

**MONTECITO FIRE
PROTECTION DISTRICT**

**ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT THEREON**

JUNE 30, 2020

MONTECITO FIRE PROTECTION DISTRICT

Annual Financial Report
June 30, 2020

Table of Contents

Independent Auditor’s Report..... 1-2

Management’s Discussion and Analysis (Unaudited).....3-9

Basic Financial Statements:

 Statement of Net Position and Governmental Funds Balance Sheet..... 10-11

 Statement of Activities and Governmental Fund Revenues, Expenditures,
 and Changes in Fund Balances..... 12-13

Notes to the Financial Statements 14-32

Required Supplementary Information (Unaudited):

 Budgetary Comparison Schedule – General Fund (Unaudited)..... 33

 Notes to the Budgetary Comparison Schedules 34

 Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress..... 35

 Required Supplementary Information – Pensions..... 36

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Montecito Fire Protection District (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Montecito Fire Protection District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, post-employment benefits, budgetary comparison, and pension information on pages 4-10 and 34-37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Fechter & Company,
Certified Public Accountants



Sacramento, California
March 8, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited) June 30, 2020

The purpose of the Management's Discussion and Analysis (MD&A) is to provide an overview of the District's financial condition and to highlight important changes and activities with fiscal implications that occurred during the year ended June 30, 2020. Please read it in conjunction with the District's basic financial statements and required supplementary information, which follow this section.

Discussion of Basic Financial Statements

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

The District's financial statements include three components:

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

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

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

MONTECITO FIRE PROTECTION DISTRICT

Management’s Discussion and Analysis
(Unaudited)
June 30, 2020

Government-Wide Financial Analysis

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

Table 1 – Montecito Fire Protection District Net Position

	2020	2019	Dollar Change	Percent Change
Assets:				
Current and other assets	\$ 31,886,168	\$ 33,989,378	\$ (2,103,210)	-6.19%
Capital assets	11,032,262	9,152,963	1,879,299	20.53%
Total assets	<u>\$ 42,918,430</u>	<u>\$ 43,142,341</u>	<u>\$ (223,911)</u>	-0.52%
Liabilities:				
Current and other liabilities	\$ 5,514,185	\$ 8,634,659	\$ (3,120,474)	-36.14%
Long-term liabilities	26,653,362	25,210,674	1,442,688	5.72%
Total liabilities	<u>32,167,547</u>	<u>33,845,333</u>	<u>(1,677,786)</u>	-4.96%
Net Position:				
Invested in capital assets	11,032,262	9,152,963	1,879,299	20.53%
Unrestricted	(281,379)	144,045	(425,424)	-295.34%
Total net position	<u>\$ 10,750,883</u>	<u>\$ 9,297,008</u>	<u>\$ 1,453,875</u>	15.64%

Total assets decreased by \$223,911, or -.52%, when compared to the prior year. The change in current and other assets is primarily a result of a decrease to cash and investments, and deposits of \$1.2 million each, along with a net increase in capital assets of \$1.8 million.

Total liabilities decreased by \$1,677,786, or -4.96%. The change in current liabilities is primarily a result of a decrease to accounts payable of \$3.7 million and an increase in the deferred inflows of resources of \$550,000 for pension and OPEB. The increase to long-term liabilities is a result of pension and OPEB liability increases of \$1,860,000. The pension and OPEB liabilities are based on separate actuarial reports.

Net position over time is a useful indicator of a government’s financial position. For Montecito Fire Protection District, assets exceed liabilities by \$10,750,883 at the close of the current fiscal year. The increase of \$1,453,875, when compared to the prior year, is the amount by which fund revenues exceed expenditures in the current fiscal year (See Table 2 on page 5).

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis
(Unaudited)
June 30, 2020

Table 2 – Montecito Fire Protection District Change in Net Position

	2020	2019	Dollar Change	Percent Change
Revenues:				
Property taxes	\$ 18,024,039	\$ 17,130,784	\$ 893,255	5.21%
Investment income	366,175	555,004	(188,829)	-34.02%
Rental income	12,900	6,450	6,450	100.00%
Intergovernmental	1,022,095	8,462,837	(7,440,742)	-87.92%
Miscellaneous	1,452,736	653,764	798,972	122.21%
Total revenues	<u>20,877,945</u>	<u>26,808,839</u>	<u>(5,930,894)</u>	-22.12%
Expenses:				
Salaries and benefits	15,813,604	17,879,049	(2,065,445)	-11.55%
Services and supplies	2,114,206	5,773,877	(3,659,671)	-63.38%
GASB 68 adjustment	1,900,800	2,945,461	(1,044,661)	-35.47%
GASB 75 adjustment	(877,573)	(183,179)	(694,394)	379.08%
Depreciation	473,033	444,350	28,683	6.46%
Total expenses	<u>19,424,070</u>	<u>26,859,558</u>	<u>(7,435,488)</u>	-27.68%
Change in net position	1,453,875	(50,719)	1,504,594	-2966.53%
Net Position – Beginning	<u>9,297,008</u>	<u>9,347,727</u>	<u>(50,719)</u>	-0.54%
Net Position – Ending	<u>\$ 10,750,883</u>	<u>\$ 9,297,008</u>	<u>\$ 1,453,875</u>	15.64%

