

KENWOOD FIRE PROTECTION DISTRICT
ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018



KENWOOD FIRE PROTECTION DISTRICT
Annual Report
For the Fiscal Year Ended
June 30, 2018

Table of Contents

	Page(s)
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statements of Net Position	9
Statement of Activities	10
Government Fund Financial Statements:	
Balance Sheet.....	11
Reconciliation of Governmental Funds Balance Sheet With The Statement of Net Position.....	12
Statements of Revenues, Expenditures and Changes in Fund Balance.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund Types with the Statement of Activities.....	14
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position.....	15
Statement of Changes in Fiduciary Net Position.....	16
Notes to Financial Statements.....	17-35
Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-General Fund.....	36
Notes to Required Supplementary Information.....	37
Independent Auditor’s Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards...	38-39

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kenwood Fire Protection District

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and major funds of the Kenwood Fire Protection District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major funds of the District, as of June 30, 2018, 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.

Emphasis of Matters

As Described in Note 11 to the financial statements, the District adopted Government Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions. The emphasis of these matters does not constitute a modification to my opinion.

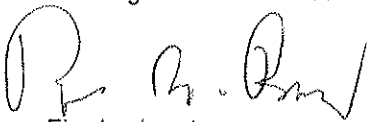
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 29-33 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued our report dated March 9, 2019, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Firm's signature

Glen Ellen, California

March 9, 2019

**KENWOOD FIRE PROTECTION DISTRICT
9045 SONOMA HIGHWAY, KENWOOD, CA. 95452
707-833-2042**

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the District's financial performance provides an overview of financial activities for the year ended June 30, 2018. Please read this in conjunction with the financial statements as listed in the Table of Contents.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded their liabilities at the close of the fiscal year by \$4,613,371 (*net position*). Of this amount, \$2,703,050 (unrestricted net position) may be used to meet the district's ongoing obligations to citizens.
- The District's total net position increased by \$256,147 per its Statement of Activities. This compared to a decrease of \$41,491 last year.
- The District purchased \$15,877 in capital assets during the year
- At the close of the current fiscal year, unassigned fund balance for the general fund was \$1,204,938 or 171 percent of general fund expenditures. One hundred percent of this amount is budgeted to be spent in the next fiscal year.
- The District's long-term liability is \$1,233,646.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the District as a whole with more detailed information about the District's general fund. The statement of net position and the statement of activities (on pages 9-10) provide information about the activities of the District as a whole and present a longer term view of the District's finances. (They include capital assets). The fund financial statements (page 11 and 13) present a short-term view of the District's activities. The fund financial statements include two funds; the General Fund and the Capital Projects Fund. (They include only current assets expected to be collected in the very near future and liabilities expected to be paid in the near future).

THE DISTRICT AS A WHOLE

One important question asked about the District's finances is, "Is the District better or worse off as a result of the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The changes in net position (the difference between total assets and total liabilities) over time is one indicator of whether the District's financial health is improving or deteriorating. However,

one must consider other nonfinancial factors in making an assessment of the District's health, such as changes in the economy, and changes in the District's tax base, to assess the overall health of the District.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one category.

Government funds. Governmental *funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the County's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains two major governmental funds according to their type (general fund, and capital projects). The general fund reports operations in this fund. The fund will focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measure cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District' operations and the services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This consists of a budget to actual comparison. Notes on budgetary procedure are provided for this report.

FINANCIAL ACTIVITIES OF THE DISTRICT AS A WHOLE

This analysis focuses on the statement of net position and changes in net position of the District's Governmental Activities, as presented in the District-wide Statement of Net Position and Statement of Activities that follow:

Statement of Net Position						
For the Years Ended June 30						
	<u>2018</u>			<u>2017</u>		
ASSETS						
Cash and investments	\$	3,896,634	66%	\$	3,532,959	73%
Other current assets		59,413	1%		63,627	1%
Capital assets		<u>1,910,321</u>	<u>33%</u>		<u>1,258,428</u>	<u>26%</u>
Total assets		5,866,368	100%		4,855,014	100%
LIABILITIES						
Current liabilities		19,351	2%		26,101	63%
Long term liabilities		<u>1,233,646</u>	<u>98%</u>		<u>248,790</u>	<u>37%</u>
Total liabilities		1,252,997	100%		274,891	100%
NET POSITION						
Net investment in capital assets		1,910,321	28%		1,258,428	23%
Unrestricted		<u>2,703,050</u>	<u>72%</u>		<u>3,321,695</u>	<u>74%</u>
Total net assets	\$	4,613,371	100%	\$	4,580,123	100%

The following points explain the major changes impacting net assets as shown.

