

**HIGGINS AREA FIRE
PROTECTION DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2018**

THIS PAGE INTENTIONALLY LEFT BLANK

**HIGGINS AREA FIRE PROTECTION DISTRICT
Annual Financial Report
For the Year Ended June 30, 2018**

Table of Contents

	Page
INTRODUCTORY SECTION	
List of Officials	i
FINANCIAL SECTION	
Independent Auditor’s Report.....	1-3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	4
Statement of Activities.....	5
Fund Financial Statements:	
Balance Sheet.....	6
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position – Governmental Activities.....	7
Statement of Revenues, Expenditures and Changes in Fund Balances.....	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities.....	9
Notes to Basic Financial Statements.....	10-29
Required Supplementary Information (Unaudited):	
District Pension Plan – Schedule of Proportionate Share of the Net Pension Liability.....	30
District Pension Plan – Schedule of Contributions.....	31
District Pension Plan – Notes to District Pension Plan.....	32
District OPEB Plan – Schedule of Changes in the Net OPEB Liability and Related Ratios.....	33
District OPEB Plan – Note to District OPEB Plan.....	34
Budgetary Comparison Schedule – General Fund.....	35
Budgetary Comparison Schedule – Mitigation Fees – Major Special Revenue Fund.....	36
Note to Budgetary Comparison Schedules.....	37
OTHER REPORT AND SCHEDULES	
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	38-39
Schedule of Findings and Recommendations	40-41
Schedule of Prior Year Findings and Recommendations.....	42-43
Management’s Corrective Action Plan	44

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION

- **List of Officials**

THIS PAGE INTENTIONALLY LEFT BLANK

HIGGINS AREA FIRE PROTECTION DISTRICT

List of Officials

For the Year Ended June 30, 2018

Board of Directors

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

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

- **Independent Auditor's Report**
- **Basic Financial Statements**
- **Required Supplementary Information**

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2018, 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.

Emphasis of Matter

As more fully described in Note 11A to the financial statements, subsequent to June 30, 2018 citizens and the economies of the United States and other countries have been significantly impacted by the coronavirus (COVID-19) pandemic. While it is premature to accurately predict how the coronavirus will ultimately affect the District's operations because the disease's severity and duration are uncertain, we expect the 2020 financial results too will be significantly impacted and the implications beyond 2020, while unclear, could also be adversely impacted. Our opinion is not modified with respect to this matter and no pandemic implications are accounted for in these financial statements.

Change in Accounting Principle

As discussed in Note 1Q to the financial statements, in 2017-18, the District adopted new accounting guidance, GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

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.

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

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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 31, 2020, 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
May 31, 2020

THIS PAGE INTENTIONALLY LEFT BLANK

Basic Financial Statements

- **Government-Wide Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

HIGGINS AREA FIRE PROTECTION DISTRICT
Statement of Net Position
June 30, 2018

	<u>Total Governmental Activities</u>
ASSETS	
Cash and investments	\$ 2,677,604
Receivables:	
Accounts	218
Taxes	36
Intergovernmental	40,438
Prepaid costs	4,979
Capital assets:	
Non-depreciable	862,775
Depreciable, net	767,878
Total capital assets	<u>1,630,653</u>
Total Assets	<u>4,353,928</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension adjustments	<u>432,439</u>
Total Deferred Outflows of Resources	<u>432,439</u>
 LIABILITIES	
Accounts payable	8,328
Accrued salaries and benefits	20,585
Long-term liabilities:	
Due within one year	27,806
Due in more than one year	28,285
Net pension liability	1,197,942
Net OPEB liability	54,460
Total Liabilities	<u>1,337,406</u>
 DEFERRED INFLOWS OF RESOURCES	
Pension adjustments	<u>55,461</u>
Total Deferred Inflows of Resources	<u>55,461</u>
 NET POSITION	
Investment in capital assets	1,630,653
Restricted for public protection	656,201
Unrestricted	1,106,646
Total Net Position	<u>\$ 3,393,500</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, 2018

