
| Miscellaneous PEPRA | N/A  | 6.250%                                     | 0.000%   |
| Safety              | 14.785%                                    | 9.000%                                     | 0.000%   |
| Safety PEPRA        | 12.082%                                    | 11.500%                                    | 0.000%   |

**B. Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension**

For the year ended June 30, 2017, the contributions recognized as part of pension expense were as follows:

|               | <u>Contributions-Employer</u> | <u>Contributions-Employee<br/>(Paid by Employer)</u> |
|---------------|-------------------------------|--|
| Miscellaneous | \$ 14,030                     | \$ -   |
| Safety        | 133,996                       | -  |

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

The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

|               | <u>Proportion<br/>June 30, 2016</u> | <u>Proportion<br/>June 30, 2017</u> | <u>Change -<br/>Increase (Decrease)</u> |
|---------------|-------------------------------------|-------------------------------------|---|
| Miscellaneous | 0.00171%                            | 0.00156%                            | .00007%                                 |
| Safety        | 0.00938%                            | 0.01020%                            | .00028%                                 |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7: PENSION PLAN (CONTINUED)**

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

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

|                             | <u>Proportionate<br/>Share of Net<br/>Pension Liability</u> |
|-----------------------------|---|
| Miscellaneous               | \$ 134,655  |
| Safety                      | <u>884,477</u>  |
| Total Net Pension Liability | <u>\$ 1,019,132</u>   |

For the year ended June 30, 2017, the District recognized pension expense of \$241,129. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date                                | \$ 104,097                                | \$ -                                     |
| Change in assumptions   | -   | ( 45,187)                                |
| Difference between expected and actual experience                                   | 451                                       | ( 9,489)                                 |
| Difference between projected and actual earnings on pension plan investments        | 223,244                                   | -  |
| Difference between District contributions and proportionate share of contributions. | 54,169                                    | ( 4,567)                                 |
| Adjustments due to differences in proportions                                       | <u>71,495</u>                             | <u>( 27,070)</u>                         |
| Total   | <u>\$ 453,456</u>                         | <u>(\$ 86,313)</u>                       |

\$104,097 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 fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| <u>Fiscal<br/>Year Ended<br/>June 30</u> |                   |
|--|-------------------|
| 2018                                     | \$ 104,583        |
| 2019                                     | 140,285           |
| 2020                                     | 86,907            |
| 2021                                     | ( 26,951)         |
| Thereafter                               | <u>-</u>          |
| Total                                    | <u>\$ 304,824</u> |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7: PENSION PLAN (CONTINUED)**

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

**Actuarial Assumptions**

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

|                                  |   |
|----------------------------------|---|
| Valuation Date                   | June 30, 2015   |
| Measurement Date                 | June 30, 2016   |
| Actuarial Cost Method            | Entry-Age Normal  |
| Actuarial Assumptions:           |   |
| Discount Rate                    | 7.65%   |
| Inflation                        | 2.75%   |
| Salary Increases                 | Varies by Entry - Age Service   |
| Mortality Rate Table             | Derived using CalPERS' membership data for all funds  |
| Post-Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor of Purchasing Power applies, 2.75% thereafter |

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2016 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**Change of Assumptions**

There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows for changes of assumptions presented represent the unamortized portion of the changes of assumptions related to prior measurement periods.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent 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.

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.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7: PENSION PLAN (CONTINUED)**

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

**Discount Rate (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all 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 the fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate 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>Assumed<br/>Asset<br/>Allocation</u> | <u>Real Return<br/>Years 1 – 10(a)</u> | <u>Real Return<br/>Years 11+(b)</u> |
|-------------------------------|---|--|-------------------------------------|
| Global Equity                 | 51.0%                                   | 5.25%                                  | 5.71%                               |
| Global Debt Securities        | 20.0%                                   | 0.99%                                  | 2.43%                               |
| Inflation Assets              | 6.0%                                    | 0.45%                                  | 3.36%                               |
| Private Equity                | 10.0%                                   | 6.83%                                  | 6.95%                               |
| Real Estate                   | 10.0%                                   | 4.50%                                  | 5.13%                               |
| Infrastructure and Forestland | 2.0%                                    | 4.50%                                  | 5.09%                               |
| Liquidity                     | 1.0%                                    | -0.55%                                 | -1.05%                              |
| Total                         | <u>100.0%</u>                           |  |                                     |