Cash and investments increased by \$363,675 from last year. The District made a capital repair to Engine 3197 that will extend it's useful life for \$15,877. Cash is the District's largest portion of net assets, at 66% of total assets this year.

Long term liabilities increased by \$984,856 due contractual agreement to build a fire engine at cost of \$733,486, a \$225,420 pension liability and an increase of sick and vacation leave for \$56,788.

Unrestricted net position decreased by approximately \$222,899, or 5%, due primarily to a prior period adjustment resulting from the implementation of GASB 68 for pension liability.

Unrestricted net assets of \$ 2,703,050 is available for the District's future obligations.

**Changes in Net Position
For the Fiscal Year Ended June 30**

	2018		2017	
REVENUES:				
Program revenues:				
Charges for services	\$ -	0%	\$ 10	0%
GENERAL REVENUES:				
Property taxes	892,193	83%	855,945	98%
Investment Earnings	36,734	4%	32,091	1%
Intergovernmental	134,395	12%	17,267	1%
Reimbursements	7,609	1%	-	0%
Miscellaneous	57	0%	-	0%
Total revenues	1,070,988	100%	905,313	100%
EXPENSES:				
Salaries and benefits	578,834	80%	754,771	60%
Services and supplies	138,937	12%	109,473	24%
Depreciation	97,070	8%	82,560	16%
Total expenses	814,841	100%	946,804	100%
Excess of revenues over Expenditures	256,147		(41,491)	
Change in net position	256,147		(41,491)	
Net position-beginning of year	4,357,224		4,621,614	
Prior period adjustment	-		(222,899)	
Net position-end of year	\$ 4,613,171		\$ 4,357,224	

The vast majority of the District's revenues is derived from property taxes. For the year ended 6/30/2018, property taxes were 83% of total revenue.

Salary and benefit decreased 23% over the prior year due no change in valuation of Other Post Employment Benefits (OPEB) cost. Services and supplies increased 27% over the prior year.

Annual depreciation expense was \$97,070.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the District's general fund and capital projects fund.

The fund financial statements provided a short-term view of the District's operations. They are reported using an accounting basis called modified accrual which reports cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

As shown on page 13, the governmental fund balance increased by \$366,211. Fund balance increased due to tax revenues being greater than expenditures for the current year.

The district has \$2,731,758 in a capital projects fund. The district has allocated 75% for infrastructure improvements and 25% toward apparatus replacement.

On page 14, there is a reconciliation from the modified-accrual net change in fund balance reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance for the governmental fund to the full-accrual change in net asset of the Statement of Activities

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration

The District has no debt outstanding such as bond issuances or capital leases. The District has incurred an OPEP liability of \$215,952 based on the Bickmore Actuarial report, which is a change from the prior year OPEP liability of \$219,577. The District Net pension liability is \$227,420. The estimated compensated absence liability due beyond one year was \$56,788 for 6/30/2018 and \$29,213 for 6/30/2017.

See notes to financial statements for further explanation.

Capital Assets

The following purchases were made for the current year.

Capital repair to engine 3197 pump valve	\$ 15,877
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Depreciation of the capital assets	\$97,070
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Additional information on the District's capital assets can be found in note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

1. The District is anticipating a \$301,594 increase in the operating budget.
2. Salaries and benefits have been budgeted at \$206,371 more than last year's actual.
3. Services and supplies have been budgeted at \$51,293 higher than last year's actual.
4. Capital outlay has been budgeted at \$164,000 in expenditures next year.

All of these factors were considered in preparing the District's budget for the fiscal year ending June 30, 2018.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to demonstrate accountability for public funds. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Kenwood Fire Protection District, P. O. Box 249, Kenwood, California 95452, or call (707) 833-2042.

Daren Bellach
Fire Chief of Kenwood Fire Protection District

**KENWOOD FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018**

ASSETS:

Current assets

Cash and investments	\$ 3,896,634
Taxes and interest receivable	59,413

Capital assets;

Land	23,087
Fire apparatus in progress	733,486
Buildings and Improvements	855,315
Fire Apparatus	1,117,727
Other Equipment	391,059

3,120,674

Less: Accumulated Depreciation	<u>(1,210,353)</u>
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Total Capital Assets, net of accumulated depreciation	<u>1,910,321</u>
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Total assets	<u><u>\$ 5,866,368</u></u>
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LIABILITIES

Current liabilities

Accounts payable	\$ 5,440
Payroll payable	13,911
	<u>19,351</u>

Noncurrent liabilities

Contract Payable	733,486
Compensated Absences-Due beyond one year	56,788
Net Opeb Obligation	215,952
Net Pension Liability	227,420
	<u>1,233,646</u>