The District's total revenues decreased by \$5,930,894, or -22.12%, in the current fiscal year. The total decrease is primarily attributed to the following factors:

- Intergovernmental revenue decreased significantly because in the prior year, the District collected disaster recovery funds of \$6.5 million as a result of the damage caused by the Thomas Fire (December 2017) and Debris Flow (January 2018). State and federal disaster declarations allowed the District to recuperate a majority of the emergency costs incurred during the events.

The District's total expenses decreased by \$7,435,488, or 27.68%, in the current fiscal year. The total decrease is primarily attributed to the following factors:

- Under salaries and benefits, pension supplemental contributions were \$2.2 million less than the prior year.

MONTECITO FIRE PROTECTION DISTRICT

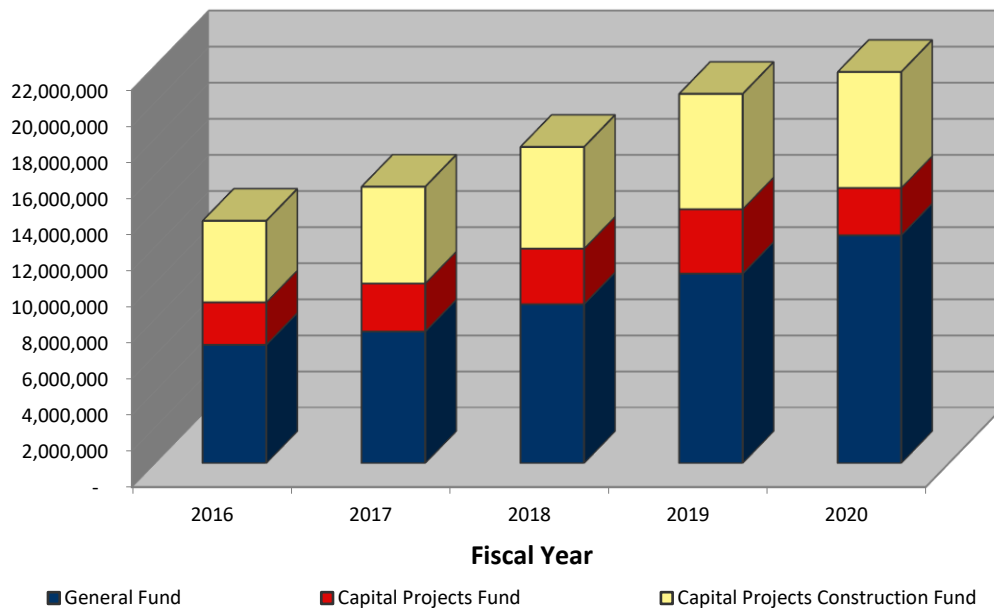
Management's Discussion and Analysis
(Unaudited)
June 30, 2020

- Under services and supplies, the District paid Cal Fire \$3.9 million for firefighting efforts in our jurisdiction as part of the Thomas Fire cost apportionment agreement in the prior year.
- Under GASB 68 and 75 adjustments, net decreases of \$1.7 million in expenses were calculated using independent actuarial reports for pension and OPEB plans.

Analysis of Fund Balances of Individual Funds

The chart below displays the fiscal year end (2016 to 2020) fund balances for the District's General Fund (annual operational account), Capital Projects Fund (equipment pre-funding account), and Capital Projects Construction Fund (land and building account).

Fund Balances – 5 Year Trend



Total fund balance has increased steadily from fiscal year 2016 to 2020. The General Fund balance includes \$6,878,000 in Board-approved reserves: catastrophic and economic uncertainties, and an additional \$1,000,000 in a committed funds to be used for supplemental pension contributions in fiscal year 2021.