(a) An expected inflation of 2.50% used for this period

(b) An expected inflation of 3.00% 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 the Plan as of the measurement date, calculated using the discount rate for the 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%<br/>Decrease<br/>6.65%</u> | <u>Discount<br/>Rate<br/>7.65%</u> | <u>1%<br/>Increase<br/>8.65%</u> |
|---------------|----------------------------------|------------------------------------|----------------------------------|
| Miscellaneous | \$ 190,286                       | \$ 134,655                         | \$ 88,680                        |
| Safety        | 1,414,438                        | 884,477                            | 449,435                          |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7: PENSION PLAN (CONTINUED)**

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

**Pension Plan Fiduciary Net Position**

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

**NOTE 8: OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**A. Plan Description**

The District contributes to California Public Employees Retirement System (CalPERS), a single-employer defined benefit postemployment healthcare plan ("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 a monthly subsidy toward medical insurance premiums during the first five years of retirement. The amount varies by employee group, as shown in the chart below. At the end of the 5 years, the District subsidy ends.

| Retiree Medical Benefit<br>As of June 30, 2017 |                 |
|--|-----------------|
| Employee Group                                 | Monthly Benefit |
| Miscellaneous                                  | \$200           |
| Chief  | \$200           |
| IAFF   | \$100           |

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**

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 Liability**

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.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**C. Annual OPEB Cost and Net OPEB Liability (Continued)**

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the resulting net OPEB liability.

|                                |                  |
|--------------------------------|------------------|
| Annual Required Contribution   | \$ 5,140         |
| Interest on Net OPEB Liability | 487              |
| Adjustments to the ARC         | ( 657)           |
| Annual OPEB Cost               | 4,970            |
| Contribution Made              | -                |
| Increase in Net OPEB Liability | 4,970            |
| Net OPEB Liability Beginning   | 13,796           |
| Net OPEB Liability Ending      | <u>\$ 18,766</u> |

The District's annual OPEB cost, the actual contributions, the percentage of annual OPEB cost contributed to the plan, and the net OPEB liability for the current and prior two years are as follows:

| Fiscal Year<br>Ended | Annual<br>OPEB Cost | Actual<br>Contribution | Percentage of<br>Annual OPEB<br>Cost Contribution | Net OPEB<br>Liability/<br>(Asset) |
|----------------------|---------------------|------------------------|---|-----------------------------------|
| June 30, 2015        | \$ 2,026            | \$ -                   | 0.00%   | \$ 9,030                          |
| June 30, 2016        | 4,766               | -                      | 0.00%   | 13,796                            |
| June 30, 2017        | 4,970               | -                      | 0.00%   | 18,766                            |

**D. Funded Status and Funding Progress**

As of June 30, 2017 the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$50,962, and the actuarial valued of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$50,962. The covered payroll (annual payroll of employees covered by the plan) was \$797,489 and the ratio of the UAAL to the covered payroll was 6.39 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.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**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.

For the June 30, 2017 actuarial valuation, the entry age normal cost, level percent of pay method was used. The actuarial assumptions included a 3.53 percent investment rate of return (net of administrative expenses) and a 2.50 percent general inflation assumption. The initial UAAL was amortized as a level percentage of projected payroll over a fixed 30-year period (24 years remaining as of the June 30, 2017 actuarial valuation).