Total liabilities	<u>1,252,997</u>
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NET POSITION

Net investment in capital assets	1,910,321
Unrestricted	2,703,050
	<u>4,613,371</u>

Total net position	<u><u>\$ 4,613,371</u></u>
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The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Expenses:

Public safety-fire prevention	
Salaries and benefits	\$ 578,834
Materials and services	138,937
Depreciation	97,070
Total program expenses	<u>814,841</u>

Program revenues:

Intergovernmental	134,395
Total program revenues	<u>134,395</u>

Net program expense	<u>680,446</u>
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General Revenues

Property taxes	892,193
Investment earnings	36,734
Reimbursements	7609
Miscellaneous Income	57
Total general revenues	<u>936,593</u>

Change in net position	256,147
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Net position-beginning of the year, as adjusted	<u>4,357,224</u>
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Net position-end of the year	<u><u>\$ 4,613,371</u></u>
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The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash in county treasury	\$	\$ 2,731,758	\$ 2,731,758
Cash in commercial banks	1,164,876	-	1,164,876
Taxes receivable	59,339	-	59,339
Interest receivable	74	-	74
Total assets	<u>\$ 1,224,289</u>	<u>\$ 2,731,758</u>	<u>\$ 3,956,047</u>
 LIABILITIES & FUND BALANCES			
Liabilities:			
Accounts payable	5,440	-	5,440
Payroll payable	13,911	-	13,911
Total liabilities	<u>19,351</u>	<u>-</u>	<u>19,351</u>
 Fund Equity:			
Unassigned	1,204,938	-	1,204,938
Assigned for capital improvements	-	2,731,758	2,731,758
Total fund balances	<u>1,204,938</u>	<u>2,731,758</u>	<u>3,936,696</u>
 Total liabilities and fund balances	 <u>\$ 1,224,289</u>	 <u>\$ 2,731,758</u>	 <u>\$ 3,956,047</u>

The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS- BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2018**

**Reconciliation of governmental fund balance to net position
of governmental activities**

Total fund balances for governmental funds	\$ 3,936,696
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds	1,910,321
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds	
Compensated absences	(56,788)
Net OPEB obligation	(215,952)
Net Pension liability	(227,420)
Contract payable	<u>(733,486)</u>
Change in net position of governmental activities	<u><u>\$ 4,613,371</u></u>

The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 892,193	\$ -	\$ 892,193
Intergovernmental	134,395	-	134,395
Investment income	217	36,517	36,734
Reimbursements	7,609	-	7,609
Miscellaneous	57	-	57
Total revenues	<u>1,034,471</u>	<u>36,517</u>	<u>1,070,988</u>
EXPENDITURES			
Salaries and benefits	550,363	-	550,363
Services and supplies	138,537	-	138,537
Capital Outlay	15,877	-	15,877
Total expenditures	<u>704,777</u>	<u>-</u>	<u>704,777</u>
Excess of revenues over expenditures before transfers	329,694	36,517	366,211
Other financing sources (uses)			
Transfers in	-	100,000	100,000
Transfers out	(100,000)	-	(100,000)
Total other sources	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
Net change in fund balances	229,694	136,517	366,211
Fund balance, beginning of year	<u>975,244</u>	<u>2,595,241</u>	<u>3,570,485</u>
Fund balance, end of year	<u>\$ 1,204,938</u>	<u>\$ 2,731,758</u>	<u>\$ 3,936,696</u>

The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND TYPES
WITH THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Reconciliation of the change in fund balance-total governmental funds
to the change in the net position of governmental activities**

Net change in fund balances-governmental fund **\$ 366,211**

Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures, however,
in their statement of activities the cost of those assets is allocated
over their estimated useful lives as depreciation expense.

Capital asset purchases capitalized	15,877
Depreciation expense	(97,070)

The statement of activities reports gains from the sale of capital assets
as the difference between the proceeds from the sale of capital assets
and the book value of the sold capital assets, while the governmental
funds report the proceeds from the sale of capital assets. The
difference is the book value of the sold capital assets.

-

Some expenses reported in the statement of activities do not require the
use of current financial resources, and therefore, are not reported as
expenditures in governmental funds.

