

**MONTECITO FIRE
PROTECTION DISTRICT**

**ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT THEREON
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

MONTECITO FIRE PROTECTION DISTRICT

Annual Financial Report
For the Fiscal Year Ended June 30, 2015

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Craig R. Fechter, CPA, MST
Scott A. German, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Montecito Fire Protection District
Santa Barbara, California

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Opinion

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

To the Board of Directors
of the Montecito Fire Protection District
Santa Barbara, California

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, post-employment benefits, budgetary comparison, and pension information on pages 3-9 and 33-36, respectively, 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.

Implementation of New Accounting Standards

As disclosed in Note 1 to the financial statements, the Montecito Fire Protection District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year ended June 30, 2015.

Fechter & Company,
Certified Public Accountants

A large, stylized handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written over the printed name of the firm.

Sacramento, California
November 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to provide an overview of the District's financial condition and to highlight important changes and activities with fiscal implications that occurred during the year ended June 30, 2015. Please read it in conjunction with the District's basic financial statements and required supplementary information, which follow this section.

Discussion of Basic Financial Statements

This discussion and analysis provides an introduction and a brief discussion of the District's basic financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. Special purpose governments engaged in a single government program can combine the fund financial statements and the government-wide statements using a columnar format. This format reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements rather than at the bottom of the statements or in an accompanying schedule.

The District's financial statements include three components:

1. Statement of Net Position and Governmental Funds Balance Sheet
2. Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances
3. Notes to the Basic Financial Statements

The Statement of Net Position and Governmental Funds Balance Sheet provides the basis for evaluating the District's capital structure, liquidity, and financial flexibility. The Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances presents information that shows how the District's fund balances and net position changed during the year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The Notes to the Basic Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements. In addition to the basic financial statements, this report also presents other required supplementary information.

MONTECITO FIRE PROTECTION DISTRICT

Management’s Discussion and Analysis (Unaudited)
June 30, 2015

Government-wide Financial Analysis

In accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), the following is an analysis of the District’s net position and changes in net position.

Table 1 – Montecito Fire Protection District Net Position

| | <u>2015</u> | <u>2014</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|-------------------------------|----------------------|----------------------|--------------------------|---------------------------|
| Assets: | | | | |
| Current and other assets | \$ 17,151,241 | \$ 14,662,925 | \$ 2,488,316 | 17.0% |
| Capital assets | 9,890,312 | 10,097,646 | (207,334) | -2.0% |
| Total assets | <u>\$ 27,041,553</u> | <u>\$ 24,760,571</u> | <u>\$ 2,280,982</u> | 9.2% |
| Liabilities: | | | | |
| Current and other liabilities | \$ 4,948,676 | \$ 1,140,958 | \$ (3,807,718) | -334% |
| Long-term liabilities | 15,087,582 | 2,654,759 | (12,432,823) | -468% |
| Total liabilities | <u>20,036,258</u> | <u>3,795,717</u> | <u>(16,240,541)</u> | -428% |
| Net Position: | | | | |
| Invested in capital assets | 9,890,312 | 10,097,646 | (207,334) | -2.7% |
| Unrestricted | (2,885,017) | 10,867,208 | (13,752,225) | -127% |
| Total net position | <u>\$ 7,005,295</u> | <u>\$ 20,964,854</u> | <u>\$ (13,959,559)</u> | |

Total assets increased \$2,280,982, or 9.2%, when compared to the prior year. The change in current and other assets is primarily a result of an increase in cash and investments of \$529,163 and a deferred outflow of resources of \$1,192,280. The decrease in capital assets is due to the disposal of three vehicles: medical squad, ambulance and staff response vehicle.

Total liabilities increased by \$16,240,541, or 428%. This is attributed to the implementation of GASB Statement No. 68, requiring the reporting of net pension liability of \$13,163,696 and deferred inflows of resources of \$3,850,262.

Net position over time is a useful indicator of a government’s financial position. For Montecito Fire Protection District, assets exceed liabilities by \$7,005,295 at the close of the current fiscal year. The decrease of \$13,959,559 when compared to the prior year, is the amount by which fund expenditures (including a prior period adjustment) exceed revenues in the current fiscal year (See Page 5, Table 2).

Investment in capital assets (land, buildings, vehicles and equipment) amounts to \$9,890,312 at June 30, 2015, which is a decrease of \$207,334, or -2.7%, when compared to the prior year. The District uses capital assets to provide services to citizens; as such, these assets are not available for future spending. The District does not currently have any outstanding debt related to its capital assets.

The District has an unrestricted net position, in the amount of -\$2,885,017. This is a decrease of \$13,752,225, or 127%, when compared to prior year, due to the required pension liability reporting.

MONTECITO FIRE PROTECTION DISTRICT

Management’s Discussion and Analysis (Unaudited)
June 30, 2015

Table 2 – Montecito Fire Protection District Change in Net Position

| | <u>2015</u> | <u>2014</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|-----------------------------|----------------------|----------------------|--------------------------|---------------------------|
| Revenues: | | | | |
| Property taxes | \$ 14,746,643 | \$ 14,112,264 | \$ 634,379 | 4.5% |
| Investment income | 67,411 | 98,161 | (30,750) | -31.3% |
| Rental income | 49,486 | 48,864 | 622 | 1.3% |
| Intergovernmental | 962,912 | 594,284 | 368,628 | 62.0% |
| Miscellaneous | 706 | 74,099 | (73,393) | -99.0% |
| Total revenues | <u>\$ 15,827,158</u> | <u>\$ 14,927,672</u> | <u>\$ 899,486</u> | 6.0% |
| Expenses: | | | | |
| Salaries and benefits | 11,665,828 | 11,684,007 | 18,179 | 0.2% |
| Services and supplies | 1,302,207 | 1,353,086 | 50,879 | 3.8% |
| Other expenditures/Interest | 80,725 | 99,120 | 18,395 | 18.6% |
| Depreciation | 419,545 | 412,916 | (6,629) | -1.6% |
| Total expenses | <u>13,468,305</u> | <u>13,549,129</u> | <u>80,824</u> | 0.6% |
| Change in net position | 2,358,853 | 1,378,543 | 980,310 | |
| Net Position – Beginning | <u>20,964,854</u> | <u>19,586,311</u> | <u>1,378,543</u> | |
| Prior Period Adjustment | <u>(16,318,412)</u> | <u>-</u> | <u>(16,318,412)</u> | |
| Net Position – Ending | <u>\$ 7,005,295</u> | <u>\$ 20,964,854</u> | <u>\$ (13,959,559)</u> | |

The District’s total revenues increased by \$899,846, or 6.0%, in the current fiscal year. The total increase is primarily attributed to the following factors:

- Property tax revenue increased by \$634,379, or 4.5%, primarily due to property value appreciation and increased construction within the District.
- Intergovernmental revenue increased by \$368,628, or 62.0%, due to more reimbursable fire activity than in the prior year.
- Miscellaneous revenue decreased due to the scheduled disposal of vehicles that weren’t fully depreciated, resulting in a loss on sale of assets of \$31,615.
- The decrease in investment income is primarily due to fair value adjustments that are recorded by the County of Santa Barbara.