<u>Functions/Programs:</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Public protection	\$ 1,886,992	\$ 144,090	\$ 440,212	\$ -	\$ (1,302,690)
Total Governmental Activities	1,886,992	144,090	440,212	-	(1,302,690)
Total	\$ 1,886,992	\$ 144,090	\$ 440,212	\$ -	(1,302,690)
General revenues:					
Taxes:					
Property taxes					1,364,983
Interest and investment earnings					71,306
Miscellaneous					2,700
Total General Revenues					1,438,989
Change in Net Position					136,299
Net Position - Beginning					3,289,397
Prior period adjustment					(32,196)
Net Position - Beginning, Restated					3,257,201
Net Position - Ending					\$ 3,393,500

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

Basic Financial Statements

- **Fund Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

HIGGINS AREA FIRE PROTECTION DISTRICT
Balance Sheet
Governmental Funds
June 30, 2018

	<u>General</u>	<u>Mitigation Fees</u>	<u>Capital Replacement</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 1,572,260	\$ 656,201	\$ 449,143	\$ 2,677,604
Receivables:				
Accounts	218	-	-	218
Taxes	36	-	-	36
Intergovernmental	40,438	-	-	40,438
Prepaid costs	4,979	-	-	4,979
Total Assets	<u>\$ 1,617,931</u>	<u>\$ 656,201</u>	<u>\$ 449,143</u>	<u>\$ 2,723,275</u>
LIABILITIES				
Accounts payable	\$ 6,941	\$ -	\$ 1,387	\$ 8,328
Accrued salaries and benefits	20,585	-	-	20,585
Total Liabilities	<u>27,526</u>	<u>-</u>	<u>1,387</u>	<u>28,913</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	32,294	-	-	32,294
Total Deferred Inflows of Resources	<u>32,294</u>	<u>-</u>	<u>-</u>	<u>32,294</u>
FUND BALANCES				
Nonspendable	4,979	-	-	4,979
Restricted	-	656,201	-	656,201
Committed	-	-	447,756	447,756
Unassigned	1,553,132	-	-	1,553,132
Total Fund Balances	<u>1,558,111</u>	<u>656,201</u>	<u>447,756</u>	<u>2,662,068</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,617,931</u>	<u>\$ 656,201</u>	<u>\$ 449,143</u>	<u>\$ 2,723,275</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, 2018

Total Fund Balances - Total Governmental Funds	\$ 2,662,068
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.	1,630,653
Deferred outflows of resources related to pension are not reported in the governmental funds.	432,439
Deferred inflows of resources related to pension are not reported in the governmental funds.	(55,461)
Other long term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenues in the governmental funds.	32,294
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences	(56,091)
Net pension liability	(1,197,942)
Net OPEB liability	(54,460)

Net Position of Governmental Activities	\$ 3,393,500

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, 2018

	General	Mitigation Fees	Capital Replacement	Totals
REVENUES				
Taxes and assessments	\$ 1,485,838	\$ -	\$ -	\$ 1,485,838
Use of money and property	56,029	9,633	5,644	71,306
Intergovernmental revenues	426,412	-	-	426,412
Charges for services	-	23,235	-	23,235
Other revenues	2,700	-	-	2,700
Total Revenues	1,970,979	32,868	5,644	2,009,491
EXPENDITURES				
Current public protection:				
Salaries and benefits	1,203,885	-	-	1,203,885
Clothing and uniforms	12,809	-	-	12,809
Household	7,271	-	-	7,271
Communications	12,286	-	-	12,286
Insurance	14,854	-	-	14,854
Maintenance:				
Equipment	16,634	-	-	16,634
Structures and improvements	4,843	-	13,083	17,926
Automobiles	47,719	-	-	47,719
Memberships	3,487	-	-	3,487
Medical supplies	3,130	-	-	3,130
Miscellaneous	19,309	-	-	19,309
Office supplies	1,338	-	-	1,338
Professional services	50,165	-	-	50,165
Publications and notices	2,008	-	-	2,008
Small tools	15,973	-	-	15,973
Special district expense	139,645	-	-	139,645
Travel	5,304	-	-	5,304
Gasoline	17,812	-	-	17,812
Utilities	7,479	-	-	7,479
Capital outlay	-	39,487	47,356	86,843
Total Expenditures	1,585,951	39,487	60,439	1,685,877
Excess of Revenues Over (Under) Expenditures	385,028	(6,619)	(54,795)	323,614
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	60,000	60,000
Transfers out	(60,000)	-	-	(60,000)
Total Other Financing Sources (Uses)	(60,000)	-	60,000	-
Net Change in Fund Balances	325,028	(6,619)	5,205	323,614
Fund Balances - Beginning	1,233,083	662,820	442,551	2,338,454
Fund Balances - Ending	\$ 1,558,111	\$ 656,201	\$ 447,756	\$ 2,662,068