Change in compensated balances	(29,767)
Change in OPEB	(3,625)
Change in Pension	4,521

Change in net position of governmental activities	\$ 256,147
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The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018**

ASSETS

Current assets

Cash and investments	\$ 813,749
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Total assets	<u>\$ 813,749</u>
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NET POSITION

Net position held in trust for OPEB	\$ 813,749
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Total net position	<u>\$ 813,749</u>
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The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
STATEMENT OF CHANGES IN FUDUCIARY NET POSITION
FIDUCIARY FUND
FORTHE FISCAL YEAR ENDED JUNE 30, 2018**

ADDITIONS

Contributions	41,078
Investment income(loss)	\$ 45,361
Total additions	<u>86,439</u>

DEDUCTIONS

Administrative expense	381
Investment expense	278
Total deductions	<u>659</u>

Change in net position	<u>85,780</u>
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Net position held in trust-beginning of year	<u>727,968</u>
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Net position held in trust-end of year	<u><u>\$ 813,748</u></u>
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The accompanying notes are an integral part of these financial statements

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Kenwood Fire Protection District was formed by resolution in May 21, 1945 by the Board of Supervisors of the County of Sonoma as a Fire Protection District under and pursuant to provisions of the Health and Safety Code of the State of California. The purpose of the District is to provide fire protection, emergency medical and related services to the unincorporated township known as Kenwood. The District serves taxpayers and residents in a special unincorporated area of the County of Sonoma, the boundaries of which are set by resolution by the Board of Supervisors. The District's governmental powers are exercised through the Board of Directors.

INTRODUCTION

The District's financial statements are prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November, 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE STATEMENTS

The District's basic financial statements include both government-wide (reporting the Districts as a whole) and fund financial statements (reporting the District's major funds).

In the government-wide financial statements (i.e. the Statement of Position and the Statement of Activities), the district's activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts :(1) invested in capital assets, net of related debt, (2) restricted assets and (3) unrestricted net assets. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the grantor have been met.

The government-wide statement of Activities reports both the gross and net cost of each of the District's functions. The functions are supported by general government revenues (property taxes,

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE STATEMENTS (Continued)

Intergovernmental revenues and fire related charges, i.e. fire permit fees). The Statement of Activities reduces gross expense's (including depreciation) by related program revenues, operating and capital grants and contributions, including special assessments. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants. When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditure, and changes in fund balance for its major governmental funds. An accompanying schedule is present to reconcile and explain the difference in net asset as presented in these statements to the net assets presented in the Government-wide financial statements.

Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources to be used for capital expenditures or for the acquisition or construction of capital facilities, improvements, and/or equipment. Most of the capital outlays are financed via annual transfers from the General Fund plus interest earnings.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenue or expenditures/expense are recognized in the account and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied.

ACCRUAL

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the cash flows.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MODIFIED ACCRUAL

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collective within the current period or within 60 days after year-end. The Board recognizes 360 days for grant reimbursements and charges and services. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that payments for general obligation long-term liabilities are recognized when due.

FINANCIAL STATEMENT AMOUNTS

Cash and cash equivalents

The district has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with its commercial bank (Exchange Bank).

Prepaid Items

Payments to vendors that benefit future accounting periods are classified as a prepaid item until charged to expenditures in the period benefited.

Capital Assets

Capital assets, which include land, building, and improvements, fire apparatus, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimate historic cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized.

Buildings and improvements, fire apparatus, and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30-50
Fire Apparatus	20
Truck/Automobile	5
Operating Equipment	5-15

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position are classified into three components-invested in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Invested in capital assets- This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and net of related debt.

Restricted net assets-This component of net position consists of net assets with limits on their use that are imposed by outside parties.

Unrestricted net assets- This component of net position consists of net assets that do not meet the definition of "restricted net assets" or "net investment in capital assets".

Fund Balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the district is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Governmental accounting principles provide that fund balance is reported in five components- nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted-This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments), or by law through constitutional provisions or enabling legislation. The district does not have a restricted fund balance.

Committed-This component consists of amounts that can only be used for specified purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority which includes ordinance and resolutions. Those committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed previously to commit those amounts. The district does have reserves that meet this component of fund balance.

Assigned- This component consists of amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Directors, Fire chief or their designee as established in the District's fund balance policy.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned-This classification represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund.

The district's policy is that committed and assigned fund balances are considered to have been spent first before unassigned fund balances are spent.

Use of estimates

The basic financial statements have been prepared in conformity to generally accepted accounting principles and therefore include amounts based on informed estimates and judgments of management. Actual results could differ from those estimates.

Encumbrances

Encumbrances represent commitment related to unperformed contracts for good or services. Encumbrances outstanding at year-end are reported as assigned fund balance and do not constitute expenditure or liabilities.

