

**EL DORADO HILLS COUNTY WATER DISTRICT
(dba EL DORADO HILLS FIRE DEPARTMENT)**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

for the fiscal year ended June 30, 2016

ROBERT W. JOHNSON
Certified Public Accountant

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Statement of Net Position and Governmental Fund Balance Sheet	7
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances	8
Statement of Revenues and Expenditures - Compared to Budget	9-10
Notes to Financial Statements	11-27
Supplemental Information:	
Principal Officials	29
Schedule of Funding Progress of Other Postemployment Benefits Plan	30
Schedule of the District's Proportionate Share of the Net Pension Liability	31
Schedule of Contributions for Pensions	32

**ROBERT
W.**

JOHNSON

**An Accountancy Corporation
Certified Public Accountant**

6234 BIRDCAGE STREET • CITRUS HEIGHTS, CA 95610-5949 • (916) 723-2555

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
El Dorado Hills County Water District
El Dorado Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of the El Dorado Hills County Water District, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Dorado Hills Water District as of June 30, 2016, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters

Required Supplementary Information

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
September 21, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

As management of the El Dorado Hills County Water District (Fire Department), we offer this Management Discussion and Analysis Report as an overview and analysis of the financial activities of the Fire Department for the fiscal year ended June 30, 2016.

Our discussion and analysis of the Fire Department provides the reader with an overview of the District’s financial position and performance. The MD&A describes the significant changes from the prior year that occurred in general operations and discusses the activities during the year for capital assets. We encourage the reader to consider the information presented here in conjunction with the additional information furnished in our annual financial report including the financial statements and notes to the financial statements.

FINANCIAL REPORTING

The District maintains its accounts in accordance with general accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The attached audit report is comprised of both governmental fund and government-wide financial statements.

The governmental fund financial statements are comprised of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements report current financial resources on a modified accrual basis and reflect a near term perspective. The fund balance sheet reflects assets and liabilities that are generally current in nature.

The government-wide financial statements include a Statement of Net Position and Statement of Activities. These statements report financial information using the full accrual basis of accounting and reflect a longer-term perspective. The government-wide statement of net position includes non-current assets and liabilities such as net fixed assets and the pension unfunded liability, as well as deferred inflows and outflows.

INVESTMENT POLICIES AND PROCEDURES

The Board reviews the District’s investment policy periodically. During the 2015-16 fiscal year, the District was invested mostly with the State of California Local Agency Investment Fund and minimally with the El Dorado County Treasury. A revised investment policy was approved at the beginning of the 2016-17 fiscal year.

FINANCIAL SUMMARY

Fund Level:

- Total revenues for fiscal year 2015/16 increased by \$2,166,647 from 2014/15. Contributing to this increase are growth in property tax revenues of \$862,817, or 6.2% from prior year and an increase in development fees of \$758,299, or 43.5%. OES and JPA revenues also increased significantly from prior year and are mostly offset by increases in operating expenditures.

Summary of Total Revenues

	2015/16	2014/15	\$ Change	% Change
Property Tax Revenue	\$ 14,831,881	\$ 13,969,063	\$ 862,817	6.2%
Development Fees	2,500,097	1,741,799	758,299	43.5%
IPA Revenue	1,010,264	755,805	254,459	33.7%
OES/Mutual Aid Revenue	736,099	458,024	278,075	60.7%
Other Revenue	226,938	213,940	12,997	6.1%
Total Revenue	\$ 19,305,278	\$ 17,138,631	\$ 2,166,647	12.6%

- Total expenditures for fiscal year 2015/16 remained relatively consistent with prior year, with an overall slight decrease of \$29,831. Wages and benefits increased by \$938,915, or 7.2% mostly due to an increase in headcount to staff Station 91, an increase in the cost of workers' compensation insurance, and an increase in overtime costs resulting from an extreme fire season (offset with OES revenue). Also increasing expenditures from prior year was a \$1,200,000 lump sum payment made in 2015/16 to PERS to pay down a portion of the District's pension unfunded liability. Offsetting these expenditure increases is a significant decrease in fixed asset purchases of \$2,177,697, or 51.9% due to the completion of Station 84 construction.