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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 323,614
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for capital outlay	86,843
Less current year depreciation	(88,499)
Various adjustments	1,674
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the net cost of the capital assets disposed. There were no significant proceeds from the sale of capital assets.	
	(2,938)
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	(1,103)
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	(21,017)
Change in deferred inflows of resources related to pension	30,852
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	(10,819)
Change in net pension liability	(178,810)
Change in net OPEB liability	(3,498)
Change in Net Position of Governmental Activities	\$ 136,299

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

Basic Financial Statements

- **Notes to Basic Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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 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, CA 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, 2018.

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

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Fund Financial Statements

Fund financial statements of the District are organized into three funds, each of which is considered to be a separate accounting entity. 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 60 days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources

D. Non-Current Governmental Assets/Liabilities

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

HIGGINS AREA FIRE PROTECTION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments

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

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on the amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter based on the participant's average daily cash balance at quarter end in relation to the total pool investments. This method differs from the fair value method used to value investments in these financial statements.

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, 2018, 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.

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

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

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.

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

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial 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 additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	June 30, 2017 to June 30, 2018

N. 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.

HIGGINS AREA FIRE PROTECTION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Outflows/Inflows of Resources (Continued)

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.

O. 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.

P. 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.

Q. 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. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

Statement No. 81, Irrevocable Split-Interest Agreements. This statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Statement No. 85, Omnibus 2017. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

Statement No. 86, Certain Debt Extinguishment Issues. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Future Accounting Pronouncements

The following GASB Statements will be implemented in future financial statements:

Statement No. 83 “Certain Asset Retirement Obligations”	The requirements of this statement are effective for periods beginning after June 15, 2018. (FY 18/19)
Statement No. 88 “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements”	The requirements of this statement are effective for periods beginning after June 15, 2018. (FY 18/19)

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Restatement of Net Position

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports these changes as restatements of beginning net position. During the current year, a prior period adjustment was made to reflect the prior period costs related to implementing the net OPEB liability as required by GASB Statement No. 75.

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

	<u>Governmental Activities</u>
Net Position, June 30, 2017, as previously reported	\$ 3,289,397
Adjustment associated with:	
Net OPEB Liability Adjustment	(32,196)
Total Adjustments	(32,196)
Net Position, July 1, 2017, as restated	<u>\$ 3,257,201</u>

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2018, the District’s cash and investments consisted of the following:

Cash:	
Deposits (less outstanding warrants)	<u>\$ 1,181</u>
Total Cash	<u>1,181</u>
Investments:	
Nevada County Treasurer’s Pool	<u>2,676,423</u>
Total Investments	<u>2,676,423</u>
Total Cash and Investments	<u>\$ 2,677,604</u>

HIGGINS AREA FIRE PROTECTION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

B. Cash

At year end, the carrying amount of the District's cash deposits (including amounts in a checking account) was \$1,181 and the bank balance was \$1,181.

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 (FDIC).