Prior Period Adjustment

The implementation of GASB 68 requires the District to make a prior period adjustment to reflect the net pension liability on the government wide financial statements. As a result the beginning net position of the Governmental Activities was reduced by \$222,899. See Note 11 for additional information

NOTE 2-STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget Process

The budget of the District is a detailed annual operating plan that identifies estimated costs (appropriations) and results in relating to estimated revenues. The budget includes (1) Services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirement of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. State Law prohibits expending governmental funds for which there is no legal appropriation except under court order, for an emergency as defined by statute, or as otherwise provided by law. Annual appropriations that have not been encumbered lapse at year-end. The following procedures establish the budgetary data reflected in the financial statements.

Original Adopted Budget

On or before June 30, the Fire Chief prepares and submits to the Board a recommended budget
On or before September 30, the Board formally approves the recommended budget.
The Board conducts hearings to obtain public comment on the recommended annual budget.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 2-STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY(Continued)

Final Amended Budget

The legal level of control for appropriations is exercised at the chief's level within the fund level. Appropriations at this level may only be adjusted during the year with the approval of the Board. The Fire Chief may make adjustments at his discretion below that level. Such adjustments by the Board and the Fire Chief are reflected in the revised budgetary data present in the financial statements. Budgetary data is presented in the accompanying fund financial statements for the General Fund, since the operations of these funds are budgeted annually.

NOTE 3-PROPERTY TAXES

The County of Sonoma is responsible for assessing, collecting and distributing property taxes in accordance with state law. Liens on real property are established on January 1st for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County of Sonoma. Secured property taxes are due in two installments, on November 1 and February 1, and are delinquent after December 10th and April 10th, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction.

Since the passage of California Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the 1975-1976 full value or on 1% of the sales price of the property on sales transactions and construction after the 1975/1976 valuation. Taxable values on property (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year.

On June 29, 1993, the Board of Supervisor adopted the "Teeter" alternative method for property tax allocation. This method allocated property taxes based on the total property tax billed. At year-end, the County advances cash to each taxing jurisdiction equal to its current year delinquent property taxes. In consideration, the District gives the County of Sonoma its rights to penalties and interest on delinquent taxes receivables and actual proceeds collected. The penalties and interest are used to pay the interest cost of borrowing the cash used for the advance.

NOTE 4-PROPERTY TAX RECEIVABLE

Property tax receivable

Property taxes are collected by its fiscal agent (County of Sonoma, Treasurer) and remitted to the District three times a year. The 4th quarter property tax receipts from mid-April till June 30th are remitted to the District at the end of July, thereby a receivable is booked at year-end.

Property tax receivable @ 06/30/2018	\$55,836
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**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 4-PROPERTY TAX RECEIVABLE(Continued)

Flat charges receivable

Flat charges collected are apportioned to the District to supplement property taxes collected for operating costs. Not all of the assessments were collected as of June 30, 2018, therefore; the remainder of the uncollected assessments is considered flat charges receivable.

Flat Charges Receivable @ 6/30/2018	\$3,503
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NOTE 5-INTEREST RECEIVABLE

Interest in pooled cash account from the period April 1st, through June 30, 2018

Interest receivable @ 06/30/2018	\$74
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NOTE 6-CASH

Cash and Investments

Total cash and investments at June 30, 2018 are as follows:

Cash in County Treasury	\$2,731,758
Cash in Commercial Bank	<u>1,164,876</u>
	<u>\$3,896,634</u>

Investments in the Sonoma County Treasurer's Investment Pool

The District's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the District. If material, the fair value of the District's Investments in this pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited in the treasury pool.

As of June 30, 2018, the District's share of the change in fair value of Investments was not material.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 6-CASH (Continued)

Investments by District in Commercial Bank

The District pools cash from all sources and all funds so that it can be invested consistent with safety and liquidity, while funds can make expenditures at any time. The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect fair value at each fiscal year end, and it includes the effects of these adjustments income for that fiscal year.

Investment Guidelines per County Treasurer

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code section 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Suite 100-F, Santa Rosa, California, 95403-2871.

Investment Guidelines per District

The District's cash and investments are invested pursuant to investment policy guidelines established by the District. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the District will deposit funds, types of investment instruments as permitted by the California Government Code section 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In a rising interest rate market, the fair value of investments could decline below original cost. Conversely, in a declining interest rate market, the fair value of investments will generally increase. The District manages its exposure of interest rate risk by investing in short-term CDs, so that the portfolio is liquid at all times and can provide the cash flow and liquidity needed for operations.

The county manages its exposure of interest rate risk by purchasing a combination of shorter term and longer term investment and by timing cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations, which precludes the county from having to sell investments below original cost.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 6-CASH (Continued)

As of June 30, 2018, The Treasurer's GASB 40 report showed the following maturities of the securities in the Treasury Pool, 9.85% under one month, 19.52% one month to six months, 20.80% six months to twelve months, 49.07% twelve months to five years, and .76% had a maturity of more than five years.