Summary of Total Expenditures

	2015/16	2014/15	\$ Change	% Change
Wages & Benefits	\$ 14,049,717	\$ 13,110,802	\$ 938,915	7.2%
Fixed Assets	2,016,496	4,194,193	(2,177,697)	-51.9%
Pension Lump Sum Payment	1,200,000	-	1,200,000	100.0%
Professional Services	508,681	452,515	56,166	12.4%
Maintenance	341,646	353,585	(11,938)	-3.4%
Other Operating Expenditures	674,467	709,744	(35,277)	-5.0%
Total Expenditures	\$ 18,791,007	\$ 18,820,838	\$ (29,831)	-0.2%

- The District's fund balances totaled \$19,792,176 at the end of 2015/16, an increase of \$514,271 from 2014/15. The unassigned fund balance totaled \$12,269,006, which is approximately 78.8% of fund operating expenditures for the fiscal year. The District's restricted, or development fee fund balance was \$3,697,146. The committed, or capital replacement fund balance was \$3,826,024 at the end of the fiscal year.

Summary of Total Fund Balances

	2015/16	2014/15	\$ Change	% Change
General Reserve Fund	\$ 12,269,006	\$ 12,105,645	\$ 163,361	1.3%
Capital Replacement Fund	3,826,024	4,245,134	(419,110)	-9.9%
Development Fee Fund	3,697,146	2,927,126	770,020	26.3%
Total Fund Balances	\$ 19,792,176	\$ 19,277,905	\$ 514,271	2.7%

Government-Wide:

- The District's net position is \$29,581,399 at the end of fiscal year 2015/16, which is a decrease of \$735,711 from 2014/15. This decrease is primarily attributable to an increase in the District's net pension liability of \$1,735,527, partially offset by a decrease in other liabilities of \$664,789. Total assets increased by \$832,643, which is mostly due to an increase in fixed assets.

Summary of Net Position

	2015/16	2014/15	\$ Change	% Change
Current Assets	\$ 21,553,390	\$ 21,703,908	\$ (150,518)	-0.7%
Capital Assets	\$ 23,505,810	\$ 22,522,649	\$ 983,161	4.4%
Deferred Outflows	4,330,609	2,109,192	2,221,417	105.3%
Current Liabilities	1,761,214	2,426,003	(664,789)	100.0%
Net Pension Liability	12,110,428	10,374,901	1,735,527	16.7%
Deferred Inflows	5,936,768	3,217,735	2,719,033	84.5%
Net Position	29,581,399	30,317,110	(735,711)	-2.4%

- The District purchased fixed assets totaling \$2,016,496 in 2015/16. This includes \$1,597,386 in expenditures toward the completion of Station 84 construction. Also purchased were three replacement staff utility vehicles totaling \$104,037. The District also upgraded its analog telephone system to a Voice Over Internet Protocol (VoIP) system in 2015/16, which cost approximately \$45,000. All capital assets are valued at historical cost and depreciated over their estimated useful lives using the straight-line method.

ECONOMIC OUTLOOK

The District's financial net position continues to be adequate and reflects financial stability. Development and property values continue to grow and this trend is expected to continue into the 2016/17 fiscal year. The District recognizes the challenges that lie ahead with increased pension and healthcare costs, and is active in its efforts to prefund its pension

and other post-employment benefit (OPEB) obligations. The District's Board of Directors and staff continuously monitor economic trends and forecasts to ensure sound fiscal management.

CONTACT

For questions regarding this report, please contact the El Dorado Hills Fire Department Director of Finance at 1050 Wilson Blvd., El Dorado Hills, CA 95762.