**NOTE 9: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases coverage from a commercial carrier. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 10: OTHER INFORMATION**

**A. Subsequent Events**

Management has evaluated events subsequent to June 30, 2017 through December 6, 2019, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

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**Required Supplementary Information  
(Unaudited)**

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Required Supplementary Information**  
**District Pension Plan**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2017**  
**Last 10 Years\***

| Measurement Date  | 2013/2014  | 2014/2015  | 2015/2016  |
|---|------------|------------|------------|
| <b>Miscellaneous</b>  |            |            |            |
| Proportion of the net pension liability   | 0.00164%   | 0.00170%   | 0.00156%   |
| Proportionate share of the net pension liability                                    | \$ 101,885 | \$ 117,643 | \$ 134,655 |
| Covered payroll   | 51,183     | na**       | na**       |
| Proportionate share of the net pension liability as a percentage of covered payroll | 199.06%    | na**       | na**       |
| Plan fiduciary net position as a percentage of the total pension liability          | 73.70%     | 70.32%     | 67.41%     |
| <b>Safety</b>   |            |            |            |
| Proportion of the net pension liability   | 0.96600%   | 0.94000%   | 1.02000%   |
| Proportionate share of the net pension liability                                    | \$ 601,056 | \$ 643,518 | \$ 884,477 |
| Covered payroll   | 567,182    | na**       | na**       |
| Proportionate share of the net pension liability as a percentage of covered payroll | 105.97%    | na**       | na**       |
| Plan fiduciary net position as a percentage of the total pension liability          | 0.82%      | 81.88%     | 77.35%     |

\* The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only three years are shown.

\*\* Information not available

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Required Supplementary Information**  
**District Pension Plan**  
**Schedule of Contributions**  
**For the Year Ended June 30, 2017**  
**Last 10 Years\***

| Fiscal Year   | 2014/2015        | 2015/2016        | 2016/2017       |
|---|------------------|------------------|-----------------|
| <b>Miscellaneous</b>  |                  |                  |                 |
| Contractually required contribution (actuarially determined)          | \$ 13,280        | \$ 14,030        | \$ 9,369        |
| Contributions in relation to the actuarially determined contributions | <u>(13,280)</u>  | <u>(14,030)</u>  | <u>(9,369)</u>  |
| Contribution deficiency (excess)                                      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>     |
| Covered payroll   | \$ 51,183        | na**             | na**            |
| Contributions as a percentage of covered payroll                      | 25.95%           | na**             | na**            |
| <b>Safety</b>   |                  |                  |                 |
| Contractually required contribution (actuarially determined)          | \$ 110,313       | \$ 133,996       | \$ 94,728       |
| Contributions in relation to the actuarially determined contributions | <u>(110,313)</u> | <u>(133,996)</u> | <u>(94,728)</u> |
| Contribution deficiency (excess)                                      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>     |
| Covered payroll   | \$ 567,182       | na**             | na**            |
| Contributions as a percentage of covered payroll                      | 19.45%           | na**             | na**            |

\* The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only three years are shown.

\*\* Information not available

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Required Supplementary Information**  
**District Pension Plan**  
**Notes to District Pension Plan**  
**For the Year Ended June 30, 2017**

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

Change of assumptions: There were no changes in assumptions.

**NOTE 2: SCHEDULE OF CONTRIBUTIONS**

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

|                            |  |
|----------------------------|--|
| Valuation Date             | June 30, 2014  |
| Actuarial cost method      | Entry Age Normal   |
| Amortization method/period | For details, see June 30, 2014 Funding Valuation Report  |
| Asset valuation method     | Actuarial value of assets  |
| Inflation                  | 2.75%  |
| Salary increases           | Varies by entry age and service  |
| Payroll growth             | 3.00%  |
| Investment rate of return  | 7.50%, net of pension plan investment and administrative expenses, including inflation                           |
| Retirement age             | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Required Supplementary Information**  
**District OPEB Plan**  
**Schedule of Funding Progress**  
**For the Year Ended June 30, 2017**

**SCHEDULE OF FUNDING PROGRESS**

The Schedule of Funding Progress - Other Postemployment 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 three 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.