The District’s total expenses decreased by \$80,824, or 0.6%, in the current fiscal year. The total change is primarily due to a decrease in Services and Supplies expense of \$50,879, or 3.8%.

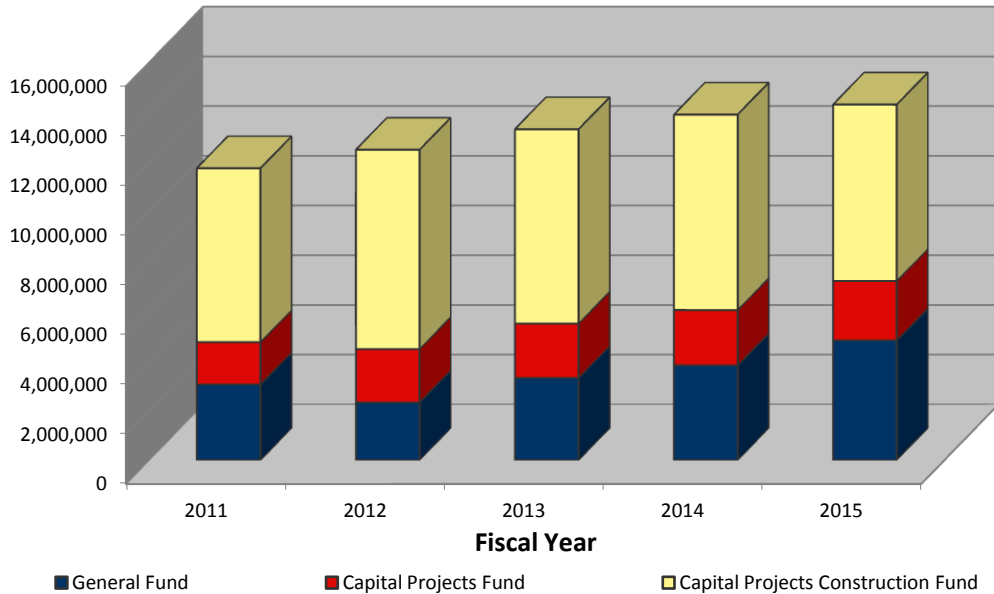
MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2015

Analysis of Fund Balances of Individual Funds

The chart below displays the fiscal year end (2011 to 2015) fund balances for the District's General Fund, Capital Projects Fund, and Capital Projects Construction Fund.

Fund Balances – 5 Year Trend



Total fund balance has increased each year over the five years from fiscal year 2011 to 2015. The General Fund balance includes \$1,200,000 committed to contingencies. The District established the Mello-Roos Fund in the fiscal year ended 2011, and was closed in December of 2014. The fund balance was \$0 and \$9,525 at June 30, 2015 and June 30, 2014, respectively. The Pension Obligation Fund was established in the fiscal year ended 2012. The fund balance was \$180 and \$347 at June 30, 2015 and June 30, 2014, respectively.

Analysis of Revenues, Expenditures, and Fund Balance for Combined Governmental Funds

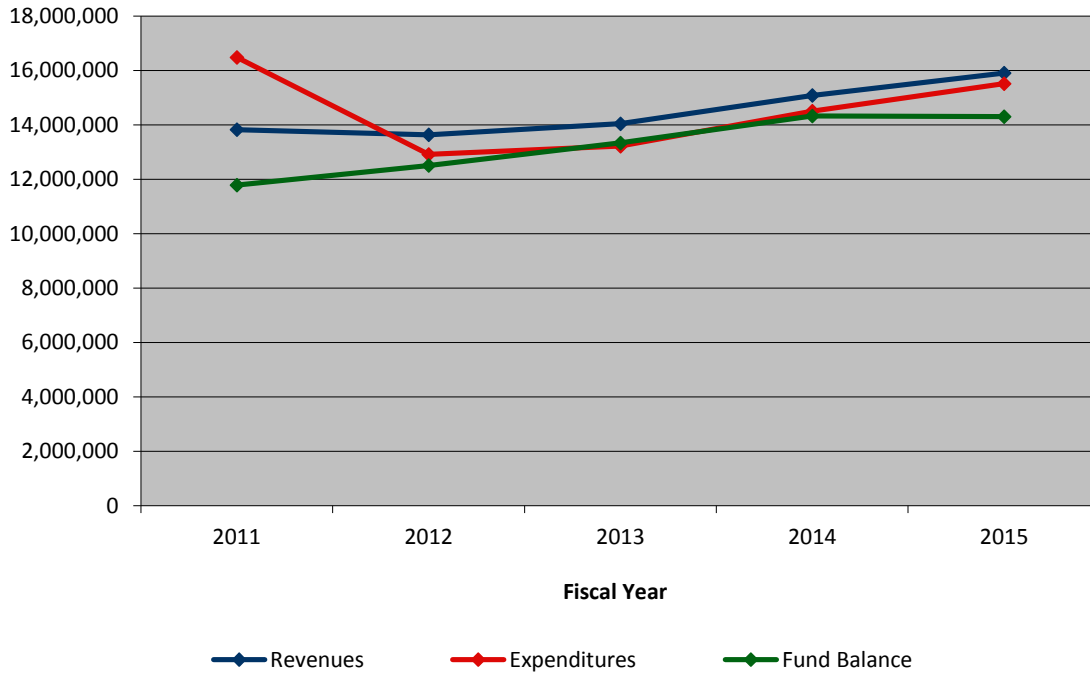
The following chart displays the District's revenues, expenditures, and ending "Memorandum Only" fund balance totals for the same five-year period. With the exception of the fiscal year ended 2011, when the District recorded a one-time expenditure related to the issuance of the Pension Obligation Bonds, revenue has exceeded expenditures and fund balance has steadily increased.

After slight decreases in revenue from \$13.9 million in the fiscal year ended 2011 to \$13.6 million in the fiscal year ended 2012, revenue has steadily increased to \$15.9 million this fiscal year. Total combined expenditures have increased each fiscal year.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2015

Revenues, Expenditures & Fund Balance - 5 Year Trend



Analysis of Significant Variations Between Original and Final Budget and Actual Results for the General Fund

The Board of Directors adopted the District's 2014-15 fiscal year operating budget in September of 2014 on a modified accrual basis. As adopted for the General Fund, budgeted revenues totaled \$15,794,439, while projected expenditures totaled \$14,592,630 and operating transfers to the Capital Projects Fund and Pension Obligation Fund totaled \$1,101,529, resulting in projected balanced spending.

The District formally amended its originally adopted budget in May of 2015. As amended for the General Fund, revised budgeted revenues increased by \$676,532 to \$16,470,971 while projected expenditures increased by \$676,532 to \$15,269,162, and operating transfers remained unchanged at \$1,101,529. The revised budget had no net effect on fund balance due to the increase in budgeted revenues matching the increase in budgeted expenditures.