EL DORADO HILLS FIRE DEPARTMENT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2016

ASSETS AND DEFERRED OUTFLOWS	All Funds	Adjustments	Statement of Net Position
Cash (Note 3)	\$21,084,303	\$ -	\$ 21,084,303
Accounts receivable - other	239,853	-	239,853
Prepaid expenses	229,234	-	229,234
Capital assets (Note 4)	-	32,158,518	32,158,518
Less, accumulated depreciation	-	(8,652,708)	(8,652,708)
Total assets	<u>21,553,390</u>	<u>23,505,810</u>	<u>45,059,200</u>
DEFERRED OUTFLOWS	-	<u>4,330,609</u>	<u>4,330,609</u>
Total assets and deferred outflows	<u>\$21,553,390</u>	<u>\$ 27,836,419</u>	<u>\$ 49,389,809</u>
LIABILITIES AND DEFERRED INFLOWS			
Accounts payable	\$ 117,396	\$ -	\$ 117,396
Accrued employee benefits payable	423,713	-	423,713
Accrued vacation and sick leave benefits	1,220,105	-	1,220,105
Weed abatement deposits	-	-	-
Net pension liability (Note 6)	-	<u>12,110,428</u>	<u>12,110,428</u>
Total liabilities	<u>1,761,214</u>	<u>12,110,428</u>	<u>13,871,642</u>
DEFERRED INFLOWS	-	<u>5,936,768</u>	<u>5,936,768</u>
FUND BALANCES/NET POSITION			
Fund balances (Note 9):			
Restricted	3,697,146	(3,697,146)	-
Committed	3,826,024	(3,826,024)	-
Unassigned	<u>12,269,006</u>	<u>(12,269,006)</u>	-
Total fund balances	<u>19,792,176</u>	<u>(19,792,176)</u>	-
Total liabilities, deferred inflows and fund balances	<u>\$21,553,390</u>		
Net position (Note 9):			
Net investment in capital assets		23,505,810	23,505,810
Restricted		3,697,146	3,697,146
Unrestricted		<u>2,378,443</u>	<u>2,378,443</u>
		<u>\$ 29,581,399</u>	<u>\$ 29,581,399</u>

See notes to financial statements

EL DORADO HILLS FIRE DEPARTMENT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
for the year ended June 30, 2016

	All Funds	Adjustments	Statement of Activities
Program expenditures/expenses:			
Public protection	\$16,156,449	\$ 2,233,143	\$18,389,592
Support services	618,062	-	618,062
Capital outlay	2,016,496	(2,016,496)	-
Depreciation	-	1,029,978	1,029,978
Loss on disposal of equipment	-	3,357	3,357
Total program expenditures/expenses	<u>18,791,007</u>	<u>1,249,982</u>	<u>20,040,989</u>
Program revenues:			
OES/Mutual Aid reimburse	736,099	-	736,099
JPA revenue	1,010,264	-	1,010,264
Total program revenues	<u>1,746,363</u>	<u>-</u>	<u>1,746,363</u>
General revenues:			
Tax revenue	14,539,642	-	14,539,642
Latrobe tax revenue	292,239	-	292,239
Development fees	2,489,829	-	2,489,829
Interest income	77,353	-	77,353
Grant revenue	-	-	-
Contributions	8,100	-	8,100
Cell site rental	30,628	-	30,628
Other	121,124	-	121,124
Total general revenues	<u>17,558,915</u>	<u>-</u>	<u>17,558,915</u>
Excess of revenues (expenditures)/ changes in net position	514,271	(1,249,982)	(735,711)
Fund balances/net position:			
Beginning	<u>19,277,905</u>	<u>11,039,205</u>	<u>30,317,110</u>
Ending	<u>\$19,792,176</u>	<u>\$ 9,789,223</u>	<u>\$29,581,399</u>