MONTECITO FIRE PROTECTION DISTRICT

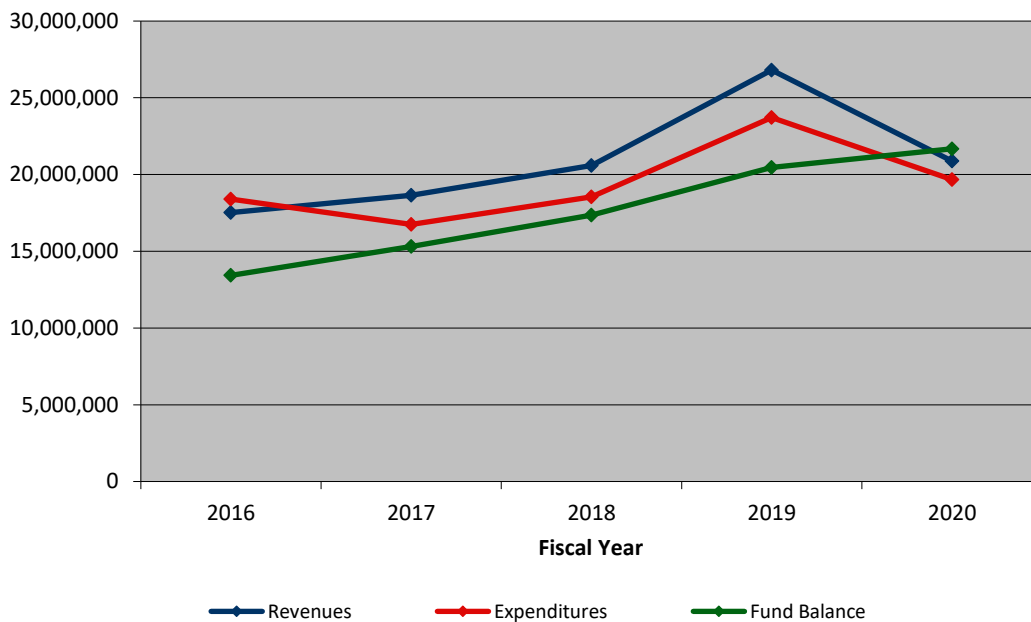
Management's Discussion and Analysis
(Unaudited)
June 30, 2020

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

The following chart displays the District's revenues, expenditures, and ending "Memorandum Only" fund balance totals for the same five-year period. Revenue has exceeded expenditures and fund balance has steadily increased since fiscal year 2016.

Over the last five years, revenue has steadily increased from \$17.5 million in 2016 to a peak of \$26.8 million in 2019, then down to \$20.8 million in 2020. Total combined expenditures have also seen in upward trend since 2016, with a peak of \$23.7 million in 2019, then down to \$21.7 million in 2020. The peaks in 2019 are due to one-time revenues and expenses resulting from the Thomas Fire and 1-9 Debris Flow.

Revenues, Expenditures & Fund Balance - 5 Year Trend



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

The Board of Directors adopted the District's 2019-20 fiscal year operating budget in September of 2019 on a modified accrual basis. As adopted for the General Fund, budgeted revenues totaled \$20,914,000, while projected expenditures totaled \$20,701,400. Operating transfers to the Capital Projects Fund were \$440,000.

The District formally amended its originally adopted budget in June of 2020. As amended for the General Fund, revised budgeted revenues decreased by \$342,000 to \$20,572,000, projected expenditures decreased by \$1,575,000 to \$19,126,400, and operating transfers remained unchanged.

MONTECITO FIRE PROTECTION DISTRICT

Management’s Discussion and Analysis
(Unaudited)
June 30, 2020

Actual revenues for the year were \$127,864 more than budgeted and actual expenditures were \$993,383 lower than the final amended budget on a modified accrual basis. Refer to the required supplementary information on page 35 for the Budgetary Comparison Schedule.

Capital Assets

The District’s investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$11,032,262 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, structures, improvements, and equipment.

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

Table 3 – Montecito Fire Protection District Capital Assets

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land	\$ 2,577,530	\$ 2,577,530	\$ -	0.00%
Construction in progress	609,563	529,436	80,127	15.13%
Structures & improvements	7,841,087	7,254,712	586,375	8.08%
Equipment	<u>6,449,481</u>	<u>5,074,349</u>	<u>1,375,132</u>	27.10%
Total cost	17,477,661	15,436,027	2,041,634	13.23%
Less: accumulated depreciation	<u>(6,445,399)</u>	<u>(6,283,064)</u>	<u>(162,335)</u>	2.58%
Total capital assets - net	<u>\$ 11,032,262</u>	<u>\$ 9,152,963</u>	<u>\$ 1,879,299</u>	20.53%

Significant capital asset activity during fiscal year 2019-20 includes the following:

- The District’s building improvements included a roof replacement to the Headquarters/Station 1 building, new vehicle exhaust systems to both stations, and a generator replacement for power back-up at Station 1. The building improvement projects totaled \$586,000.
- The District also placed into service two new engines and three staff vehicles, totaling \$1.4 million.
- The District recognized \$473,033 in depreciation expense.

MONTECITO FIRE PROTECTION DISTRICT

Management's Discussion and Analysis
(Unaudited)
June 30, 2020

Contacting the District Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the revenue received. We are committed to being open and accessible in our operations and governance. If you have any questions regarding this report or need additional financial information, please visit our website at Montecitofire.com.

BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020

	<u>General Fund</u>	<u>Pension Obligation Fund</u>	<u>Capital Project Fund</u>	<u>Capital Project Construction Fund</u>
Assets:				
Cash and investments	\$ 12,453,272	\$ 856	\$ 2,630,271	\$ 6,406,608
Accounts receivable	529,925	-	-	-
Interest receivable	38,967	3	6,902	19,607
Other assets	-	-	-	-
Capital assets, net	-	-	-	-
Total Assets	<u>\$ 13,022,164</u>	<u>\$ 859</u>	<u>\$ 2,637,173</u>	<u>\$ 6,426,215</u>
Deferred Outflows of Resources				
Deferred Outflows of Resources - OPEB				
Liabilities:				
Accounts payable	\$ 358,623	\$ -	\$ 18,440	\$ 2,175
Salaries and benefits payable	29,424	-	-	-
Long-term liabilities:				
Net Pension liability	-	-	-	-
Net OPEB liability	-	-	-	-
Compensated absences	-	-	-	-
Total Liabilities	<u>388,047</u>	<u>-</u>	<u>18,440</u>	<u>2,175</u>
Fund Balances/Net Position:				
Fund Balances:				
Nonspendable	-	-	427,351	-
Committed	-	-	-	-
Assigned	7,878,500	-	-	853
Unassigned	4,755,616	859	2,191,382	6,423,187
Total Fund Balances	<u>12,634,116</u>	<u>859</u>	<u>2,618,733</u>	<u>6,424,040</u>
Total Liabilities, Fund Balances	<u>\$ 13,022,163</u>	<u>\$ 859</u>	<u>\$ 2,637,173</u>	<u>\$ 6,426,215</u>
Deferred Inflows of Resources				
Deferred Outflows of Resources - OPEB				
Net Position:				
Invested in capital assets				
Unrestricted				
Total Net Position				

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020

Total Memorandum Only	Adjustments	Statement of Net Position
\$ 21,491,007	\$ -	\$ 21,491,007
529,925	-	529,925
65,479	-	65,479
-	45,092	45,092
-	11,032,262	11,032,262
<u>\$ 22,086,411</u>	<u>\$ 11,077,354</u>	<u>\$ 33,163,765</u>
-	\$ 7,707,526	\$ 7,707,526
-	2,047,139	2,047,139
\$ 379,238	\$ -	\$ 379,238
29,424	-	29,424
-	22,903,885	22,903,885
-	2,204,104	2,204,104
-	1,545,373	1,545,373
<u>408,662</u>	<u>26,653,362</u>	<u>27,062,024</u>
427,351	(427,351)	-
-	-	-
7,879,353	(7,879,353)	-
13,371,044	(13,371,044)	-
<u>21,677,748</u>	<u>(21,677,748)</u>	<u>-</u>
<u>\$ 22,086,410</u>		
	4,396,488	4,396,488
	709,034	709,034
	11,032,262	11,032,262
	(281,379)	(281,379)
	<u>\$ 10,750,883</u>	<u>\$ 10,750,883</u>

Assets:

Cash and investments
Accounts receivable
Interest receivable
Other assets
Capital assets, net
Total Assets

Deferred Outflows of Resources

Deferred Outflows of Resources - OPEB

Liabilities:

Accounts payable
Salaries and benefits payable
Long-term liabilities:
Net Pension liability
Net OPEB liability
Compensated absences
Total Liabilities

Fund Balances/Net Position:

Fund Balances:

Nonspendable
Committed
Assigned
Unassigned
Total Fund Balances
Total Liabilities, Fund Balances

Deferred Inflows of Resources

Deferred Outflows of Resources - OPEB

Net Position:

Invested in capital assets
Unrestricted
Total Net Position

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>Pension Obligation Fund</u>	<u>Capital Project Fund</u>	<u>Capital Projects Construction Fund</u>
Revenues:				
Property taxes	\$ 18,024,039	\$ -	\$ -	\$ -
Investment income	193,286	17	47,593	125,279
Rental income	12,900	-	-	-
Intergovernmental	1,022,095	-	-	-
Proceeds from sale of assets/gain on sale	-	-	7,800	-
Miscellaneous	1,447,543	-	-	-
Total Revenues	<u>20,699,864</u>	<u>17</u>	<u>55,393</u>	<u>125,279</u>
Expenditures:				
Salaries and benefits	15,195,081	-	-	-
Services and supplies	2,110,420	-	-	3,786
Depreciation	-	-	-	-
Capital outlay	827,516	-	1,447,297	80,127
Total Expenditures/Expenses	<u>18,133,017</u>	<u>-</u>	<u>1,447,297</u>	<u>83,913</u>
Excess (deficiency) of revenues over (under) expenditures	2,566,847	17	(1,391,904)	41,366
Other Financing Sources (Uses):				
Transfers in	-	-	440,000	-
Transfers out	(440,000)	-	-	-
Total other financing sources (uses)	<u>(440,000)</u>	<u>-</u>	<u>440,000</u>	<u>-</u>
Net change in fund balances	2,126,847	17	(951,904)	41,366
Change in net position				
Fund Balances/Net Position - Beginning	<u>10,507,269</u>	<u>842</u>	<u>3,570,637</u>	<u>6,382,674</u>
Fund Balances/Net Position - Ending	<u>\$ 12,634,116</u>	<u>\$ 859</u>	<u>\$ 2,618,733</u>	<u>\$ 6,424,040</u>