Actual revenues for the year were \$214,487 higher and actual expenditures were \$759,761 lower than the final amended budget on a modified accrual basis. Refer to the required supplementary information on page 33 for the Budget Comparison Schedule.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)
June 30, 2015

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$10,097,646 (net of accumulated depreciation). This investment in capital assets includes land, a land easement, construction in progress, structures, improvements, and equipment.

Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

Table 3 – Montecito Fire Protection District Capital Assets

| | 2015 | 2014 | Dollar Change | Percent Change |
|-----------------------------------|--------------|---------------|------------------|-------------------|
| Land | \$ 2,577,530 | \$ 2,577,530 | \$ - | - |
| Land easement | 122,308 | 122,308 | - | - |
| Construction in progress | 462,185 | 462,185 | - | - |
| Structures & improvements | 7,408,662 | 7,408,662 | - | - |
| Equipment | 4,085,593 | 3,962,025 | 123,568 | 3.1% |
| Total Cost | 14,656,278 | 14,532,710 | 123,568 | 3.1% |
| Less: accumulated depreciation | (4,765,966) | (4,435,064) | (330,902) | -7.5% |
| Total capital assets, net | \$ 9,890,312 | \$ 10,097,646 | \$ (207,334) | -2.1% |

Significant capital asset activity during FY 2014-15 includes the following:

- The District placed in service a Division Chief vehicle purchased for \$36,000, a Type 6 Patrol vehicle purchased for \$155,000, and an ambulance purchased for \$31,000.
- The District placed in service additional operational equipment totaling approximately \$66,000.
- The District recognized \$419,013 in depreciation expense.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Long-term debt

In May of 2011, the District authorized the issuance and sale of Taxable Pension Obligation Bonds (POB) with a principal amount of \$3,520,000. Proceeds of the sale were used to extinguish an existing "side fund" pension obligation with California Public Employees Retirement System (CalPERS). The bonds were issued at a 4.52% interest rate on the basis of a 360-day year over a seven-year period terminating on May 26, 2018. The District made bond principal payments totaling \$684,000 and interest payments totaling \$83,123 during the year ended June 30, 2015. The total outstanding debt at June 30, 2015 was \$1,321,000.

The deferred bond issuance charges are being amortized over the life of the debt. There were no charges recorded in the prior year.

Contacting the District Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the revenue received. If you have any questions regarding this report or need additional financial information, please contact the District at 595 San Ysidro Road, Santa Barbara, California 93108.

BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2015

| | General Fund | Pension Obligation Fund | Mello-Roos Fund | Capital Project Fund |
|------------------------------------|-------------------------|--|----------------------------|---------------------------------|
| Assets: | | | | |
| Cash and investments | \$ 5,026,500 | \$ 180 | \$ - | \$ 2,387,747 |
| Accounts receivable | 114,594 | - | - | - |
| Interest receivable | 5,963 | - | - | 2,260 |
| OPEB asset | - | - | - | - |
| Deferred bond issuance charge, net | - | - | - | - |
| Land | - | - | - | - |
| Construction in progress | - | - | - | - |
| Land easement | - | - | - | - |
| Other capital assets, net | - | - | - | - |
| Total Assets | <u>\$ 5,147,057</u> | <u>\$ 180</u> | <u>\$ -</u> | <u>\$ 2,390,007</u> |

**DEFERRED OUTFLOWS OF
RESOURCES (NOTE 11)**

| | | | | |
|------------------------------------|-------------------|-------------|-------------|-------------|
| Liabilities: | | | | |
| Accounts payable | \$ 46,449 | \$ - | \$ - | \$ - |
| Salaries and benefits payable | 283,571 | - | - | - |
| Accrued interest - current portion | - | - | - | - |
| Pension obligation bonds - current | - | - | - | - |
| Long-term liabilities: | | | | |
| Net Pension liability | | | | |
| Compensated absences | - | - | - | - |
| Pension obligation bonds | - | - | - | - |
| Total Liabilities | <u>\$ 330,020</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Fund Balances/Net Position:

Fund Balances:

| | | | | |
|----------------------------------|---------------------|---------------|-------------|---------------------|
| Nonspendable | - | - | - | - |
| Committed | - | - | - | - |
| Assigned | 1,200,000 | - | - | - |
| Unassigned | 3,617,037 | 180 | - | 2,390,007 |
| Total Fund Balances | <u>4,817,037</u> | <u>180</u> | <u>-</u> | <u>2,390,007</u> |
| Total Liabilities, Fund Balances | <u>\$ 5,147,057</u> | <u>\$ 180</u> | <u>\$ -</u> | <u>\$ 2,390,007</u> |

DEFERRED INFLOWS OF RESOURCES (NOTE 11)

Net Position:

| |
|----------------------------|
| Invested in capital assets |
| Unrestricted |
| Total Net Position |

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET (continued)
JUNE 30, 2015

| Capital Projects Construction Fund | Total Memorandum Only | Adjustments | Statement of Net Position | |
|---|--------------------------------------|----------------------|--------------------------------------|------------------------------------|
| \$ 7,086,799 | \$ 14,501,226 | \$ - | \$ 14,501,226 | Assets: |
| - | 114,594 | - | 114,594 | Cash and investments |
| 6,851 | 15,074 | - | 15,074 | Accounts receivable |
| - | - | 1,269,136 | 1,269,136 | Interest receivable |
| - | - | 58,931 | 58,931 | OPEB asset |
| - | - | 2,577,530 | 2,577,530 | Deferred bond issuance charge, net |
| - | - | 462,185 | 462,185 | Land |
| - | - | 122,308 | 122,308 | Construction in progress |
| - | - | 6,728,289 | 6,728,289 | Land easement |
| <u>\$ 7,093,650</u> | <u>\$ 14,630,894</u> | <u>\$ 11,218,379</u> | <u>\$ 25,849,273</u> | Other capital assets, net |
| | | | | Total Assets |

**DEFERRED OUTFLOWS OF
RESOURCES (NOTE 11)**

| | | | | |
|-------------|-------------------|----------------------|----------------------|------------------------------------|
| | | \$ 1,192,280 | \$ 1,192,280 | |
| | | | | Liabilities: |
| \$ - | \$ 46,449 | \$ - | \$ 46,449 | Accounts payable |
| - | 283,571 | - | 283,571 | Salaries and benefits payable |
| - | - | 27,394 | 27,394 | Accrued interest - current portion |
| - | - | 741,000 | 741,000 | Pension obligation bonds - current |
| | | | | Long-term liabilities: |
| | | 13,163,696 | 13,163,696 | Net Pension liability |
| - | - | 1,343,882 | 1,343,882 | Compensated absences |
| - | - | 580,004 | 580,004 | Pension obligation bonds |
| <u>\$ -</u> | <u>\$ 330,020</u> | <u>\$ 15,855,976</u> | <u>\$ 16,185,996</u> | Total Liabilities |