See notes to financial statements

EL DORADO HILLS FIRE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES
COMPARED TO BUDGET
for the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues:			
Tax revenue	\$14,420,616	\$14,539,642	\$ 119,026
Development fees	75,000	2,489,829	2,414,829
OES/Mutual Aid reimburse	400,000	736,099	336,099
JPA revenue	804,000	1,010,264	206,264
Latrobe tax revenue	256,651	292,239	35,588
Interest income	40,000	77,353	37,353
Grant revenue	-	-	-
Contributions	-	8,100	8,100
Cell site rental	-	30,628	30,628
Other	<u>135,000</u>	<u>121,124</u>	<u>(13,876)</u>
Total revenues	<u>16,131,267</u>	<u>19,305,278</u>	<u>3,174,011</u>
Expenditures:			
Salaries	6,732,264	6,340,204	392,060
Overtime	1,950,000	2,135,925	(185,925)
Volunteer pay	115,000	77,030	37,970
Director pay	16,000	20,400	(4,400)
Vacation and sick	100,000	170,048	(70,048)
Retirement	2,270,041	2,104,899	165,142
Medicare	130,893	123,580	7,313
Other benefits	3,057,557	3,077,631	(20,074)
Clothing and personal supplies	77,900	87,817	(9,917)
Communications	178,440	114,448	63,992
Housekeeping	23,300	40,513	(17,213)
Insurance	62,000	50,492	11,508
Maintenance – equipment	294,150	229,424	64,726
– structures	99,310	112,223	(12,913)
Medical supplies	3,900	8,884	(4,984)
Memberships	9,110	12,139	(3,029)
Miscellaneous	12,500	3,908	8,592
Office supplies	20,850	22,720	(1,870)

(continued)

See notes to financial statements

EL DORADO HILLS FIRE DEPARTMENT
STATEMENT OF REVENUES AND EXPENDITURES, continued
COMPARED TO BUDGET
for the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Expenditures (continued):			
Professional services	\$ 509,650	\$ 508,681	\$ 969
Rents and leases	25,928	21,640	4,288
Small tools	57,300	51,402	5,898
Special departmental expenses	107,750	77,044	30,706
Transportation and travel	120,000	82,011	37,989
Utilities	104,000	101,448	2,552
Fixed asset additions	3,410,300	2,016,496	1,393,804
Contingency	-	-	-
Cal PERS unfunded liability pmt.	<u>1,200,000</u>	<u>1,200,000</u>	<u>-</u>
Total expenditures	<u>20,688,143</u>	<u>18,791,007</u>	<u>1,897,136</u>
Excess of revenues/ (expenditures)	<u>\$(4,556,876)</u>	<u>\$ 514,271</u>	<u>\$ 5,071,147</u>

See notes to financial statements

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS

1. Organization:

In 1963 the El Dorado Hills Fire Department was established under the El Dorado Hills County Water District ("District"). Ten years later, the citizens of El Dorado Hills voted to transfer all water and sewer system powers to the El Dorado Irrigation District; thereby leaving only fire protection under the direction of the District's Board.

The District's functions are governed by a five member Board of Directors elected by the District's voting population. The Board of Directors manages the Fire Chief who oversees all financial, administrative and operational aspects of the District for the purpose of carrying-out fire and emergency services.

El Dorado Hills County Water District operates four fire stations, employs 65 full-time employees and has approximately 17 volunteers. The District provides emergency medical services, rescue, fire suppression, and other public services as needed. The District is a member of the El Dorado County Emergency Services Authority, which also provides advanced life support and ambulance transport within the County.

In 2014, the District annexed Latrobe Fire Protection District into its sphere of influence. With this annexation the District expanded from 30,000 acres to 58,500 acres with over 15,000 homes and an estimated population of 45,000. Commercial development includes a 900-acre business park, a 260-acre town center commercial complex, three grocery stores, and a single large box-store. The total commercial square feet in the District is approximately 4.6 million.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies:

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing GAAP for state and local government organizations. The District's significant accounting policies are described below.

Measurement Focus and Basis of Accounting

The District reports a *General Fund* that is used to account for all financial resources except those required or designated by the Board of Directors to be accounted for in another fund.