MONTECITO FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

<u>Total Memorandum Only</u>	<u>Adjustments</u>	<u>Statement of Activities</u>	
\$ 18,024,039	\$ -	\$ 18,024,039	Revenues:
366,175	-	366,175	Property taxes
12,900	-	12,900	Investment income
1,022,095	-	1,022,095	Rental income
7,800	(2,608)	5,192	Intergovernmental
1,447,543	-	1,447,543	Proceeds from sale of assets/gain on sale
<u>20,880,553</u>	<u>(2,608)</u>	<u>20,877,945</u>	Miscellaneous
			Total Revenues
15,195,081	1,641,750	16,836,831	Expenditures:
2,114,206	-	2,114,206	Salaries and benefits
-	473,033	473,033	Services and supplies
2,354,940	(2,354,940)	-	Depreciation
<u>19,664,227</u>	<u>(240,157)</u>	<u>19,424,070</u>	Capital outlay
			Total Expenditures/Expenses
1,216,326	237,549	1,453,875	Excess (deficiency) of revenues over (under) expenditures
440,000	(440,000)	-	Other Financing Sources (Uses):
(440,000)	440,000	-	Transfers in
<u>-</u>	<u>-</u>	<u>-</u>	Transfers out
			Total other financing sources (uses)
1,216,326	(1,216,326)	-	Net change in fund balances
	1,453,875	1,453,875	Change in net position
<u>20,461,422</u>	<u>(11,164,414)</u>	<u>9,297,008</u>	Fund Balances/Net Position - Beginning
<u>\$ 21,677,748</u>	<u>\$ (9,710,539)</u>	<u>\$ 10,750,883</u>	Fund Balances/Net Position - Ending

NOTES TO THE BASIC FINANCIAL STATEMENTS

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

The District maintains the following governmental fund types:

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

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

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

Investments

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

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

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

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

Receivables

Receivables are recorded in the District's Statement of Net Position and Governmental Funds Balance Sheet net of any allowance for uncollectible. All receivables are deemed to be collectible at June 30, 2020, and, as such, the District has no allowance for uncollectible accounts for these receivables.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets

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

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

Compensated Absences

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

Deferred Compensation Plan

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

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Equity

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

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

- *Nonspendable fund balance* – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Restricted fund balance* – This fund balance classification should be reported when there are constraints placed on the use of resources externally (by creditors, grant sources, contributors, etc.) or imposed by law or enabling legislation.
- *Assigned fund balance* – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making or by a body or an official designated for that purpose. This is also the classification for residual funds in the District’s debt service, special revenue, and capital projects funds.
- *Unassigned fund balance* – the residual classification for the District’s General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Memorandum Only – Total Columns

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

Use of Estimates

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

Prior Year Change in Accounting Principles – Other Post Employment Benefits

During the year ended June 30, 2018, the District adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75)*. This statement requires the Agency recognize in its financial statements the total Postemployment Benefits Other Than Pensions (OPEB) liability for the health benefits provided to retirees, less the amounts held in an irrevocable trust account.

Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The District has implemented the requirements of GASB 75 on a prospective basis.

GASB 75 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 2: CASH AND INVESTMENTS

Investment in the Santa Barbara County Investment Pool

The District is a voluntary participant in the Santa Barbara County Treasurer's investment pool that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer. As of June 30, 2020 the District had cash on deposit with the County Treasurer in the amount of \$21,491,007.

Investments Authorized by District Policy

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating firm. The Santa Barbara County Treasurer's investment pool is not rated.

Custodial Credit Risk

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, is as follows:

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Capital assets, not being depreciated:				
Land	\$ 2,577,530	\$ -	\$ -	\$ 2,577,530
Construction in progress	<u>529,436</u>	<u>80,127</u>	<u>-</u>	<u>609,563</u>
Total capital assets, not being depreciated	<u>3,106,966</u>	<u>80,127</u>	<u>-</u>	<u>3,187,093</u>
Capital assets, being depreciated:				
Structures and improvements	7,254,712	586,375	-	7,841,087
Equipment	<u>5,071,808</u>	<u>1,688,438</u>	<u>(310,765)</u>	<u>6,449,481</u>
Total capital assets, being depreciated	<u>12,326,520</u>	<u>2,274,813</u>	<u>(310,765)</u>	<u>14,290,568</u>
Less accumulated depreciation for:				
Structures and improvements	(3,017,974)	(183,322)	-	(3,201,296)
Equipment	<u>(3,262,549)</u>	<u>(289,711)</u>	<u>308,157</u>	<u>(3,244,103)</u>
Total accumulated depreciation	<u>(6,280,523)</u>	<u>(473,033)</u>	<u>308,157</u>	<u>(6,445,399)</u>
Total capital assets, being depreciated, net	<u>6,045,997</u>	<u>1,801,780</u>	<u>(2,608)</u>	<u>7,845,169</u>
Total capital assets, net	<u>\$ 9,152,963</u>	<u>\$ 1,881,907</u>	<u>\$ (2,608)</u>	<u>\$ 11,032,262</u>

Depreciation expense amounted to \$473,033 for the fiscal year ended June 30, 2020.