Fund Balances/Net Position:

| | | | | Fund Balances: |
|---------------------|----------------------|---------------------|----------|----------------------------------|
| - | - | - | - | Nonspendable |
| - | - | - | - | Committed |
| - | 1,200,000 | (1,200,000) | - | Assigned |
| <u>7,093,650</u> | <u>13,100,874</u> | <u>(13,100,874)</u> | <u>-</u> | Unassigned |
| <u>7,093,650</u> | <u>14,300,874</u> | <u>(14,300,874)</u> | <u>-</u> | Total Fund Balances |
| <u>\$ 7,093,650</u> | <u>\$ 14,630,894</u> | | | Total Liabilities, Fund Balances |

3,850,262 3,850,262 **DEFERRED INFLOWS OF RESOURCES**

Net Position:

| | | |
|---------------------|---------------------|----------------------------|
| 9,890,312 | 9,890,312 | Invested in capital assets |
| (2,885,017) | (2,885,017) | Unrestricted |
| <u>\$ 7,005,295</u> | <u>\$ 7,005,295</u> | Total Net Position |

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

| | <u>General Fund</u> | <u>Pension Obligation Fund</u> | <u>Mello-Roos Fund</u> | <u>Capital Project Fund</u> |
|--|-------------------------|--|----------------------------|-------------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 14,746,643 | \$ - | \$ - | \$ - |
| Investment income | 23,218 | 28 | (1) | 10,413 |
| Rental income | 49,486 | - | - | - |
| Intergovernmental | 962,912 | - | - | - |
| Proceeds from sale of assets/loss on sale | - | - | - | 44,850 |
| Miscellaneous | 32,321 | - | - | - |
| Total Revenues | <u>15,814,580</u> | <u>28</u> | <u>(1)</u> | <u>55,263</u> |
| Expenditures: | | | | |
| Salaries and benefits | 13,155,250 | - | - | - |
| Services and supplies | 1,288,025 | 2,185 | 9,500 | 2,498 |
| Debt service: | | | | |
| Principal | - | 684,000 | - | - |
| Interest | - | 83,123 | - | - |
| Bond issuance cost amortization | - | - | - | - |
| Depreciation | - | - | - | - |
| Capital outlay | 66,126 | - | - | 222,019 |
| Total Expenditures/Expenses | <u>14,509,401</u> | <u>769,308</u> | <u>9,500</u> | <u>224,517</u> |
| Excess (deficiency) of revenues over (under) expenditures | 1,305,179 | (769,280) | (9,501) | (169,254) |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | 769,113 | - | 332,406 |
| Transfers out | (301,495) | - | (24) | - |
| Total other financing sources (uses) | <u>(301,495)</u> | <u>769,113</u> | <u>(24)</u> | <u>332,406</u> |
| Net change in fund balances | 1,003,684 | (167) | (9,525) | 163,152 |
| Change in net position | | | | |
| Fund Balances/Net Position - Beginning | <u>3,813,353</u> | <u>347</u> | <u>9,525</u> | <u>2,226,855</u> |
| Prior Period Adjustment (Note 14) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances/Net Position - Ending | <u>\$ 4,817,037</u> | <u>\$ 180</u> | <u>\$ -</u> | <u>\$ 2,390,007</u> |

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

| Capital Projects Construction Fund | Total Memorandum Only | Adjustments | Statement of Activities | |
|---|--------------------------------------|-----------------------|------------------------------------|--|
| | | | | Revenues: |
| \$ - | \$ 14,746,643 | \$ - | \$14,746,643 | Property taxes |
| 33,753 | 67,411 | - | 67,411 | Investment income |
| - | 49,486 | - | 49,486 | Rental income |
| - | 962,912 | - | 962,912 | Intergovernmental |
| - | 44,850 | (76,465) | (31,615) | Proceeds from sale of assets/loss on sale |
| - | 32,321 | - | 32,321 | Miscellaneous |
| <u>33,753</u> | <u>15,903,623</u> | <u>(76,465)</u> | <u>15,827,158</u> | Total Revenues |
| | | | | Expenditures: |
| - | 13,155,250 | (1,489,422) | 11,665,828 | Salaries and benefits |
| (1) | 1,302,207 | - | 1,302,207 | Services and supplies |
| | | | | Debt service: |
| - | 684,000 | (684,000) | - | Principal |
| - | 83,123 | (14,184) | 68,939 | Interest |
| - | - | 11,786 | 11,786 | Bond issuance cost amortization |
| - | - | 419,545 | 419,545 | Depreciation |
| 531 | 288,676 | (288,676) | - | Capital outlay |
| <u>530</u> | <u>15,513,256</u> | <u>(2,044,951)</u> | <u>13,468,305</u> | Total Expenditures/Expenses |
| | | | | Excess (deficiency) of revenues over (under) expenditures |
| 33,223 | 390,367 | 1,968,486 | 2,358,853 | |
| | | | | Other Financing Sources (Uses): |
| - | 1,101,519 | (1,101,519) | - | Transfers in |
| (800,000) | (1,101,519) | 1,101,519 | - | Transfers out |
| <u>(800,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | Total other financing sources (uses) |
| (766,777) | 390,367 | (390,367) | - | Net change in fund balances |
| | | <u>2,358,853</u> | <u>2,358,853</u> | Change in net position |
| <u>7,860,427</u> | <u>13,910,507</u> | <u>7,054,347</u> | <u>20,964,854</u> | Fund Balances/Net Position - Beginning |
| <u>-</u> | <u>-</u> | <u>(16,318,412)</u> | <u>(16,318,412)</u> | Prior Period Adjustment (Note 14) |
| <u>\$ 7,093,650</u> | <u>\$ 14,300,874</u> | <u>\$ (6,905,212)</u> | <u>\$ 7,005,295</u> | Fund Balances/Net Position - Ending |

NOTES TO THE BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Montecito Fire Protection District (the District) is an independent division of local government, authorized by California Health and Safety Code Sections 13800-13970. The District is governed by a five member Board of Directors elected to serve four year terms. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. There are no component units included in this report that meet the criteria of a blended or discretely presented component unit as set forth by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Government-Wide – Basis of Presentation, Measurement Focus and Basis of Accounting

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) was issued to improve governmental financial reporting for citizens, district representatives, and creditors involved in the lending process. GASB 34 requires that a government entity present in its basic external financial statements both government-wide financial statements and fund financial statements, excluding fiduciary funds. Governments engaged in a single government program may combine their fund financial statement with their government-wide statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

GAAP requires that the government-wide financial statements be reported using the economic resources measurement focus and the accrual basis of accounting. In comparison, governmental funds employ the current financial resources measurement focus and the modified accrual basis of accounting. The economic resources measurement focus aims to report all inflows, outflows, and balances affecting or reflecting an entity's net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred for activities related to exchange and exchange-like activities. In addition, long-lived assets (such as buildings and equipment) are capitalized and depreciated over their estimated economic lives.

Funds – Basis of Presentation, Measurement Focus and Basis of Accounting

The accounts of the District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The District uses the governmental fund category.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Funds – Basis of Presentation, Measurement Focus and Basis of Accounting - continued

Governmental Funds are used to account for the District's general government activities. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal year. Other receipts and taxes are determined to be both measurable and available when cash is received by the District and are recognized as revenue at that time.