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 flow takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. 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. The District considers revenues to be available if they are collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues that are accrued include property taxes, interest income, and charges for current services. Revenues that are not accrued include permits and fines, forfeitures, and penalties, if applicable. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital assets are reported as expenditures in governmental funds. Proceeds of general long-term and capital assets are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies (continued):

Capital Assets

Capital assets are recorded at historical cost if purchased or constructed. Amortization of assets acquired under capital lease is included in depreciation. Structures and equipment are depreciated using the straight-line method over their estimated useful lives, which range from three to forty years.

Budgets

In accordance with the provisions of Sections 13901 through 13906 of the California Health & Safety Code and other statutory provisions, commonly known as the Budget Act, the District prepares and legally adopts a final balanced budget for each fiscal year.

Compensated Absences

Vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability.

Cash

The District maintains cash balances with the Treasurer of El Dorado County in an interest-bearing pooled investment account. The District's operating cash is held in a bank. The principal amount of District cash is invested with LAIF, a state local agency investment pool. All cash invested is within State statutes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Policies (continued):

Property Taxes

The District receives property taxes from El Dorado County. Property taxes become a lien on the first day of the year they are levied. Secured property tax is levied on July 1 and due in two installments, on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are levied on July 1, and become delinquent on August 31. The District elected to receive the property taxes from the County under the Teeter Bill Program. Under this Program, the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

Pensions

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

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

3. Cash:

The District had the following cash balances at June 30, 2016:

Petty cash	\$ 100
Cash in bank	89,138
Cash with County:	
General	\$ 605,126
Development fees	3,697,119
JPA Retiree health benefits	26
Weed abatement	<u>28,869</u>
	4,331,140
LAIF	<u>16,663,925</u>
Total cash balance	<u>\$21,084,303</u>

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

4. Capital Assets:

Changes in capital assets for the year ended June 30, 2016 are as follows:

	Balance, beginning of year	Additions	Transfers from	Disposals	Balance, end of year
Land	\$ 4,587,512	\$ -	\$ -	\$ -	\$ 4,587,512
Buildings and improvements	13,744,199	30,286	5,487,095	481	19,261,099
Vehicles	5,238,039	117,900	-	-	5,355,939
Equipment	<u>3,489,089</u>	<u>270,924</u>	<u>-</u>	<u>897,803</u>	<u>2,862,210</u>
	27,058,839	419,110	5,487,095	898,284	32,066,760
Work in progress:					
Station 84 rebuild	3,889,709	1,597,386	(5,487,095)	-	-
Training Facility	<u>91,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,758</u>
	<u>\$31,040,306</u>	<u>\$2,016,496</u>	<u>\$ -</u>	<u>\$ 898,284</u>	<u>\$32,158,518</u>

5. JPA:

The District is a member agency of the El Dorado County Emergency Services Authority, a Joint Powers Authority ("JPA"), which provides ambulance and other pre-hospital emergency transport services on the west slope of El Dorado County. There are ten member agencies in total. [verify this is still true as added CalFire dispatch this year] The governing Board of Directors controls the operations of the JPA. The JPA Board is made up of a Fire Chief or authorized alternate from each member agency. The JPA is independently accountable for its fiscal matters and maintains its own accounting records under the oversight of the El Dorado County Board of Supervisors. Each of the ten member Fire Districts approves the JPA budget and their vote is carried by their Fire Chief to the Board. Separate financial statements for the JPA are available.

The JPA contracts with the District for one medic unit with six employees working shift work. The District is fully reimbursed for all authorized costs incurred in the execution of the contract.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Defined Benefit Retirement Plan:

A. General Information About the Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. The District participates in the miscellaneous 3% at age 50 risk pool (safety) and 3% at age 60 risk pool (miscellaneous). Effective on January 1, 2013, in accordance with Public Employees' Pension Reform Act (PEPRA), new employees who meet the definition of new member of CalPERS will have benefit formulas calculated as (safety) 2.7% at age 57 and (miscellaneous) 2% at age 62. The District also instituted a Tier 2 plan with slightly less benefits that would apply to new employees who were members of CalPERS with a different agency.

