

**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   | <u>13,796</u>    |
| 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:

| <u>Fiscal Year</u><br><u>Ended</u> | <u>Annual</u><br><u>OPEB Cost</u> | <u>Actual</u><br><u>Contribution</u> | <u>Percentage of</u><br><u>Annual OPEB</u><br><u>Cost Contribution</u> | <u>Net OPEB</u><br><u>Liability/</u><br><u>(Asset)</u> |
|------------------------------------|-----------------------------------|--------------------------------------|--|--|
| 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