Secured property taxes are levied in September of each year based upon the assessed valuation as of the previous January 1 (lien date). They are payable in two equal installments due on November 1 and February 1 and are considered delinquent with penalties after December 10 and April 10, respectively.

Unsecured property taxes are due on the January 1 lien date and become delinquent with penalties after August 31. All property taxes are billed and collected by the County of Santa Barbara (the County) and remitted to the District.

The District maintains the following governmental fund types:

The **General Fund** is the District's operating fund. It accounts for all the financial resources and the legally authorized activities of the District except those required to be accounted for in another fund.

The **Pension Obligation Fund** accounts for the accumulation of resources that are committed for the payment of principal and interest on the District's pension obligation bonds (Note 5).

The **Mello-Roos Fund** accounts for the monies collected and paid on behalf of the pending formation of a Mello-Roos District located in the area served by the District.

The **Capital Projects Fund** accounts for the acquisition of capital assets not being financed by the General Fund.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Funds – Basis of Presentation, Measurement Focus and Basis of Accounting - continued

The *Capital Projects Construction Fund* accounts for the construction of major capital projects not being financed by the General Fund, such as the acquisition of land for the development of a new fire station.

Investments

The District maintains substantially all its cash in the Santa Barbara County Treasurer's cash management investment pool (the pool).

State statutes and the County's investment policy authorize the County Treasurer to invest in U.S. Treasury and U.S. Government agency securities; state and/or local agency bonds, notes, warrants or certificates of indebtedness; bankers' acceptances; commercial paper; corporate bonds and notes; negotiable certificates of deposit; repurchase agreements; reverse repurchase agreements; securities lending; bank deposits; money market mutual funds; State of California Local Agency Investment Fund (LAIF); and the investment pools managed by a Joint Powers Authority. Interest earned on pooled investments is apportioned quarterly into participating funds based upon each fund's average daily deposit balance. Any investment gains or losses are proportionately shared by all funds in the pool.

Investments held by the County Treasurer are stated at fair value. The fair value of pooled investments is determined quarterly and is based on current market prices received from the securities custodian. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal.

The pool's disclosures related to cash and investments including those disclosures regarding custodial credit risk are included in the County's Comprehensive Annual Financial Report. A copy may be obtained online from the Auditor-Controller section of the County's website.

Receivables

Receivables are recorded in the District's Statement of Net Position and Governmental Funds Balance Sheet net of any allowance for uncollectibles. All receivables are deemed to be collectible at June 30, 2015, and as such, the District has no allowance for uncollectible accounts for these receivables.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets

Capital assets are recorded in the District's Statement of Net Position and Governmental Funds Balance Sheet in the Statement of Net Position column at cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. The costs of normal maintenance that do not add to the value of the asset or materially extend assets' lives are expensed as incurred. The District's capitalization threshold is \$5,000. Capital assets are depreciated at cost using the straight-line method over the following estimated useful lives:

- | | |
|--|----------|
| • Small equipment, medium equipment, and computers | 5 years |
| • Vehicles, trucks, and large equipment | 10 years |
| • Fire trucks, building and land improvements | 20 years |
| • Buildings | 50 years |

Compensated Absences

The District's policy permits employees to accumulate earned but unused holiday and vacation leave benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay and holiday pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements prior to year-end and paid by the District subsequent to year-end.

Deferred Compensation Plan

The District offers a deferred compensation plan to its employees. The District has adopted provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 32), which establishes financial accounting and reporting standards based on current amendments to the provisions of Internal Revenue Code (IRC) Section 457. Under IRC 457, plan assets are not owned by the governmental entity, and as a result, governmental entities are required to remove plan assets and plan liabilities from their financial statements.

The District has no administrative involvement, does not perform the investing function, and has no fiduciary accountability for the plan. Thus, in accordance with GASB 32, the plan assets and any related liability to plan participants have been excluded from the District's financial statements.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Other Post Employment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), addresses how governmental entities should account for and report their costs and obligations related to postemployment benefits, or OPEB. The District offers postretirement medical, dental, and vision benefits. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The District has implemented the requirements of GASB 45 on a prospective basis.

GASB 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

Fund Equity

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes accounting and financial reporting standards for all governments that report governmental funds.

Under GASB 54, fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are now broken out in five categories:

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period. The committed fund balance in the General Fund of \$1,200,000 represents funds committed for contingencies.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity - continued

- *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. This is also the classification for residual funds in the District’s debt service, special revenue, and capital projects funds.
- *Unassigned fund balance* – the residual classification for the District’s General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The District’s Board establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted fund balance resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in the governmental fund financial statements, the District considers committed amounts to be used first, then assigned amounts, and then unassigned amounts.

Memorandum Only – Total Columns

Total columns in the Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances are captioned as “Memorandum Only” as they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects the financial position or results of operations of the District in conformity with GAAP. Such data is not comparable to a consolidation, as interfund eliminations have not been made in the aggregation of this data.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Implementation of New Accounting Principles

The following Governmental Accounting Standards Board (GASB) Statements were implemented during the 2015 fiscal year:

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27 – The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No 27. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.

NOTE 2: CASH AND INVESTMENTS

Investment in the Santa Barbara County Investment Pool

The District is a voluntary participant in the Santa Barbara County Treasurer's investment pool that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer. As of June 30, 2015, the District had cash on deposit with the County Treasurer in the amount of \$14,501,226.

Investments Authorized by District Policy

The District has not formally adopted a deposit and investment policy that limits the government's allowable deposits or investment and addresses the specific types of risk to which the government is exposed.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. At fiscal year end, the weighted average days to maturity of the investments contained in the County investment pool was approximately 705 days.

Credit Risk

Generally, 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 firm. The Santa Barbara County Treasurer's investment pool is not rated.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 2: CASH AND INVESTMENTS - continued

Custodial Credit Risk

Custodial credit risk does not apply to a local government's indirect investment in deposits and securities through the use of government investment pools (such as the Santa Barbara County Treasurer's investment pool).

NOTE 3: CAPITAL ASSETS

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

| | <u>July 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2015</u> |
|--|----------------------|---------------------|--------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,577,530 | \$ - | \$ - | \$ 2,577,530 |
| Land easements | 122,308 | - | - | 122,308 |
| Construction in progress | 462,185 | - | - | 462,185 |
| Total capital assets, not being depreciated | <u>3,162,023</u> | <u>-</u> | <u>-</u> | <u>3,162,023</u> |
| Capital assets, being depreciated: | | | | |
| Structures and improvements | 7,408,662 | - | - | 7,408,662 |
| Equipment | 3,962,025 | 288,144 | (164,576) | 4,085,593 |
| Total capital assets, being depreciated | <u>11,370,687</u> | <u>288,144</u> | <u>(164,576)</u> | <u>11,494,255</u> |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (2,275,111) | (157,459) | - | (2,432,570) |
| Equipment | (2,159,953) | (261,554) | 88,111 | (2,333,396) |
| Total accumulated depreciation | <u>(4,435,064)</u> | <u>(419,013)</u> | <u>88,111</u> | <u>(4,765,966)</u> |
| Total capital assets, being depreciated, net | <u>6,935,623</u> | <u>(130,869)</u> | <u>(76,465)</u> | <u>6,728,289</u> |
| Total capital assets, net | <u>\$ 10,097,646</u> | <u>\$ (130,869)</u> | <u>\$ (76,465)</u> | <u>\$ 9,890,312</u> |

Depreciation expense amounted to \$419,013 for the fiscal year ended June 30, 2015.