C. Investments

The District does not have a formal investment policy. At June 30, 2018, 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

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.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

At June 30, 2018, the District had the following recurring fair value measurements:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
None	\$ -	\$ -	\$ -	\$ -
Total Investments Measured at Fair Value	-	\$ -	\$ -	\$ -
Investments in External Investment Pool				
Nevada County Treasurer's Pool	<u>2,676,423</u>			
Total Investments	<u>\$ 2,676,423</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 nationally 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, 2018, 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 - 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.

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, 2018, all investments of the District were in the Nevada County investment pool which contains a diversification of investments.

HIGGINS AREA FIRE PROTECTION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2018

NOTE 4: CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Adjustments/ Retirements	Balance June 30, 2018
Capital Assets, Not Being Depreciated:				
Land	\$ 862,775	\$ -	\$ -	\$ 862,775
Total Capital Assets, Not Being Depreciated	862,775	-	-	862,775
Capital Assets, Being Depreciated:				
Buildings and improvements	662,179	-	-	662,179
Equipment	1,849,092	86,843	(43,033)	1,892,902
Total Capital Assets, Being Depreciated	2,511,271	86,843	(43,033)	2,555,081
Less Accumulated Depreciation For:				
Buildings and improvements	(405,309)	(20,814)	-	(426,123)
Equipment	(1,335,164)	(67,685)	41,769	(1,361,080)
Total Accumulated Depreciation	(1,740,473)	(88,499)	41,769	(1,787,203)
Total Capital Assets, Being Depreciated, Net	770,798	(1,656)	(1,264)	767,878
Total Capital Assets, Net	\$ 1,633,573	(\$ 1,656)	(\$ 1,264)	\$ 1,630,653

Depreciation

Depreciation expense was charged to governmental activities as follows:

Public Protection	\$ 88,499
Total Depreciation Expense – Governmental Activities	\$ 88,499

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

Type of Indebtedness	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Amounts Due Within One Year
Compensated Absences	\$ 45,272	\$ 27,965	(\$ 17,146)	\$ 56,091	\$ 27,806
Total	\$ 45,272	\$ 27,965	(\$ 17,146)	\$ 56,091	\$ 27,806

NOTE 6: NET POSITION

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

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 6: NET POSITION (CONTINUED)

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

Net Position Flow Assumption

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

NOTE 7: FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2018, fund balance for the 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.
- **Unassigned fund balance** - the residual classification for the District’s General fund that includes all amounts not contained in the other classifications.

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 7: FUND BALANCES (CONTINUED)

The fund balances for all governmental funds as of June 30, 2018, were distributed as follows:

	<u>General Fund</u>	<u>Mitigation Fees</u>	<u>Capital Replacement</u>	<u>Totals</u>
Nonspendable:				
Prepaid costs	\$ 4,979	\$ -	\$ -	\$ 4,979
Restricted for:				
Public protection	-	656,201	-	656,201
Committed to:				
Capital improvement	-	-	447,756	447,756
Unassigned	<u>1,553,132</u>	<u>-</u>	<u>-</u>	<u>1,553,132</u>
Total	<u>\$ 1,558,111</u>	<u>\$ 656,201</u>	<u>\$ 447,756</u>	<u>\$ 2,662,068</u>

Fund Balance Flow Assumption

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

Fund Balance Policy

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

NOTE 8: PENSION 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, 2018

NOTE 8: 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 (age 52 for Miscellaneous plan members if the membership date is on or after January 1, 2013) 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, 2018, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous	2.5% @ 55	50-55	2.000 to 2.500%
Miscellaneous PEPRA	2.0% @ 62	52-62	1.000 to 2.500%
Safety	2.0% @ 50	50	2.000 to 2.700%
Safety PEPRA	2.7% @ 57	50-57	2.000 to 2.700%

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8: 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 Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous	9.671%	8.000%	0.000%
Miscellaneous PEPRA	6.237%	6.250%	0.000%
Safety	13.813%	9.000%	0.000%
Safety PEPRA	11.153%	11.500%	0.000%