Credit Risk

Investments in Treasury Pool

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 organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

State law and the County's investment Policy limits investments in commercial paper, corporate bonds, and medium term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard and Poor's Corporation.

Investment in Commercial Bank

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 organization. Exchange Bank invests funds in government securities with a rating provided by a nationally recognized statistical rating organization.

State law limits investments in commercial paper, corporate bonds, and medium term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard and Poor's Corporation.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 6-CASH (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposit and securities lending transactions:

The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the state law. The market value of the pledged securities in the collateral pool must equal to at least 110% of the total amount deposited by the public agencies.

California law also allows financial institutions to secure the County's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governments investment pools. (Such as the Treasury Pool)

At year-end, the County's investment pool had no securities exposed to custodial credit risk.

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds or external pool that represent 5% or more the total county investments, refer to the June 30th, 2018 Sonoma County CAFR (the last County of Sonoma audit available).

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 7-CAPITAL ASSET ACTIVITY

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

	July 1, 2017	Additions	Dispositions	June 30, 2018
<i>Governmental activities:</i>				
Capital assets, not being depreciated				
Land	\$ 23,087	-	-	\$ 23,087
Fire apparatus in progress		733,486		733,486
Total capital assets, not being depreciated	23,087	733,486	-	756,573
Capital assets, being depreciated				
Buildings and Improvements	855,315	-0-	-	855,315
Fire apparatus and vehicles	1,298,739	15,877	(196,889)	1,117,727
Equipment	194,570	-0-	196,489	391,059
Total capital assets, being depreciated	2,348,624	15,877	(400)	2,364,101
Less accumulated depreciation for :				
Buildings and Improvements	(459,308)	(21,382)		(480,690)
Fire apparatus and vehicles	(577,560)	(52,630)	-	(630,190)
Equipment	(76,415)	(23,058)	-	(99,473)
Total accumulated depreciation	(1,113,283)	(97,070)	-	(1,210,353)
Total capital assets, being depreciated, net	1,235,341	(81,193)	-	1,153,748
Governmental activities capital assets, net	\$ <u>1,258,428</u>	\$ <u>652,293</u>	\$ <u>(400)</u>	\$ <u>1,910,321</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Government Activities	
Public Safety-Fire Protection	<u>\$97,070</u>
Total Depreciation Expense-Governmental Activities	<u>\$97,070</u>

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 8-INSURANCE

The District is exposed to various risks of loss related to torts, loss or damage to assets, injuries to employees, errors and omissions, for the District carries commercial insurance or is self-insured up to a certain limit. During the year, The District maintained five types of insurance: General liability, public official's errors and omissions, professional automobile, special events, and host and liquor liability. The District obtains its insurance coverage as a member of the Fire Agencies Insurance Risk Authority (FAIRA).

The District is self-insured for potential liabilities arising from worker's compensation claims. The District obtains its insurance coverage as a member of the Fire Agency Self-Insurance System (FASIS).

As a member of a public entity risk pool, the District is responsible for appointing an employee as a liaison between the District and the system, implementing all policies of the system, promptly paying all contributions, and cooperating with the system and any insurer of the system. The system is responsible for providing insurance coverage as agreed upon, assisting the District with implementation, providing claims adjusting, and defending any civil action brought against, the officers of the system.

NOTE 9-COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 10-LONG-TERM LIABILITIES

Activity of the Long-Term liabilities for the year ended 6/30/2018 was as follows

<u>Description</u>	<u>07/01/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2018</u>
Contract Payable	\$ -0-	\$ 733,486	\$ -0-	\$ 733,486
Compensated Absences	29,214	34,533	6,959	56,788
Net OPEB Obligation	219,577	-0-	3,625	215,952
Net Pension Liability	<u>222,899</u>	<u>4,521</u>	<u>-0-</u>	<u>227,420</u>
	\$ 471,690	\$ 772,540	\$ 10,584	\$1,233,646

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 11-PENSION PLAN (CALPERS)

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provide 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. Benefit provision and all other requirements are established by state statute and local resolution. Copies of CalPERS annual financial reports may be obtained from their Executive Office at 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are not required to contribute a percentage of their annual covered salary. The district pays both the employee rate (8.933%) and the employer rate (15.928%) for a combined rate of 24.861% for Fiscal Year 17-18 of annual covered payroll for safety employees. The amount contributed is paid as required by the actuarially determined rate. The contribution requirement for plan members and the District are established and may be amended by CalPERS.