NOTE 4: LONG-TERM LIABILITIES

Changes to the District's long-term liabilities for the year ended June 30, 2015 are as follows:

| | <u>July 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2015</u> | <u>Due in One Year</u> |
|--------------------------|---------------------|----------------------|-------------------|----------------------|----------------------------|
| Compensated absences | \$ 1,333,755 | \$ 10,127 | \$ - | \$ 1,343,882 | \$ - |
| Net pension liability | - | 13,163,696 | - | 13,163,696 | - |
| Pension obligation bonds | 2,005,000 | - | 684,000 | 1,321,000 | 741,000 |
| | <u>\$ 3,338,755</u> | <u>\$ 13,173,823</u> | <u>\$ 684,000</u> | <u>\$ 15,828,578</u> | <u>\$ 741,000</u> |

The liability for employee compensated absences is liquidated by the General Fund.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 5: PENSION OBLIGATION BONDS

In May of 2011, the District authorized the issuance and sale of Taxable Pension Obligation Bonds (POB) with a principal amount of \$3,520,000. Proceeds of the sale were used to extinguish an existing “side fund” pension obligation with California Public Employees Retirement System (CalPERS). The bonds were issued at a 4.52% interest rate on the basis of a 360-day year over a seven year period terminating on May 26, 2018. The District made bond principal payments totaling \$684,000 and interest payments totaling \$83,123 during the year ended June 30, 2015.

Total POB debt service requirements to maturity as of June 30, 2015, are as follows:

| Year Ending June 30, | Pension Obligation Bonds | |
|----------------------|--------------------------|------------------|
| | Principal | Interest |
| 2016 | \$ 741,000 | \$ 51,574 |
| 2017 | 435,000 | 17,402 |
| 2018 | 145,000 | 6,337 |
| Totals | <u>\$ 1,321,000</u> | <u>\$ 75,313</u> |

NOTE 6: INTERFUND TRANSFERS

Interfund transfers in the District’s fund financial statements made during the year ended June 30, 2015, are as follows:

| Funds | Inter-fund | |
|--------------------|---------------------|---------------------|
| | Transfers In | Transfers Out |
| Major Funds: | | |
| General | \$ - | \$ 301,495 |
| Pension Obligation | 769,113 | - |
| Mello Roos | - | 24 |
| Capital Projects | 332,406 | 800,000 |
| Total | <u>\$ 1,101,519</u> | <u>\$ 1,101,519</u> |

During the fiscal year ended June 30, 2015, the District made the following transfers:

A transfer of \$769,113 from the General Fund to the Pension Obligation Fund to finance the principal and interest payments for the District’s Pension Obligation Bonds.

A transfer of \$332,406 out of one capital outlay fund into another to fund vehicle purchases.

A transfer of \$800,000 out of the capital outlay fund into another capital outlay fund and the pension obligation fund to fund capital improvements and to pay debt service.

A transfer of \$24 from the Mello Roos fund to the General Fund to close down the fund.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 7: RISK MANAGEMENT

The District is a participant in a public entity risk pool with the Fire Agencies Insurance Risk Authority (FAIRA). FAIRA is organized pursuant to the provisions of the California Government Code Section 6500 et seq. for the purpose of providing an effective risk management program to local governments by reducing the amount and frequency of losses, pooling self-insured losses, and jointly purchasing excess insurance and administrative services in connection with a joint protection program.

The District pays an annual premium to the pool for its excess general liability insurance coverage. The agreement for information of FAIRA provides that the pool will be self-sustaining through member premiums.

FAIRA provides the District with insurance-like benefits for general liability and excess liability coverage, automobile claims, management liability coverage, and property coverage for buildings, contents, and crime. During the fiscal year, the District contributed an annual premium of \$30,051 with limits ranging from \$1,000,000 to \$2,000,000 for each liability, and excess liability coverage of \$10,000,000. The insurance coverage in excess of the \$1,000,000, up to \$10,000,000, is provided by the American Alternative Insurance Corporation.

NOTE 8: RETIREMENT PLAN

Plan Description

The District contributes to the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time and less than full time District employees that meet the CalPERS membership eligibility requirements can participate in CalPERS. Retirement benefits vest after five (5) years of service with the District. Vested District safety members who retire at, or after, age 50 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to years of credited service multiplied by their highest twelve month period of earnings multiplied by a percentage factor ranging from 2.4% to 3.0%, depending upon age at retirement. Vested District miscellaneous members who retire at, or after, age 50 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to years of credited service multiplied by their highest twelve month period earnings multiplied by a percentage factor ranging from 2.0% to 3.0%, depending upon age at retirement. CalPERS also provides death and disability benefits.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 8: RETIREMENT PLAN - continued

Plan Description - continued

CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS webpage at www.calpers.ca.gov.

Funding Policy

The employee contribution level for District miscellaneous members and District safety members is 8% and 9%, respectively, of annual salary. The District makes contributions for the entire amounts required of the employees on their behalf. The District is required to contribute an actuarially determined employer rate. At fiscal year end, the employer rate for non-safety employees and safety employees was 19.161% and 23.948%, respectively, of annual covered payroll. The contribution requirements of plan members are based upon the benefit level adopted by the District's Board. The employer contribution rate is established annually and may be amended by CalPERS.

At June 30, 2015 the District reported a liability of \$13,163,696 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 Pension Plan participants, which was actuarially determined.

For the fiscal year ended June 30, 2015 the District recognized pension expense of \$695,546 in its Government-Wide financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

- Discount Rate/Rate of Return – 7.5%, net of investment expense
- Inflation Rate – 2.75%
- Salary increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS' Membership Data for all Funds

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 8: RETIREMENT PLAN - continued

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2013.

The long-term expected rate of return on pension plan investments (7.5%) 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. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|-------------------------------|-------------------|--|
| Global Equity | 47.0% | 5.71% |
| Global Fixed Income | 19.0% | 2.43% |
| Inflation Sensitive | 6.0% | 3.36% |
| Private Equity | 12.0% | 6.95% |
| Real Estate | 11.0% | 5.13% |
| Infrastructure and Forestland | 3.0% | 5.09% |
| Liquidity | 2.0% | (1.05)% |

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 8: RETIREMENT PLAN - continued

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

| | 1% Decrease 6.5% | Discount Rate 7.5% | 1% Increase 8.5% |
|--|---------------------|-----------------------|---------------------|
| District’s proportionate share of the net pension plan liability | \$ 22,731,492 | \$ 13,163,696 | \$ 5,274,245 |

Detailed information about the pension fund’s fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The District provides retiree healthcare benefits for employees who retire with PERS pension benefits immediately upon termination of employment from the District. The District contracts with PERS for this insured-benefit plan, an agent multiple-employer post-employment healthcare plan, established under the State of California’s Public Employees’ Medical and Hospital Care Act (PEMHCA). The plan’s medical benefits and premium rates are established by PERS and the insurance providers. The District pays for medical, dental, and vision premiums for the lifetime of the retiree and their eligible dependents. The District pays 100% of the retiree medical premiums, up to a maximum of \$1,531 per month for 2015, and 100% of the premiums for retiree dental and vision coverage. PERS issues a separate comprehensive annual financial report, copies of which may be obtained from the PERS webpage www.calpers.ca.gov.