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

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

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 9,369	\$ -
Safety	94,728	-

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, 2017, 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, 2016 rolled forward to June 30, 2017 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 plan 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 (measurement dates) was as follows:

	<u>Proportion June 30, 2016</u>	<u>Proportion June 30, 2017</u>	<u>Change - Increase (Decrease)</u>
Miscellaneous	0.00388%	0.00380%	(.00008%)
Safety	0.01708%	0.01754%	.00046%

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8: PENSION PLAN (CONTINUED)

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

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

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 149,779
Safety	<u>1,048,163</u>
Total Net Pension Liability	<u>\$ 1,197,942</u>

For the year ended June 30, 2018, the District recognized pension expense of \$241,129. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 72,154	\$ -
Change in assumptions	210,247	(16,122)
Difference between expected and actual experience	13,337	(5,637)
Difference between projected and actual earnings on pension plan investments	45,997	-
Difference between District contributions and proportionate share of contributions.	24,886	(22,018)
Adjustments due to differences in proportions	<u>65,818</u>	<u>(11,684)</u>
Total	<u>\$ 432,439</u>	<u>(\$ 55,461)</u>

\$72,154 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, 2019. 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 Year Ended June 30</u>		
2019	\$	104,583
2020		140,285
2021		86,907
2022	(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, 2018

NOTE 8: 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, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
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, 2016 valuation were based on the results of a January 2017 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

In fiscal year 2017/18, the financial reporting discount rate was lowered from 7.65 percent to 7.15 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 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, 2018

NOTE 8: 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 of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 – 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
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% Decrease 6.15%</u>	<u>Discount Rate 7.15%</u>	<u>1% Increase 8.15%</u>
Miscellaneous	\$ 212,566	\$ 149,779	\$ 97,779
Safety	1,679,806	1,048,163	531,825

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 8: 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 9: 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 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

The District’s funding policy affects the calculation of liabilities by impacting the discount rate used to develop the plan liability and expense. “Prefunding” is the term used when an agency consistently contributes an amount based on an actuarially determined contribution (ADC) each year. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earnings on trust assets. Pay-as-you-go, or “PAYGO”, is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.

The District is currently financing its OPEB liability on a pay-as-you-go basis. With the District’s approval, the discount rate used in this valuation is based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index. As of the Beginning and end of the Measurement Period, use of this index results in discount rates of 3.53 percent as of June 30, 2017 and 3.87 percent as of June 30, 2018

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

C. Net OPEB Liability

Actuarial Assumptions and Other Inputs

All actuarial assumptions used in the June 30, 2018 valuation were based on the results of the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements.

D. Changes in the Net OPEB Liability

	Net OPEB Liability
Balance at June 30, 2017	\$ 50,962
Changes for the year:	
Services cost	2,901
Interest	1,901
Change of assumptions	(1,304)
Net changes	3,498
Balance at June 30, 2018	\$ 54,460

Changes of assumptions reflects a change in the discount rate from 3.53 percent as of June 30, 2017 to 3.87 percent as of June 30, 2018.

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB 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 discount rate:

	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
Net OPEB liability	\$ 58,388	\$ 54,460	\$ 50,803

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	Current Trend -1%	Current Trend	Current Trend +1%
Net OPEB Liability	\$ 48,834	\$ 54,460	\$ 61,149

HIGGINS AREA FIRE PROTECTION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

E. Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

A component of the simplified accounting approved by the District and its auditors is immediate recognition of any changes to the plan liability. Therefore, no deferred resources were established, nor will any be established in the future. The simplified accounting treatment provides for the District to recognize the Total OPEB Liability each year.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District 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 11: OTHER INFORMATION

A. Subsequent Events

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the District could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The District has not included any contingencies in the financial statements specific to this issue.