| <u>Actuarial<br/>Valuation<br/>Dates</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL<br/>as a % of<br/>Covered<br/>Payroll</u> |
|--|--|--|------------------------------------|-------------------------|----------------------------|---|
| 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%   |
| June 30, 2017                            | 50,962                                   | -  | 50,962                             | 0.0%                    | 797,489                    | 6.39%   |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2017**

|   | Original<br>Budget | Final<br>Budget   | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|-------------------|---------------------|---|
| <b>REVENUES</b>                                     |                    |                   |                     |   |
| Taxes and assessments                               | \$ 1,304,000       | \$ 1,348,000      | \$ 1,389,821        | \$ 41,821   |
| Use of money and property                           | 1,000              | 1,000             | 48,198              | 47,198  |
| Intergovernmental revenues                          | 249,000            | 283,000           | 337,543             | 54,543  |
| Other revenues                                      | 5,000              | 2,000             | 4,224               | 2,224   |
| <b>Total Revenues</b>                               | <u>1,559,000</u>   | <u>1,634,000</u>  | <u>1,779,786</u>    | <u>145,786</u>  |
| <b>EXPENDITURES</b>                                 |                    |                   |                     |   |
| Current public protection:                          |                    |                   |                     |   |
| Salaries and benefits                               | 1,086,000          | 1,103,000         | 1,193,662           | (90,662)  |
| Clothing and uniforms                               | 12,000             | 12,000            | 7,055               | 4,945   |
| Household   | 9,000              | 9,000             | 5,758               | 3,242   |
| Communications                                      | 11,000             | 11,000            | 11,723              | (723)   |
| Insurance   | 17,000             | 17,000            | 14,818              | 2,182   |
| Maintenance:  |                    |                   |                     |   |
| Equipment   | 20,000             | 20,000            | 10,259              | 9,741   |
| Structures and improvements                         | 29,000             | 29,000            | 18,014              | 10,986  |
| Automobiles   | 35,000             | 45,000            | 43,893              | 1,107   |
| Memberships   | 3,000              | 3,000             | 3,186               | (186)   |
| Medical supplies                                    | 5,000              | 5,000             | 6,702               | (1,702)   |
| Miscellaneous                                       | -                  | -                 | 5,496               | (5,496)   |
| Office Supplies                                     | 8,000              | 8,000             | 5,376               | 2,624   |
| Professional services                               | 59,000             | 48,000            | 49,413              | (1,413)   |
| Publications and notices                            | 7,000              | 7,000             | 4,973               | 2,027   |
| Small tools   | 7,000              | 7,000             | 4,628               | 2,372   |
| Special district expense                            | 86,000             | 86,000            | 59,130              | 26,870  |
| Travel  | 5,000              | 5,000             | 4,480               | 520   |
| Gasoline  | 20,000             | 20,000            | 10,994              | 9,006   |
| Utilities   | 13,000             | 13,000            | 9,633               | 3,367   |
| Rent  | 1,000              | 1,000             | 52                  | 948   |
| Contingencies                                       | 116,000            | 116,000           | -                   | 116,000   |
| Capital outlay                                      | 27,000             | 27,000            | -                   | 27,000  |
| <b>Total Expenditures</b>                           | <u>1,576,000</u>   | <u>1,592,000</u>  | <u>1,469,245</u>    | <u>122,755</u>  |
| <b>Excess of Revenues Over (Under) Expenditures</b> | <u>(17,000)</u>    | <u>42,000</u>     | <u>310,541</u>      | <u>268,541</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>               |                    |                   |                     |   |
| Proceeds from the sale of capital assets            | -                  | -                 | 2,380               | (2,380)   |
| Transfers out                                       | (428,000)          | (438,000)         | -                   | (438,000)   |
| <b>Total Other Financing Sources (Uses)</b>         | <u>(428,000)</u>   | <u>(438,000)</u>  | <u>2,380</u>        | <u>(440,380)</u>  |
| <b>Net Change in Fund Balances</b>                  | <u>(445,000)</u>   | <u>(396,000)</u>  | <u>312,921</u>      | <u>708,921</u>  |
| <b>Fund Balances - Beginning</b>                    | <u>920,162</u>     | <u>920,162</u>    | <u>920,162</u>      | <u>-</u>  |
| <b>Fund Balances - Ending</b>                       | <u>\$ 475,162</u>  | <u>\$ 524,162</u> | <u>\$ 1,233,083</u> | <u>\$ 708,921</u>                                       |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Budgetary Comparison Schedule**  
**Mitigation Fees - Major Special Revenue Fund**  
**For the Year Ended June 30, 2017**