Funded Status and Funding Progress of the Plan

Safety Plan-2% at 50

The CALPERS Public Agency Cost-Sharing Multiple Employer Defined Benefit Pension Plan from KPMG, dated June 30, 2018, provided a pooled report and AAL to the District as 75.15% funded. For the Valuation report, there is a two-year lag between the valuation date and the start of the contribution fiscal year. See five year trending information below regarding the plan's accrued liability, share of pool's market value of assets, plan's share of unfunded liability, funded ratio, and annual covered payroll.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 11-PENSION PLAN (CALPERS) (Continued)

FIVE YEAR TREND INFORMATION FOR THE DISTRICT PENSION PLAN

<u>Actuarial Valuation Date</u>	<u>Accrued Liability (AL)</u>	<u>Share of Pool's Market Value of Assets (MVA)</u>	<u>Plan's Share of Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As a Percentage of Covered Payroll</u>
6/30/2013	\$648,476	511,292	137,184	78.80%	62,991	45.92%
6/30/2014	719,499	592,627	126,872	82.40%	64,881	51.14%
6/30/2015	792,686	625,166	167,520	78.90%	114,621	68.42%
6/30/2016	824,563	601,664	222,899	73.00%	71,052	31.88%
6/30/2017	915,057	687,637	227,420	75.15%	71,052	31.88%

Annual Pension Cost

For June 30, 2018, The District's annual pension cost of \$51,793 for CalPERS was equal to the District's required actual contributions. The required contribution was determined as part of the June 30, 2016, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (1) 7.00% investment rate of return, (net of administrative expense) over a three year phase in period. The first year the discount rate is 7.375%, the second year 7.25%, and the third year is 7.00%, and 7.00% thereafter (b) projected annual salary increase that vary by duration of service, and (c) an overall payroll growth assumption of 3.00%. Both (a) and (b) include an inflation component of 2.75%. Effective June 30, 2013, CalPERS will employ an amortization and smoothing policy that will pay for gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 11-PENSION PLAN (CALPERS) (Continued)

Required Supplementary Information

Amounts reported as deferred outflow and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Periods <u>Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2019	\$ 536,961,280
2020	319,448,983
2021	(152,411,126)
2022	(40,641,618)

NOTE 12-POST EMPLOYMENT BENEFIT OBLIGATION

Plan Description

The Kenwood Fire Protection District defined benefit Postemployment Healthcare Plan provides medical benefits to eligible retired districts employees and their beneficiaries. The authority to amend the plan rests with the District's Board of Directors. The District is affiliated with the California Employer's Retiree Benefit Trust (CERBT), an agent plan consisting of an aggregation of single-employer plans for the purpose of prefunding postemployment benefits. CALPERS issues a publicly available financial report that includes financial statements and required supplemental information for CERBT. Copies of CERBT's annual financial report may be obtained by writing the plan: California PERS, CERBT, (OBEP), P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Policy

The District contributed on a pre-fund basis up until FY 16-17, and paid the Annual Required Contribution for Fiscal Year 17-18. The District provides continuation of medical coverage to its retiring employees. The District's required contribution rate is based on the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the District over a period not to exceed twenty years.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 12-POST EMPLOYMENT BENEFIT OBLIGATION(Continued)

Annual OPEB Cost and Net OPEB Obligation

The District reported on a pre-fund basis for the fiscal year ended June 30, 2018.

Annual required contribution	\$ 7,784
Interest on net OBEP obligation	(44,703)
Adjustment to the ARC	-0-
Annual OPEP cost (expense)	(36,919)
Expected payments on behalf of retirees	28,484
Estimated current year's implicit subsidy	4,810
Change in Net OPEB Obligation	3,625
Net OPEB obligation (Asset), Beginning of fiscal year	<u>219,577</u>
Net OBEB obligation (Asset), End of fiscal year	<u>\$ 215,952</u>

Funded Status and Funding Progress of the OPEB Plan

The District hired Bickmore Risk Services and Consulting (BRS) to conduct a 3rd actuarial report as of July 1, 2017 to determine the actuarial valuation of OPEB liabilities as of July 1, 2017 and forward two years. Based on Bickmore's Actuarial report, Kenwood Fire Protection District contributed \$41,078 in 2018 to a single employer CAL PERS trust account.

The Actuarial Valuation process includes an explicit and implicit rate subsidy. The explicit subsidy exists when the employer contributes directly toward retiree healthcare premiums. The implicit subsidy exists when the premiums charged for retiree coverage are lower than the expected retiree claims for that coverage, valued by the District under GASB 45. Reasons for the significant change in the actuarial valuation, include, but are not limited to the following. A significant change in the number of covered or eligible plan members, or a significant increase in future medical premium rates. The net result as of June 30, 2018, results in a negative AAL of \$215,952.