NOTE 4: LONG-TERM LIABILITIES

Changes to the District's long-term liabilities for the year ended June 30, 2020, are as follows:

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Compensated absences	\$ 1,548,213	\$ -	\$ (2,840)	\$ 1,545,373
Net pension liability	<u>21,248,084</u>	<u>1,655,801</u>	<u>-</u>	<u>22,903,885</u>
	<u>\$ 22,796,297</u>	<u>\$ 1,655,801</u>	<u>\$ (2,840)</u>	<u>\$ 24,449,258</u>

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 5: INTERFUND TRANSFERS

Interfund transfers in the District’s fund financial statements made during the year ended June 30, 2020, are as follows:

Funds	Inter-Fund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ -	\$ 440,000
Capital projects	440,000	-
Total	<u>\$ 440,000</u>	<u>\$ 440,000</u>

During the fiscal year ended June 30, 2020, the District transferred \$440,000 from the General Fund to the capital outlay funds to finance fixed asset purchases.

NOTE 6: RISK MANAGEMENT

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

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

FAIRA provides the District with insurance-like benefits for general liability and excess liability coverage, automobile claims, management liability coverage, and property coverage for buildings, contents, and crime. During the fiscal year, the District contributed an annual premium of \$32,345 with limits ranging from \$1,000,000 to \$2,000,000 for each liability, and excess liability coverage of \$10,000,000. The insurance coverage in excess of the \$1,000,000, up to \$10,000,000, is provided by the Argonaut Insurance Company.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 7: RETIREMENT PLAN

Plan Description

The District contributes to the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of CalPERS' annual financial report may be obtained from its Executive Office at 400 P Street, Sacramento, CA 95814.

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

On January 1, 2013, the Public Employee Pension Reform Act of 2013 (PEPRA) became effective, which made numerous changes to public pension provisions for agencies contracting with CalPERS. A new tier level was created for new public agency employees, which includes a different retirement benefit formula as well as different employer and member contribution rates as compared to current public agency employees.

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

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 7: RETIREMENT PLAN - continued

Funding Policy

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

<u>Tier</u>	<u>Safety</u>	<u>Non-Safety</u>
Tier 1	21.748%	16.652%
PEPRA	13.786%	7.070%

In addition, the District also makes unfunded liability payments annually to help make up for the shortfall in the pension plan. This is also actuarially determined. The following represents the unfunded liability payments made during the 2020 fiscal year:

<u>Tier</u>	<u>Safety</u>	<u>Non-Safety</u>
Tier 1	\$ 1,234,551	\$ 143,988
PEPRA	1,641	325

Funding Policy

At June 30, 2020, the District reported a liability of \$22,903,885 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, which was actuarially determined.

For the fiscal year ended June 30, 2020, the District recognized pension expense of \$4,564,099 in its Government-Wide financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 7: RETIREMENT PLAN – continued

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions; total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees:

- Discount Rate/Rate of Return – 7.15%, net of investment expense
- Inflation Rate – 2.75%
- Salary increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS’ Membership Data for all Funds

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2018. The long-term expected rate of return on pension plan investments (7.15%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocations	Real Return Years 1-10	Real Return Years 11+
Global Equity	50.00	4.80%	5.98%
Global Fixed Income	28.00	1.00%	2.62%
Inflation Sensitive	0	.77%	1.81%
Private Equity	8.00	6.30%	7.23%
Real Estate	13.00	3.75%	4.93%
Liquidity	1.0	0	(.92)%

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 7: RETIREMENT PLAN - continued

Actuarial Assumptions - (continued)

to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District's proportionate share of the net pension liability	\$ 36,659,211	\$ 22,903,885	\$ 11,618,791

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

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Funding Policy

The District provides retiree healthcare benefits for employees who retire with CalPERS pension benefits immediately upon termination of employment from the District. The District contracts with CalPERS for this insured-benefit plan, an agent multiple-employer post-employment healthcare plan, established under the State of California’s Public Employees’ Medical and Hospital Care Act (PEMHCA). The plan’s medical benefits and premium rates are established by CalPERS and the insurance providers. The District pays for medical, dental, and vision premiums for the lifetime of the retiree and their eligible dependents. The District pays 100% of the retiree medical premiums, up to a maximum of \$2,725 per month for 2020, and 100% of the premiums for retiree dental and vision coverage. CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS webpage at www.calpers.ca.gov.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

Plan Description and Funding Policy - (continued)

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

The contributions to the OPEB plan are based on pay-as-you-go financing requirements, with an additional amount contributed to the PARS Trust to prefund benefits from time to time at the sole discretion of the Board. Retiree health benefits may be paid out of the PARS Trust, set up for this purpose, to the extent funded. The purpose of this funding policy is to manage the District's OPEB obligations while at the same time maintaining as much flexibility as possible to adjust for changing budgetary considerations.