|                                    | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|------------------------------------|----------------------------|-------------------------|-------------------|---|
| <b>REVENUES</b>                    |                            |                         |                   |   |
| Use of money and property          | \$ 3,000                   | \$ 3,000                | \$ 7,054          | \$ 4,054  |
| Charges for services               | 25,000                     | 25,000                  | 29,423            | 4,423   |
| <b>Total Revenues</b>              | <u>28,000</u>              | <u>28,000</u>           | <u>36,477</u>     | <u>8,477</u>  |
| <b>EXPENDITURES</b>                |                            |                         |                   |   |
| Current public protection:         |                            |                         |                   |   |
| Contingencies                      | 6,000                      | 6,000                   | -                 | 6,000   |
| Capital outlay                     | 32,000                     | 32,000                  | 7,989             | 24,011  |
| <b>Total Expenditures</b>          | <u>38,000</u>              | <u>38,000</u>           | <u>7,989</u>      | <u>30,011</u>   |
| <b>Net Change in Fund Balances</b> | (10,000)                   | (10,000)                | 28,488            | 38,488  |
| <b>Fund Balances - Beginning</b>   | 634,332                    | 634,332                 | 634,332           | -   |
| <b>Fund Balances - Ending</b>      | <u>\$ 624,332</u>          | <u>\$ 624,332</u>       | <u>\$ 662,820</u> | <u>\$ 38,488</u>  |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Required Supplementary Information**  
**Note to Budgetary Comparison Schedules**  
**For the Year Ended June 30, 2017**

**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 budget to actual results for all governmental funds except for the Capital Replacement fund. The amounts 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.

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## **OTHER REPORT AND SCHEDULES**

- **Other Report**
- **Schedule of Findings and Recommendations**
- **Schedule of Prior Year Findings and Recommendations**
- **Management's Corrective Action Plan**

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**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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2019.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and recommendations, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. (2017-001 and 2017-002)

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies. (2017-003, 2017-004 and 2017-005)

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 Responses to Findings**

The District's responses to the findings identified in our audit are described in the accompanying management's corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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  
December 6, 2019

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Schedule of Findings and Recommendations**  
**For the Year Ended June 30, 2017**

**2017-001 Year-End Closing Process (Material Weakness)**

**Condition**

At the time of our audit fieldwork, we noted the financial statements as presented to us for audit contained material 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. We also noted that the District had not calculated the balances of buildings and improvements, and current year depreciation and accumulated depreciation. This is a repeat of prior year finding 2016-001.

**Cause**

The District did not 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 material misstatements and required adjustment.

**Recommendation**

We recommend that the District record all adjustments prior to the start of the annual audit.

**2017-002 Deposits (Material Weakness)**

**Condition**

During fieldwork on August 12, 2019, we noted that the District did not deposit checks in the amount of \$165,354 dating back to March 2017, in a timely manner.

**Cause**

The District was not depositing monies received in a timely manner.

**Criteria**

Good internal control requires that monies collected be deposited in the County Treasury in a timely manner.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Schedule of Findings and Recommendations**  
**For the Year Ended June 30, 2017**

**2017-002 Deposits (Material Weakness) (Continued)**

**Effect of Condition**

Due from other governments and intergovernmental revenues were understated and required adjustment.

**Recommendation**

We recommend that the District review the amounts due from other governments and revenues received for accuracy and ensure that deposits are made in a timely manner.