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 employers within the State of California. CalPERS require agencies with less than 100 active members in the plan to participate in the risk pool. All permanent District employees are eligible to participate in the System. Benefits vest after five years of service. Pre-PEPRA (January 1, 2013 and earlier hires) District employees who retire at age 50 to 55 and with over 5 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3.00 percent of their average salary (safety) during their last highest year of employment, based on years of employment, and 2.00 to 3.00 percent of their average salary for (miscellaneous) employees retiring between age 50 and 60. Employees hired after January 1, 2013 use last highest three years of employment to determine retirement benefit.

A menu of benefits provision as well as other requirements is established by State Statutes within the Public Employees Retirement Law. The plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS executive office, 400 P Street, Sacramento, California, 95814.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Defined Benefit Retirement Plan, continued:

Funding Policy

Covered employees are required by statute to contribute 9 percent (safety) and 8 percent (miscellaneous) of their salary to the plan. The District is required by the same statute to contribute the remaining amounts necessary to pay benefits when due; however, the employees contribute 3% of the employer's share. The District is required to contribute at an actuarially determined rate. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's contributions for the year ended June 30, 2016 was \$2,104,899.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Safety - Classic</u>	<u>Miscellaneous - Classic</u>	<u>PEPRA Safety</u>
Benefit formula	3% @ 50	3% @ 60	2.7% @ 57
Employee Contribution Rate	12%	11%	11.5%
Employer Contribution Rate	15.524%	8.718%	11.153%
EPMC (Employer Paid Member Contribution)*	9%	8%	0%
	<u>Safety Tier 2</u>	<u>Misc. Tier 2</u>	<u>PEPRA Misc.</u>
Benefit Formula	3% @ 55	2% @ 55	2% @ 62
Employee Contribution Rate	12%	7%	6.25%
Employer Contribution Rate	12.627%	8.003%	6.237%
EPMC (Employer Paid Member Contribution)*	9%	4%	0%

* The Employer Paid Member Contribution (EPMC) represents the portion of the Employee Contribution Rate that is paid by the Employer. The net amount paid by the employee is calculated by subtracting the EPMC from the Employee Contribution Rate.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Defined Benefit Retirement 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 both 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.

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

As of June 30, 2016, the District reported net pension liability as follows:

Net pension liability	<u>\$12,110,428</u>
-----------------------	---------------------

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Deferred Benefit Retirement Plan, continued:

For the year ended June 30, 2016, the District recognized pension expense of \$4,338,042. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Adjustment due to differences in proportions	\$ 3,810	
Net differences between projected and actual earnings on pension plan investments		\$ 2,743,000
Effects of adjustment due to differences in proportions		
Changes in assumptions		2,023,874
Differences between expected and actual experiences		925,728
Net differences between projected and actual earnings on pension plan investments	2,221,900	190,649
Difference between employer contributions and proportionate share of employer contributions		53,517
Pension contributions subsequent to measurement date	<u>2,104,899</u>	<u>-</u>
	<u>\$4,330,609</u>	<u>\$ 5,936,768</u>

\$2,104,899 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended <u>June 30</u>	
2016	\$(1,905,959)
2017	(1,681,507)
2018	(700,137)
2019	576,545

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Defined Benefit Retirement Plan, continued:

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous		Safety		PEPRA	
					Safety	
Valuation date	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Measurement date	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method					
Actuarial Assumptions:						
Discount rate	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2%	3.3% - 14.2%	3.3% - 14.2%	3.3% - 14.2%	3.3% - 14.2%	3.3% - 14.2%
Investment Rate of Return	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%

Discount Rate – The discount rate used to measure the total pension liability was 7.5% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Defined Benefit Retirement Plan, continued:

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

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

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

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

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

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

6. Defined Benefit Retirement Plan, continued:

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Safety</u>	<u>Miscellaneous</u>	PEPRA <u>Safety</u>
1% Decrease Net Pension Liability	6.65% \$18,581,995	6.65% \$874,633	6.65% \$(1,005)
Current Discount Rate Net Pension Liability	7.65% \$11,589,530	7.65% \$521,525	7.65% \$(627)
1% Increase Net Pension Liability	8.65% \$ 5,855,835	8.65% \$229,992	8.65% \$(317)