Employees Covered by Benefit Terms

At the OPEB liability measurement date of June 30, 2019, the following employees were covered by the benefit terms:

- Retired employees – 49
- Active employees – 45

Total OPEB liability

The District's total OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	4.00%
Medical cost trend	5-6% increases
Discount rate	6.5%

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

	<u>2020</u>
Total OPEB liability - 6/30/2019	\$ 2,414,377
Service cost	427,392
Interest	879,400
Expected return on plan assets	(687,583)
Less benefit paid	(886,355)
Administrative costs	56,873
Total OPEB liability - 6/30/2020	<u>\$ 2,204,104</u>

Sensitivity of the District's Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	5.5%	6.5%	7.5%
District's net OPEB plan liability	\$ 3,817,919	\$ 2,204,104	\$ 850,099

Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
		Rate	
District's net OPEB plan liability	\$ 680,196	\$ 2,204,104	\$ 3,862,921

OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020 the District recognized OPEB expense of \$621,363. OPEB expense represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss and actuarial assumptions.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) - continued

OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - (continued)

At June 30, 2020, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 1,095,704	\$ -
Change in assumptions	-	453,196
Net differences between project and actual earnings	73,862	255,838
Contributions subsequent to measurement date	<u>877,573</u>	<u>-</u>
	<u>\$ 2,047,139</u>	<u>\$ 709,034</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 136,232
2022	136,232
2023	169,604
2024	<u>18,464</u>
Total	<u>\$ 460,532</u>

NOTE 9: WORKFORCE HOUSING

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

In January of 2018, one property was destroyed and two were severely damaged rendering them uninhabitable. Since then, one property was repaired and was occupied by an employee of the District. The other two properties are in the repair and rebuilding phase.

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, the District recognized deferred outflows of resources in the government-wide and proprietary fund statements. These items are a consumption of net position by the District that is applicable to a future reporting period. The District has one item that is reportable on the Government-Wide Statement of Net Position as Deferred Outflows of Resources which is related to pensions that are the CalPERS premiums for the 2020 fiscal year which will be recognized in a subsequent reporting period. The total for this is \$2,663,298.

The District is also reporting deferred outflows of resources relating to differences between projected and actual investment earnings, change in employer proportions and differences between the employer’s contributions and their proportionate share of contributions. The total of these amounts at year-end were \$5,044,225 and they will be amortized over a 3.8 year period.

The District also recognized deferral inflows of resources in the government-wide financial statements. These are related to differences between expected and actual experience, changes of assumptions, and differences between employers and the District’s proportionate share of contributions. This amount totaled \$4,394,575 and will be amortized over a 3.8 year period.

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds will therefore include deferred inflows of resources for amounts that have been earned but are not available to finance expenditures in the current period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 848,355
2022	(443,560)
2023	181,571
2024	63,284
Total	<u>\$ 649,650</u>

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 11: EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEETS AND STATEMENT OF NET POSITION

Amounts reported for governmental activities in the Statement of Net Position are different because: Capital assets used in Governmental Activities are not financial resources and, therefore; are not reported in the funds.	\$ 11,032,262
Certain long-term assets, such as deferred outflows of resources, create long-term assets.	9,754,665
Long-term liabilities, including compensated absences are not due and payable in the current period and, therefore; are not reported in the funds.	(1,545,373)
Other long-term liabilities, such as the net pension liability and deferred inflows of resources, are not due and payable in the current period and, therefore; are not reported in the funds.	<u>(30,213,511)</u>
Combined Adjustment	<u>\$ (10,971,957)</u>
Amounts reported for governmental activities in the Statement of Activities are different because: Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference is the amount by which depreciation exceeded capital outlays in the current period, plus gain on disposal.	\$ 1,884,515
Changes in the compensated absences, net pension liability, and OPEB liabilities are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>(1,641,750)</u>
Combined Adjustment	<u>\$ 242,765</u>