**2017-003 Cash Disbursements Test (Significant Deficiency)**

**Condition**

During fieldwork we noted that the District was missing invoices for 3 of the 25 items selected for testing.

**Cause**

The District did not provide adequate supporting documentation to verify payment.

**Criteria**

Good internal control requires that all payments have proper supporting documentation.

**Effect of Condition**

The District does not have adequate supporting documentation for verification and accuracy of payments.

**Recommendation**

We recommend that the District maintain adequate documentation to support payments.

**2017-004 Cash Receipts (Significant Deficiency)**

**Condition**

At the time of our fieldwork 9 of the 25 mitigation receipts were not available to audit.

**Cause**

There was a change in staff and records could not be found.

**Criteria**

The District is required to retain records for a period of time.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Schedule of Findings and Recommendations**  
**For the Year Ended June 30, 2017**

**2017-004 Cash Receipts (Significant Deficiency) (Continued)**

**Effect of Condition**

Records were not available to substantiate that the correct mitigation fee was calculated.

**Recommendation**

We recommend that the District continue to locate all records.

**2017-005 Payroll Tax Withholdings (Significant Deficiency)**

**Condition**

During our testing of payroll transactions, we noted that federal and state withholding for three of the five employees selected did not agree to the employee authorized W-4 and DE 4 forms.

**Cause**

The District did not verify amounts authorized on the employee W-4 and DE 4 forms were correctly entered into the system.

**Criteria**

Employee payroll tax withholdings should agree with the amount authorized on the employee completed W-4 and form DE 4.

**Effect of Condition**

The District is withholding the incorrect federal and state income taxes for three employees.

**Recommendation**

We recommend that the District perform controls to verify that payroll information entered into the payroll program is accurate.

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Schedule of Prior Year Findings and Recommendations**  
**For the Year Ended June 30, 2017**

| <u>Audit Reference</u> | <u>Status of Prior Year Audit Recommendation</u>   |
|------------------------|--|
| 2016-001               | <p><b>Year-End Closing Process</b></p> <p><b>Recommendation</b></p> <p>We recommend that the District record all adjustments prior to the start of the annual audit.</p> <p><b>Status</b></p> <p>Not Implemented</p> |

**HIGGINS AREA FIRE PROTECTION DISTRICT**  
**Management's Corrective Action Plan**  
**For the Year Ended June 30, 2017**

**Finding 2017-001    Year-End Closing Process (Material Weakness)**

We recommend that the District record all adjustments prior to the start of the annual audit.

Responsible Individual:            Not applicable

Corrective Action Plan:            Do not feel this condition is warranted. There were some adjustments, but the majority of the accounts were reconciled and did not require adjustment.

Anticipated Completion Date:    Not applicable

**Finding 2017-002    Deposits (Material Weakness)**

We recommend that the District review the amounts due from other governments and revenues received for accuracy and ensure that deposits are made in a timely manner.

Responsible Individual:            Administrative staff at Station 21

Corrective Action Plan:            New administrative staff have been hired and instructed.

Anticipated Completion Date:    Completed

**Finding 2017-003    Cash Disbursements Test (Significant Deficiency)**

We recommend that the District maintain adequate documentation to support payments.

Responsible Individual:            Administrative staff at Station 21

Corrective Action Plan:            New administrative staff have been hired and instructed.

Anticipated Completion Date:    Completed

**Finding 2017-004    Cash Receipts (Significant Deficiency)**

We recommend that the District continue to locate all records.

Responsible Individual:            Administrative staff at Station 21

Corrective Action Plan:            New administrative staff have been hired and instructed.

Anticipated Completion Date:    Completed

**HIGGINS AREA FIRE PROTECTION DISTRICT  
Management's Corrective Action Plan  
For the Year Ended June 30, 2017**

**Finding 2017-005    Payroll Withholdings (Significant Deficiency)**

We recommend that the District perform controls to verify that payroll information entered into the payroll program is accurate.

Responsible Individual:            Accountant

Corrective Action Plan:            Payroll has been outsourced to another agency.

Anticipated Completion Date:    Completed