The District participates in the Public Agency Retirement System (PARS) Public Agencies Post-Retirement Health Care Plan Trust Program (PARS Trust), a single employer irrevocable trust established to fund other postemployment benefits. The PARS Trust is approved by the Internal Revenue Code Section 115 and invests funds in equity, bond, and money market mutual funds. The Fire Chief or designee is the District’s Plan Administrator. Copies of PARS Trust annual financial report may be obtained from PARS at 4350 Von Karman Avenue, Suite 100, Newport Beach, CA 92660.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Funding Policy

The contributions to the OPEB plan are based on pay-as-you-go financing requirements, with an additional amount contributed to the PARS Trust to prefund benefits from time to time at the sole discretion of the Board. Retiree health benefits may be paid out of the PARS trust, set up for this purpose, to the extent funded. The purpose of this funding policy is to manage the District's OPEB obligations while at the same time maintaining as much flexibility as possible to adjust for changing budgetary considerations. For the fiscal year ended June 30, 2015, the District contributed \$1,981,322 to the plan, including \$371,186 for current premiums and an additional \$1,610,136 to the PARS Trust to prefund benefits. GASB 45 requires recognition of the current expense of OPEB based on the annual required contribution (ARC), but does not require funding of the related liability.

Annual OPEB Cost and Net OPEB Obligation (Asset)

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

For the fiscal year ended June 30, 2015, the OPEB ARC was \$978,507. This includes the normal cost of \$341,290 for the year for current active employees, and \$637,217 for UAAL amortization. The District's OPEB contribution for the fiscal year ended June 30, 2015 was \$1,981,322.

The following are the components of the District's OPEB cost for the fiscal year ended June 30, 2015:

| | |
|--|-----------------------|
| Annual required contribution (ARC) | \$ 978,507 |
| Contributions made | (1,981,322) |
| Increase in net OPEB asset | <u>(1,002,815)</u> |
| Net OPEB liability (asset) - beginning of year | <u>(266,321)</u> |
| Net OPEB liability (asset) - end of year | <u>\$ (1,269,136)</u> |

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Annual OPEB Cost and Net OPEB Obligation (Asset) - continued

The District’s annual OPEB cost, the percentage of annual OPEB cost contribution to the OPEB plan, and the net OPEB obligation (asset), for the current year and two preceding years are as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>% of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation (Asset)</u> |
|--------------------------|-------------------------|--|------------------------------------|
| June 30, 2013 | 978,507 | 38% | 272,318 |
| June 30, 2014 | 978,507 | 155% | (266,321) |
| June 30, 2015 | 978,507 | 202% | (1,269,136) |

Funding Status and Funding Progress

Using the most recent actuarial valuation dated July 1, 2013, the following is the funded status of the OPEB plan:

| | |
|---|---------------------|
| Annual accrued liability (AAL) | \$ 9,452,985 |
| Actuarial value of plan assets | 633,471 |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 8,819,514</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 6.7% |
| Covered payroll (active plan members) | \$ 6,621,966 |
| UAAL as percentage of covered payroll | 133.2% |

Activity in the District’s PARS Trust account since the most recent valuation, which will be reflected in the actuarial value of plan assets as of the next, July 1, 2017 valuation date, is as follows:

| <u>Fiscal Year Ended</u> | <u>Beginning Balance</u> | <u>Contributions</u> | <u>Net Earnings</u> | <u>Distributions</u> | <u>Ending Balance</u> |
|--------------------------|--------------------------|----------------------|---------------------|----------------------|-----------------------|
| 6/30/2013 | \$ 2,443,688 | \$ - | \$ 247,224 | \$ - | \$ 2,690,912 |
| 6/30/2014 | \$ 2,690,912 | \$ 1,175,856 | \$ 350,288 | \$ - | \$ 4,217,056 |
| 6/30/2015 | \$ 4,217,056 | \$ 1,610,136 | \$ 118,898 | \$ - | \$ 5,946,090 |

Actuarial valuations of an ongoing OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare trend. Amounts determined regarding the funded status of the OPEB plan and the ARC of the employer are subject to continual revision as actual results are compared

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Funding Status and Funding Progress - continued

with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented as required supplementary information following the Notes to the Financial Statements. This schedule presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 as well as 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.

In the July 1, 2010 actuarial valuation, the Projected Unit Credit Cost method was used. The actuarial assumptions included a 6.5% investment rate of return and separate annual healthcare cost trend rates for medical, dental and vision. The medical cost trend rate starts at 8% and declines to 5% over a period of four years. The vision and dental trend rates are both a flat 4%. The OPEB Plan's UAAL is being amortized as a level dollar amount on an open period basis. The remaining amortization period at July 1, 2010 was 30 years.

NOTE 10: WORKFORCE HOUSING

The District has a Housing Committee that researches methods which allow employees to live closer to the District in order to facilitate responses to emergencies. The District approved a plan in the fiscal year ended June 30, 2006 to purchase Workforce Housing and completed the purchase of a parcel consisting of three residences of varying sizes at East Valley Road. The three residences are currently leased and occupied by three employees of the District. The District has contracted with a property management company to manage the operational activity of the residences. The Housing Committee developed a policy to govern all matters related to the Workforce Housing Program that was adopted by the Board.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 11: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, the District recognized deferred outflows of resources in the government-wide and proprietary fund statements. These items are a consumption of net position by the District that is applicable to a future reporting period.

The District has one item that is reportable on the Government-wide Statement of Net Position as Deferred Outflows of Resources which is related to pensions. The sum total is \$1,192,280.

The District also recognized deferral inflows of resources in the government-wide financial statements. This is an acquisition of net position by the District that is applicable to a future reporting period. The District has one item related to pensions that is captured as a deferred inflow of resources. The sum total at year-end was \$3,850,262.

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds will therefore include deferred inflows of resources for amounts that have been earned but are not available to finance expenditures in the current period.