Management has evaluated events subsequent to June 30, 2018 through May 31, 2020, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**Required Supplementary Information
(Unaudited)**

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2018
Last 10 Years*

Measurement Date	2013/2014	2014/2015	2015/2016	2016/2017
Miscellaneous				
Proportion of the net pension liability	0.00164%	0.00170%	0.00156%	0.00170%
Proportionate share of the net pension liability	\$ 101,885	\$ 117,643	\$ 134,655	\$ 149,779
Covered payroll	51,183	40,884	41,054	45,690
Proportionate share of the net pension liability as a percentage of covered payroll	199.06%	287.75%	327.99%	327.82%
Plan fiduciary net position as a percentage of the total pension liability	73.70%	70.32%	67.41%	67.19%
Safety				
Proportion of the net pension liability	0.96600%	0.94000%	1.02000%	0.01210%
Proportionate share of the net pension liability	\$ 601,056	\$ 643,518	\$ 884,477	\$ 1,048,163
Covered payroll	649,219	751,921	789,977	603,757
Proportionate share of the net pension liability as a percentage of covered payroll	92.58%	85.58%	111.96%	173.61%
Plan fiduciary net position as a percentage of the total pension liability	0.82%	81.88%	77.35%	76.78%

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

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District Pension Plan
Schedule of Contributions
For the Year Ended June 30, 2018
Last 10 Years*

Fiscal Year	2014/2015	2015/2016	2016/2017	2017/2018
Miscellaneous				
Contractually required contribution (actuarially determined)	\$ 13,280	\$ 14,030	\$ 9,369	\$ 11,314
Contributions in relation to the actuarially determined contributions	<u>(13,280)</u>	<u>(14,030)</u>	<u>(9,369)</u>	<u>(11,314)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 51,183	\$ 40,884	\$ 41,054	\$ 45,690
Contributions as a percentage of covered payroll	25.95%	34.32%	22.82%	24.76%
Safety				
Contractually required contribution (actuarially determined)	\$ 110,313	\$ 133,996	\$ 94,728	\$ 40,441
Contributions in relation to the actuarially determined contributions	<u>(110,313)</u>	<u>(133,996)</u>	<u>(94,728)</u>	<u>(40,441)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 649,219	\$ 751,921	\$ 789,977	\$ 603,757
Contributions as a percentage of covered payroll	16.99%	17.82%	11.99%	6.70%

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

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District Pension Plan
Notes to District Pension Plan
For the Year Ended June 30, 2018

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

Change of assumptions: In 2017-18, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2015-16, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense).

NOTE 2: SCHEDULE OF CONTRIBUTIONS

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

Valuation Date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2015 Funding Valuation Report
Asset valuation method	Market Value
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 2014 CalPERS Experience Study for the period from 1997 to 2011

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2018
Last 10 Fiscal Years*

Fiscal Year	<u>2017/2018</u>
Total OPEB Liability	
Service cost	\$ 2,901
Interest	1,901
Changes of assumptions	<u>(1,304)</u>
Net Change in Total OPEB Liability	3,498
Total OPEB Liability - Beginning	<u>50,962</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 54,460</u></u>
Plan Fiduciary Net Position **	
Contributions - employer	\$ -
Net investment income	-
Benefit payments	<u>-</u>
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>
Net OPEB Liability (Asset) - Ending (a) - (b)	<u><u>\$ -</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered payroll	\$ 574,544
Net OPEB liability (asset) as a percentage of covered payroll	9.48%

* The District implemented GASB 75 for the fiscal year June 30, 2018, therefore only one year is shown.

** The District's OPEB plan is not pre-funded, therefore there is no Plan Fiduciary Net Position.

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
District OPEB Plan
Note to District OPEB Plan
For the Year Ended June 30, 2018

NOTE 1: SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Change of Assumptions

The discount rate was changed from to 3.53 percent as of June 30, 2017 to 3.87 percent as of June 30, 2018.