MONTECITO FIRE PROTECTION DISTRICT

Notes to the Financial Statements
June 30, 2020

NOTE 12: COMMITMENTS AND CONTINGENCIES

Litigation

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

Grant Revenues

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

NOTE 13: SUBSEQUENT EVENTS

Subsequent events have been reviewed through December 31, 2020, the date the financial statements were available to be issued. In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent with transmission rates as yet unknown. The economic impact on the State of California and the County of Santa Barbara as yet has not been determined and, therefore, any potential impact on the District is not yet known.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**MONTECITO FIRE PROTECTION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Unaudited)
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 17,896,000	\$ 17,896,000	\$ 18,024,039	\$ 128,039
Investment income	180,000	180,000	193,286	13,286
Rental income	20,000	20,000	12,900	(7,100)
Intergovernmental	2,473,000	829,500	1,022,095	192,595
Miscellaneous	345,000	1,646,500	1,447,543	(198,957)
Total revenues	<u>20,914,000</u>	<u>20,572,000</u>	<u>20,699,864</u>	<u>127,864</u>
Expenditures				
Salaries and benefits	17,661,400	16,161,400	15,195,081	966,319
Services and supplies	2,272,500	2,122,500	2,110,420	12,080
Capital outlay	767,500	842,500	827,516	14,984
Total expenditures	<u>20,701,400</u>	<u>19,126,400</u>	<u>18,133,017</u>	<u>993,383</u>
Excess of revenues over expenditures				
Other Financing Uses:				
Transfers out (net)	<u>(440,000)</u>	<u>(440,000)</u>	<u>(440,000)</u>	<u>-</u>
Total other financing uses	<u>(440,000)</u>	<u>(440,000)</u>	<u>(440,000)</u>	<u>-</u>
Net changes in fund balances	<u>\$ (227,400)</u>	<u>\$ 1,005,600</u>	<u>2,126,847</u>	
Fund balances - Beginning			<u>10,507,269</u>	
Fund balances - Ending			<u>\$ 12,634,116</u>	

MONTECITO FIRE PROTECTION DISTRICT

Notes to Budgetary Comparison Schedules
For the Year Ended June 30, 2020

NOTE 1: BUDGETARY AND LEGAL COMPLIANCE

In accordance with California Health and Safety Code Section 13895, on or before October 1, the District must submit a board approved budget to the County Auditor. Annual budgets are adopted for the District's General, Capital Projects, and Capital Projects Construction Funds. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP. Annually, the Board of Directors conducts a public hearing for the discussion of proposed budgets. At the conclusion of the hearing, the Board adopts the final budgets. All appropriations lapse at fiscal year-end and are subject to re-appropriation as part of the following year's budget. The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the object level. Any changes in the annual budget must be changed by a vote of the Board. The Board amended the originally adopted General Fund budget in June of 2020.

MONTECITO FIRE PROTECTION DISTRICT

Required Supplementary Information Other Post-Employment Benefits (OPEB) Plan – Schedule of Funding Progress For the Year Ended June 30, 2020

	2020	2019	2018
Total OPEB liability - beginning	\$ 2,414,377	\$ 1,601,486	\$ 2,052,103
Service cost	427,392	472,727	644,394
Interest	879,400	753,337	712,627
Expected return on plan assets	(687,583)	(794,397)	(1,175,914)
Experience differences	-	405,816	-
Changes in assumptions	-	(167,851)	-
Benefit paid	(886,355)	-	-
Change in deferred outflows and inflows	-	195,809	(682,741)
Administrative costs	56,873	(52,550)	(51,017)
Total OPEB liability - ending	\$ 2,204,104	\$ 2,414,377	\$ 1,499,452
Covered Payroll	\$ 9,550,994	\$ 10,410,655	\$ 6,836,000
Total OPEB liability as a percentage of covered payroll	23.08%	23.19%	23.43%
Plan fiduciary net position as a percentage of the total OPEB liability	84.21%	82.17%	86.63%

MONTECITO FIRE PROTECTION DISTRICT

Required Supplementary Information - Pensions For the Year Ended June 30, 2020

Last 10 Fiscal Years*:

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
District's proportion of the net pension liability	0.310696%	0.310636%	0.374780%	0.217400%	0.220500%	0.223520%
District's proportionate share of the net pension liability	\$ 13,163,696	\$ 11,522,916	\$ 18,462,053	\$ 21,524,106	\$ 21,248,085	\$ 22,903,886
District's covered employee payroll	6,597,160	6,998,926	6,784,400	6,983,314	7,517,960	7,537,293
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	199.53%	164.64%	272.13%	308.22%	282.63%	303.87%
Plan Fiduciary net position as a percentage of the total pension liability	81.59%	83.99%	76.68%	75.48%	77.40%	77.23%

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

CALPERS - Schedule of District Contributions

Last 10 Fiscal Years*:

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2019
Actuarially determined contribution	\$ 1,192,280	\$ 1,192,280	\$ 934,063	\$ 772,837	\$ 2,788,692	\$ 2,663,298
Total action contribution	<u>(1,192,280)</u>	<u>(1,192,280)</u>	<u>(934,063)</u>	<u>(772,837)</u>	<u>(2,788,692)</u>	<u>(2,663,298)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 6,597,160	\$ 6,998,926	\$ 6,784,400	\$ 6,983,314	\$ 7,517,960	\$ 7,537,293
Contributions as a percentage of covered employee payroll	18.07%	17.04%	13.77%	11.07%	37.09%	35.33%