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The \$1,192,280 was reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-end June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| 2016 | \$ 944,532 |
| 2017 | 944,532 |
| 2018 | 956,556 |
| 2019 | 1,004,645 |
| Total | <u>\$ 3,850,265</u> |

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 12: EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEETS AND STATEMENT OF NET POSITION

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 | \$ 9,890,312 |
| Certain long-term assets, such as the over-funding of the Other Post-Employment Benefits liability and the deferred outflows of resources, create long-term assets | 2,520,347 |
| Long-term liabilities, including compensated absences and loans payable not due and payable in the current period and therefore are not reported in the funds | (2,692,280) |
| Other long-term liabilities, such as the net pension liability and deferred inflows of resources, are not due and payable in the current period and therefore are not reported in the funds | <u>(17,013,958)</u> |
| Combined Adjustment | <u>\$ (7,295,579)</u> |

Amounts reported for governmental activities in the Statement of Net Position 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 as depreciation expense. The difference is the amount by which depreciation exceeded capital outlays in the current period. | \$ (130,869) |
| This is the amount of the difference between the sales price of assets disposed during the fiscal year and the net loss recognized in the statement of activities | (198,773) |
| Repayments of long-term debt are recorded as an expense in the fund financial statements and are adjusted against debt in the statement of net position as an offset to the liability | 698,184 |
| Changes in the compensated absences, net pension liability and OPEB liabilities are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | <u>1,489,422</u> |
| Combined Adjustment | <u>\$ 1,857,964</u> |

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2015

NOTE 13: COMMITMENTS AND CONTINGENCIES

Litigation

The District is subject to litigation related to employee matters that are incidental to the ordinary course of the District's operations. There is presently no outstanding litigation.

Grant Revenues

The District recognizes as revenues grant monies earned for costs incurred in certain Federal and State programs the District participates in. The program may be subject to financial and compliance audits by the reimbursing agency. The amount, if any, of the expenditures which may be disallowed by the granting agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Mello-Roos Community Facilities District

In a special election held on June 17, 2012, property owners in the Upper Hyde Road area approved the formation of a Mello-Roos Community Facilities District (Mello-Roos District) for the purpose of financing street and related improvements for the reconstruction of Upper Hyde Road. Acting as an agent for the property owners, the District is overseeing the formation of the Mello-Roos District in accordance with the Mello-Roos Community Facilities Act of 1982 (the Act). Pending completion of the Act's requirements, the District would have the authority to issue up to \$5,000,000 in special tax bonds and levy a special tax to pay annual debt service on the bonds, annual maintenance costs for the improvements, and administrative costs. This District was dissolved in October of 2014.

NOTE 14: PRIOR PERIOD ADJUSTMENT

A prior period adjustment was recorded in the Government-Wide financial statements in an amount totaling \$16,318,412 to decrease the beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of the net pension liability.

NOTE 15: SUBSEQUENT EVENTS

Subsequent events have been reviewed through December 31, 2015, the date the financial statements were available to be issued. The only significant event that was found to have happened that materially affected the District's financial position is as of December 31, 2014 Community Facilities District No. 2011 Fund 3654 Montecito Fire Upper Hyde Road (UHR) Mello-Roos was dissolved and officially closed on December 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTECITO FIRE PROTECTION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Unaudited)
FOR THE YEAR ENDED JUNE 30, 2015**

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--------------------------------------|-------------------------|-------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Property taxes | \$ 14,653,524 | \$ 14,653,524 | \$ 14,746,643 | \$ 93,119 |
| Investment income | 17,659 | 17,659 | 23,218 | 5,559 |
| Rental income | 50,961 | 50,961 | 49,486 | (1,475) |
| Intergovernmental | 266,470 | 872,124 | 962,912 | 90,788 |
| Miscellaneous | 5,825 | 5,825 | 32,321 | 26,496 |
| Total revenues | <u>14,994,439</u> | <u>15,600,093</u> | <u>15,814,580</u> | <u>214,487</u> |
| Expenditures | | | | |
| Salaries and benefits | 13,024,331 | 13,693,213 | 13,155,250 | 537,963 |
| Services and supplies | 1,509,799 | 1,509,799 | 1,288,025 | 221,774 |
| Capital outlay | 58,500 | 66,150 | 66,126 | 24 |
| Total expenditures | <u>14,592,630</u> | <u>15,269,162</u> | <u>14,509,401</u> | <u>759,761</u> |
| Excess of revenues over expenditures | | | | |
| Other Financing Uses: | | | | |
| Transfers out (net) | <u>(301,529)</u> | <u>(301,529)</u> | <u>(301,495)</u> | - |
| Total other financing uses | <u>(301,529)</u> | <u>(301,529)</u> | <u>(301,495)</u> | - |
| Net changes in fund balances | <u>\$ 100,280</u> | <u>\$ 29,402</u> | <u>1,003,684</u> | |
| Fund balances - Beginning | | | <u>3,813,353</u> | |
| Fund balances - Ending | | | <u>\$ 4,817,037</u> | |

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Budgetary Comparison Schedules
Required Supplementary Information (Unaudited)
June 30, 2015

NOTE 1: BUDGETARY AND LEGAL COMPLIANCE

In accordance with California Health and Safety Code Section 13895, on or before October 1, the District must submit a board approved budget to the County Auditor. Annual budgets are adopted for the District's General, Capital Projects and Capital Projects Construction Funds. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Annually, the Board of Directors conducts a public hearing for the discussion of proposed budgets. At the conclusion of the hearing, the Board adopts the final budgets. All appropriations lapse at fiscal year-end and are subject to re-appropriation as part of the following year's budget. The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the object level. Any changes in the annual budget must be changed by a vote of the Board. The Board amended the originally adopted General Fund budget in May of 2015.

MONTECITO FIRE PROTECTION DISTRICT

Required Supplementary Information
 Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress
 For the Fiscal Year Ended June 30, 2015

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a % of Covered Payroll</u> |
|---|--|--|--|-------------------------|----------------------------|---|
| 7/1/2007 | \$ 0 | \$14,752,000 | \$14,752,000 | 0.0% | \$5,398,000 | 273.3% |
| 7/1/2010 | \$ 633,471 | \$ 9,452,985 | \$ 8,819,514 | 6.7% | \$6,621,966 | 133.2% |
| 7/1/2013 | \$2,746,320 | \$10,082,480 | \$ 7,336,160 | 27.22% | | |

MONTECITO FIRE PROTECTION DISTRICT

Required Supplementary Information – Pensions
For the Year Ended June 30, 2015

Montecito Fire Protection District – Schedule of the District’s proportionate share of the Net Pension Liability:

Last 10 Fiscal Years*:

| | <u>FY 2015</u> |
|---|----------------|
| District’s proportion of the net pension liability | Varies by plan |
| District’s proportionate share of the net pension liability | \$ 13,163,696 |
| District’s covered employee payroll | 6,597,160 |
| District’s proportionate share of the net pension liability as a percentage of its covered-employee payroll | 199.53% |
| Plan Fiduciary net position as a percentage of the total pension liability | 81.59% |

*Amounts presented above were determined as of 6/30.
Additional years will be presented as they become available.

CALPERS - Schedule of District contributions

Last 10 Fiscal Years*:

| | <u>FY 2015</u> |
|---|----------------|
| Actuarially determined contribution | \$ 1,192,280 |
| Total actual contributions | (1,192,280) |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District’s covered-employee payroll | \$ 6,597,160 |
| Contributions as a percentage of covered employee payroll | 18.07% |