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	\$ 1,459,000	\$ 1,492,000	\$ 1,485,838	\$ (6,162)
Use of money and property	3,000	8,000	56,029	48,029
Intergovernmental revenues	119,000	367,000	426,412	59,412
Other revenues	2,000	4,000	2,700	(1,300)
Total Revenues	<u>1,583,000</u>	<u>1,871,000</u>	<u>1,970,979</u>	<u>99,979</u>
EXPENDITURES				
Current public protection:				
Salaries and benefits	1,120,000	1,252,000	1,203,885	48,115
Clothing and uniforms	10,000	10,000	12,809	(2,809)
Household	7,000	10,000	7,271	2,729
Communications	13,000	13,000	12,286	714
Insurance	17,000	15,000	14,854	146
Maintenance:				
Equipment	18,000	18,000	16,634	1,366
Structures and improvements	29,000	29,000	4,843	24,157
Automobiles	50,000	50,000	47,719	2,281
Memberships	3,000	3,000	3,487	(487)
Medical supplies	6,000	6,000	3,130	2,870
Miscellaneous	-	-	19,309	(19,309)
Office Supplies	8,000	8,000	1,338	6,662
Professional services	58,000	63,000	50,165	12,835
Publications and notices	7,000	7,000	2,008	4,992
Small tools	8,000	14,000	15,973	(1,973)
Special district expense	309,000	310,000	139,645	170,355
Travel	5,000	6,000	5,304	696
Gasoline	15,000	15,000	17,812	(2,812)
Utilities	11,000	11,000	7,479	3,521
Rent	3,000	3,000	-	3,000
Contingencies	606,000	734,000	-	734,000
Capital outlay	30,000	44,000	-	44,000
Total Expenditures	<u>2,333,000</u>	<u>2,621,000</u>	<u>1,585,951</u>	<u>1,035,049</u>
Excess of Revenues Over (Under) Expenditures	<u>(750,000)</u>	<u>(750,000)</u>	<u>385,028</u>	<u>1,135,028</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(60,000)	60,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(60,000)</u>	<u>60,000</u>
Net Change in Fund Balances	<u>(750,000)</u>	<u>(750,000)</u>	<u>325,028</u>	<u>1,075,028</u>
Fund Balances - Beginning	<u>1,233,083</u>	<u>1,233,083</u>	<u>1,233,083</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 483,083</u>	<u>\$ 483,083</u>	<u>\$ 1,558,111</u>	<u>\$ 1,075,028</u>

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Mitigation Fees - Major Special Revenue Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ 4,000	\$ 6,000	\$ 9,633	\$ 3,633
Charges for services	20,000	24,000	23,235	(765)
Total Revenues	<u>24,000</u>	<u>30,000</u>	<u>32,868</u>	<u>2,868</u>
EXPENDITURES				
Current public protection:				
Contingencies	623,000	623,000	-	623,000
Capital outlay	49,000	55,000	39,487	15,513
Total Expenditures	<u>672,000</u>	<u>678,000</u>	<u>39,487</u>	<u>638,513</u>
Net Change in Fund Balances	(648,000)	(648,000)	(6,619)	641,381
Fund Balances - Beginning	<u>662,820</u>	<u>662,820</u>	<u>662,820</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 14,820</u>	<u>\$ 14,820</u>	<u>\$ 656,201</u>	<u>\$ 641,381</u>

HIGGINS AREA FIRE PROTECTION DISTRICT
Required Supplementary Information
Note to Budgetary Comparison Schedules
For the Year Ended June 30, 2018

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.

OTHER REPORT AND SCHEDULES

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

THIS PAGE INTENTIONALLY LEFT BLANK

**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 Higgins Area Fire Protection District, California (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies. (2018-001 and 2018-002)

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
May 31, 2020

HIGGINS AREA FIRE PROTECTION DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2018

2018-001 Cash Receipts (Significant Deficiency)

Criteria

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

Condition

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

Cause

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

Effect

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

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

We randomly selected 25 cash receipt transactions to verify the accuracy and validity of the amounts received. Sampling was a statistically valid sample.