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

7. Other Post-Employment Benefits (OPEB):

Plan Description: In addition to pension benefits, the District provides certain post-employment health care benefits to eligible retirees and their eligible dependents who retire from the District at age 50 with at least five years of service, or become fully disabled while working. The District provides health benefits to any retiree with a PERS pension, and continues it for surviving spouses. Coverage for dependents is paid by the District. Coverage is for medical benefits only.

Funding Policy: The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Annually, the District intends to make a total contribution equal to or greater than the Annual Required Contribution (ARC). For the fiscal year ended June 30, 2016, the District contributed \$813,577. Retiree benefit costs are to be paid directly by the District and any remaining amount (up to 100% of the ARC) is deposited into the OPEB California Employers' Retiree Benefit Trust (CERBT) fund. At June 30, 2016 the CERBT account balance was \$5,416,100.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

7. Other Post-Employment Benefits (OPEB), continued:

Annual OPEB Cost and Net OPEB Obligation: The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 liabilities (or funding excess) over a period not to exceed thirty years.

The District has paid the annual required contribution (ARC) to CERBT each year. Therefore, the net OPEB obligation is \$0.

Funded Status and Funding Progress: As of July 1, 2015, there were 26 retirees receiving health benefits. The actuarial accrued liability for benefits was \$10,798,030 of which 44.31% was funded. The covered payroll (annual payroll of active employees covered by the plan) was \$7,361,364 and the ratio of UAAL to the covered payroll was 81.69%.

Actuarial valuations of an ongoing 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 cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of 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 the plan members) and include the types of benefits provided at the time each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

7. Other Post-Employment Benefits (OPEB), continued:

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial method was used. The investment return assumption is 7.0% per year. This interest rate is appropriate if the District will fund the ARC fully with investments that are expected to earn that rate of return. This rate is also used to discount expected future benefit payments to present value. The UAAL is the present value of benefits attributed to the past which have not yet been funded. The UAAL is amortized over 30 years beginning July 1, 2008. The remaining amortization period at June 30, 2016 is twenty three years. Healthcare premiums are expected to rise 5% per annum in the future.

8. Development Fees:

The use of development fees is restricted solely for financing public facilities and equipment necessary to serve new developments.

Activities of development fees cash for 2015-16 follows:

Cash – beginning, El Dorado Hills Fire Department, July 1, 2015	\$ 2,927,100
2015-16 activity:	
Add, development fees collected	\$ 2,489,829
interest income	10,268
Deduct, transfers for prior year capital items	<u>(1,730,078)</u>
Ending County cash, Development Fees, June 30, 2016	3,697,119
Deduct, development fees used 2015-16, cash to be transferred in 2016-17 fiscal year	<u>798,693</u>
	<u>798,693</u>
Development fee cash available for use, future years	<u>\$ 2,898,426</u>

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

9. Equity:

General Fund:

Restricted for:	
Development fees	\$3,697,119
JPA medical benefits	<u>27</u>
	\$ 3,697,146
Committed for:	
Capital replacement	3,826,024
Unassigned	<u>12,269,006</u>
Total General Fund Equity	<u>\$19,792,176</u>

Statement of Net Position:

Net investment in capital assets

Restricted:	
Development fees	\$ 3,697,119
JPA medical benefits	<u>27</u>
	3,697,146
Unrestricted:	
Board designated:	
Capital replacement	3,826,024
Undesignated:	<u>(1,447,581)</u>
	<u>2,378,443</u>
Total Net Assets	<u>\$29,581,399</u>

EL DORADO HILLS FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS, continued

10. Operating Lease:

The District leases various equipment including solar energy systems. Monthly payments for these leases total approximately \$6,000.