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 12-POST EMPLOYMENT BENEFIT OBLIGATION(Continued)

Actuarial Assumptions and Methods

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. 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.

A summary of the principal assumptions and methods used by BRS to determine the District's annual required contributions to the Postemployment Healthcare Plan is as follows:

Valuation Date	June 30, 2017
Actuarial Cost Method	1 year amortization of initial UAAL
Amortization Method	level dollar of payroll
Entry age method	
Asset valuation method	market value of assets
Discount Rate	6.73% for prefunding basis
Projected Salary Increases	3.2

Required Supplementary Information

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Market Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
06/30/2013	\$ -	\$ 609,863	\$ 609,863	0%	\$ 104,652	397.10%
06/30/2014	\$ 591,641	\$ 429,079	\$ (133,282)	129%	108,053	123.30%
06/30/2015	\$ 602,181	\$ 552,521	\$ (49,660)	109%	119,494	(41.6%)
06/30/2016	\$ 679,202	\$ 657,930	\$ (21,272)	103%	119,494	(17.8%)
06/30/2017	\$ 727,968	\$ 947,545	\$ 219,577	76.80%	177,473	123.7%

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 12-POST EMPLOYMENT BENEFIT OBLIGATION (Continued)

Required Supplementary Information

Five Year History of Amounts Funded

OPEB Cost Contributed

<u>Fiscal Year Ended</u>	<u>Annual OPEB cost</u>	<u>Employer OPEB Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/2014	\$ 441,723	\$ 576,088	131%	\$ (99,486)
06/30/2015	7,901	18,378	232%	(109,963)
06/30/2016	34,220	80,980	236%	(156,723)
06/30/2017	403,006	27,184	.68%	219,577
06/30/2018	41,078	41,078	100%	215,952

NOTE 13-FIDUCIARY FUND FINANCIAL STATEMENTS

A Trust fund is used to report resources held by CalPERS in a purely custodian capacity. The assets are held for others and cannot be used to support the Kenwood Fire Protection District operations.

To account for funds held by CalPERS to fund post-retirement health care benefits for eligible members of the Kenwood Fire Protection District

**KENWOOD FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variances with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 862,730	\$ 862,730	\$ 892,193	\$ 29,463
Intergovernmental revenue	5,739	5,739	134,395	128,656
Interest income	7,000	7,000	217	(6,783)
Charges for services	3,284	3,284	-	(3,284)
Reimbursements	-	-	7,609	7,609
Miscellaneous	-	-	57	57
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	878,753	878,753	1,034,471	155,661
EXPENDITURES				
Salaries and benefits	586,870	586,870	550,363	36,507
Operating expenses	181,100	181,000	138,537	42,463
Capital Outlay	41,000	41,000	15,877	25,123
Appropriation for contingency	15,000	15,000	-	15,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	823,970	823,870	704,777	119,093
Revenues over (under) expenditures	<hr/>	<hr/>	<hr/>	<hr/>
	54,783	54,883	329,694	(36,568)
OTHER FINANCING SOURCES(USES)				
Transfers (out)	(200,000)	(200,000)	(100,000)	(100,000)
Total other financing sources(uses)	<hr/>	<hr/>	<hr/>	<hr/>
	(200,000)	(200,000)	(100,000)	(100,000)
Net change in fund balance	<hr/>	<hr/>	<hr/>	<hr/>
	\$ (145,217)	\$ (145,117)	229,694	
Fund balance, beginning of the year			<hr/>	<hr/>
			975,244	
Fund balance, end of the year			<hr/>	<hr/>
			\$ 1,204,938	

The accompanying notes are an integral part of the financial statements

**KENWOOD FIRE PROTECTION DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018**

1. BUDGETARY BASIS OF INFORMATION

The Budget included in these financial statements represents the original budget and amendments approved by the Board of Directors. The budgetary basis is the modified accrual basis of accounting with encumbrances included as actual.

The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) attributed to the Board of Directors is the character level. The appropriated budget is prepared by character and sub-object. Transfers of appropriations between characters require the approval of the Board.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase order, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. The District had no encumbrances outstanding at June 30, 2018.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Kenwood Fire Protection District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of the Kenwood Fire Protection District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated March 9th, 2019.

Internal Control over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

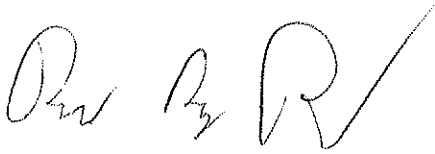
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Brian M. Burns', with a large checkmark-like flourish at the end.

BRIAN M. BURNS

CERTIFIED PUBLIC ACCOUNTANT

GLEN ELLEN, CALIFORNIA
March 9, 2019