Repeat Finding

This is a repeat of prior year finding 2017-004.

Recommendation

We recommend that the District continue to locate all records.

View of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

2018-002 Payroll (Significant Deficiency)

Criteria

Good internal control over payroll requires that employee payroll tax withholdings agree with the amount authorized on the employee completed W-4, as well as adequate supporting documentation of approved payrates.

HIGGINS AREA FIRE PROTECTION DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2018

2018-002 Payroll (Significant Deficiency) (Continued)

Condition

During fieldwork, we noted that state withholding amounts did not agree for three of the five employees selected to amounts authorized by the signed employee W-4. We also noted that one employee form W-4 and approved payrate documentation was missing.

Cause

The District did not verify amounts authorized on the employee W-4 and DE-4 forms were correctly entered into the payroll system or that all supporting documentation was on file.

Effect

The District is withholding the incorrect amount of state income tax for three employees and missing supporting documentation as well as form W-4 for one employee.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

We randomly selected five payroll transactions to test tax withholding compliance with payroll laws and regulations and that all supporting documentation was on file. Sampling was a statistically valid sample.

Repeat Finding

This is a repeat of prior year finding 2017-005.

Recommendation

We recommend that the District perform controls to verify that payroll information entered into the system is accurate and supporting documentation is on file.

View of Responsible Officials and Planned Corrective Action

Refer to separate Management's Corrective Action Plan for views of responsible officials and management's responses.

HIGGINS AREA FIRE PROTECTION DISTRICT
Schedule of Prior Year Findings and Recommendations
For the Year Ended June 30, 2018

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendations</u>
2017-001	Year-End Closing Process Recommendation We recommend that the District record all adjustments prior to the start of the annual audit. Status Implemented
2017-002	Deposits 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. Status Implemented
2017-003	Cash Disbursements Test Recommendation We recommend that the District maintain adequate documentation to support payments. Status Implemented
2017-004	Cash Receipts Recommendation We recommend that the District continue to locate all records. Status Not Implemented

HIGGINS AREA FIRE PROTECTION DISTRICT
Schedule of Prior Year Findings and Recommendations
For the Year Ended June 30, 2018

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendations</u>
2017-005	<p>Payroll Tax Withholding</p> <p>Recommendation</p> <p>We recommend that the District perform controls to verify that payroll information entered into the payroll program is accurate.</p> <p>Status</p> <p>Not Implemented</p>

HIGGINS AREA FIRE PROTECTION DISTRICT
Management's Corrective Action Plan
For the Year Ended June 30, 2018

Finding 2018-001 Cash Receipts (Significant Deficiency)

We recommend that the District continue to locate all records.

Management's Response: The District concurs with the finding.

Responsible Individual: Jerry Good, Fire Chief

Corrective Action Plan: We have generally changed our practices in filing and control of mitigation fees & forms to correct this action. We have also secured storage to accommodate the system-wide deficiency. Our Administrative Assistant will be in charge of initial filing, with the Fire Chief overseer. Secondary check will be through our contract with Nevada County Consolidated Fire account section. Previous employee has left our employment.

Anticipated Completion Date: As soon as possible

Finding 2018-002 Payroll (Significant Deficiency)

We recommend that the District perform controls to verify that payroll information entered into the system is accurate and supporting documentation is on file.

Management's Response: The District concurs with the finding.

Responsible Individual: Jerry Good, Fire Chief

Corrective Action Plan: We have generally changed our practices in filing and control of checkoff sheets to ensure all information will be accounted for and properly filed. We have also secured storage to accommodate the system-wide deficiency. Our Administrative Assistant will be in charge of initial filing, with the Fire Chief overseer. Secondary check will be through our contract with Nevada County Consolidated Fire account section. Previous employee has left our employment.

Anticipated Completion Date: As soon as possible

THIS PAGE INTENTIONALLY LEFT BLANK