11. Risk of Loss

El Dorado Hills Fire Department is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2016 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

12. Subsequent Events:

Management has evaluated subsequent events through September 21, 2016, the date these June 30, 2016 financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

EL DORADO HILLS FIRE DEPARTMENT
PRINCIPAL OFFICIALS

Board of Directors:

John Hidahl	President
Greg Durante	Vice-President
Barbara Winn	
James Hartley	
Doug Hus	

Operations:

David Roberts	Chief
Jessica Braddock	Director of Finance

EL DORADO HILLS FIRE DEPARTMENT
SCHEDULE OF FUNDING PROGRESS
Other Post-Employment Benefits (OPEB)
for the year ended June 30, 2016

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio	(4) Unfunded Actuarial Accrued Liability (UAAL)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (4)/(5)
7/1/2015	\$4,784,268	\$10,798,030	44.31%	\$6,013,762	\$7,361,364	81.69%
7/1/2013	\$3,325,000	\$8,873,200	37.47%	\$5,548,200	\$5,449,000	101.82%
7/1/2011	\$2,015,900	\$7,376,143	27.33%	\$5,361,000	\$5,544,200	96.70%
1/1/2010	\$1,367,279	\$5,814,000	23.52%	\$4,446,721	\$6,641,000	66.96%
1/1/2008	\$ 483,612	\$5,353,000	9.03%	\$4,869,388	\$6,123,000	79.53%

EL DORADO HILLS FIRE DEPARTMENT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY

As of June 30, 2016
Last 10 years (1)

	2016			2015		
	<u>Safety</u>	<u>PEPRA Safety</u>	<u>Misc.</u>	<u>Safety</u>	<u>PEPRA Safety</u>	<u>Misc.</u>
Proportion of the net pension liability	0.28127%	-0.00002%	0.01901%	0.15932%	0.00%	0.00741%
Proportionate share of the net pension liability	\$11,589,530	\$(627)	\$ 521,525	\$ 9,913,883	\$ 127	\$ 460,891
Covered – employee payroll	\$12,056,391	\$ 404,735	\$ 618,665	\$ 6,070,736	\$47,704	\$ 415,532
Proportionate Share of the net pension liability as percentage of covered-employee payroll	97.886%	-0.155%	84.298%	163.31%	.27%	110.92%
Plan's fiduciary net position	\$44,743,169	\$ 21,297	\$2,294,487	\$43,440,043	\$ 556	\$2,234,821
Plan fiduciary net position as a percentage of the total pension liability	79.43%	103.03%	81.48%	81.42%	81.41%	83.03%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes in assumptions: None

(1) Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

EL DORADO HILLS FIRE DEPARTMENT
SCHEDULE OF CONTRIBUTIONS FOR PENSIONS

As of June 30, 2016

Last 10 years (1)

	2016			2015		
	<u>Safety</u>	<u>PEPRA Safety</u>	<u>Misc.</u>	<u>Safety</u>	<u>PEPRA Safety</u>	<u>Misc.</u>
Contractually required contribution (actuarially determined)	\$ 2,495,867	\$ 83,787	\$ 128,074	\$ 1,340,262	\$ 19,510	\$ 43,590
Contributions in relation to the actuarially determined contributions	(3,066,255)	(102,935)	(157,343)	(1,340,262)	(19,510)	(43,590)
Contribution deficiency (excess)	<u>\$ (570,388)</u>	<u>\$ (19,148)</u>	<u>\$ (29,269)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered – employee payroll	\$12,056,391	\$ 404,735	\$ 618,665	\$ 6,070,736	\$ 47,704	\$ 415,532
Contributions as a percentage of covered employee payroll	25.43%	25.43%	25.43%	22.08%	40.90%	10.49%

Notes to Schedule:

Valuation date:

6/30/15 6/30/15 6/30/15 6/30/14 6/30/14 6/30/14

Methods and assumptions used to determine contribution rates:

Amortization method	Entry Age Normal Cost Method
Remaining amortization period	15 Years
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.5% Net of Pension Plan Investment and Admin. Expenses

(1) Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.