

**ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

FOR THE YEAR ENDED JUNE 30, 2016

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**ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2016

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MEMORANDUM ON INTERNAL CONTROL

To Board of Directors of
the Ross Valley Fire Department
San Anselmo, California

We have audited the basic financial statements of the Ross Valley Fire Department (Department) for the year ended June 30, 2016, and have issued our report thereon dated December 22, 2016. In planning and performing our audit of the basic financial statements of the Ross Valley Fire Department, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the Department.

The Department's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
December 22, 2016

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

CURRENT YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016 - 01: Formal Financial Policies and Procedures Performed by the Town of San Anselmo

Criteria: Formal financial policies and procedures are adopted to provide guidance on how to adhere and maintain proper internal controls over various financial transactions and reconciliations. This includes, but is not limited to, procedures over bank reconciliations, payroll registers, check registers, and cash receipt reconciliations.

Condition: Starting March 2016, the Town of San Anselmo assumed the accounting responsibility over the Department. The joint effort was intended to begin July 1, 2016, however, due to an unforeseen circumstance, the Town began providing their accounting services earlier than anticipated. Transaction processes such as bank reconciliations, accounts payable and payroll, transferred to the Town. While testing the internal controls over the various transaction cycles, we noted a review process was performed by both the Town and the Department. However, because of the sudden transition in responsibilities, no formal financial policy and procedures were documented set in place that outlines the expectations of services the Town was to provide the Department.

Potential Effect: Although the Town of San Anselmo is performing many of the Department's financial functions, outlining a formal financial policy and procedure ensures what controls are to be in place and what expectations are outlined by both the Department and the Town.

Cause: The Town of San Anselmo began performing the financial operations for the Department in March 2016, prior to the anticipated turnover, which did not allow for formal documentation of financial policies and procedures to be put in place that align with the Department's current transactions and the Town's accounting services responsibilities.

Recommendation: We recommend that the Fire Department, along with the Town of San Anselmo, establish policies and procedures to ensure compliance with the Department's current practice.

Management Response:

The Town has internal control procedures in place with respect to Fire Department transactions. With respect to Accounts Payable, invoices are coded by Fire Department personnel and sent to San Anselmo for payment. The invoices are signed by Fire Department staff indicating receipt of items or that services have been rendered. All checks are given to the Battalion Chief on duty, along with the check register. The Battalion Chief reviews all of the payments, signs the checks when necessary, and signs the check register, indicating his approval. Regarding payroll, deviations from a regular schedule, such as sick leave, vacation leave or overtime hours are recorded on a change of duty slip and signed by a Battalion Chief. These hours are entered into the reporting system by the Battalion Chief. A report is generated from the reporting system and signed by the Battalion Chief and then sent to San Anselmo for payment. The entire payroll is reviewed by the Finance Director. Bank reconciliations are performed by the Finance Director. The Fire Chief reviews the bank statements and signs them indicating he has reviewed them.

The Fire Department and the Town will formalize these policies.

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

CURRENT YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016 - 02: Compliance with Purchasing Policy

Criteria: The Department's Purchasing Policy requires staff to submit a purchase order for approval for expenditures over \$50.

Condition: While testing of disbursements for compliance with the Department's Purchasing Policy, we noted that 10 disbursements did not appear to have an approved purchase order. Additionally, per conversation with Department staff, it does not appear the Department has a formal policy in regards to many of its financial operations, due to the outsourcing of financial operations to the Town of San Anselmo.

Potential Effect: Despite the Town of San Anselmo performing accounting and financial duties for the Department in accordance to the Town's own policies, the Department should have adhered to their purchasing policy leading up to the transferring of duties to the Town of San Anselmo.

Cause: The Town of San Anselmo began performing accounting and financial duties for the Department in March 2016, and the Department is unaware of the Town's purchasing policy.

Recommendation: We recommend the Department draft and approve by way of the Board of Directors, formal, written policies for the Department's financial operations.

Management Response:

The Town and Fire Department will formalize a purchasing policy.

2016 - 03: Segregation of Duties in Cash Disbursement Procedures

Criteria: The employee who approves Cal card disbursements should not be able to approve their own disbursement transaction.

Condition: Pursuant to the testing of Cal card disbursements, we noted 2 transactions that had been approved by the card-holder.

Potential Effect: Although the procurement card's billing statements are submitted to the Administrative Assistant for processing, the approver whom signs off on review and approval should not be one of the employees also making purchases on the card.

Cause: Despite the Town of San Anselmo performing financial operation duties for the Department, the segregation of duties for approving Cal card statements is not a current practice.

Recommendation: We recommend any employee involved with reviewing and approving the Cal card statements should not review their own statements.

Management Response:

The town also identified this condition. Fire Department personnel are no longer approving their own purchases.

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

CURRENT YEAR SCHEDULE OF SIGNIFICANT DEFICIENCIES

2016 - 04: Proper Approval of Timecards

Criteria: All timecards should be properly signed by upper management or other personnel to review for unusual time and overtime, including the Fire Chief.

Condition: Pursuant to the testing of the Department's payroll, it was noted that one time card was not signed by another employee. The Fire Chief is not exempt from such approval and should also obtain a signature from other management.

Potential Effect: Lack of review and approval of timecards increases the possibility of unauthorized payroll such as unapproved overtime.

Cause: Appears to be an oversight.

Recommendation: We recommend all timecards are review and approved by appropriate management.

Management Response:

The Fire Chief will complete a timecard and a Battalion Chief will approve it.

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ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

CURRENT YEAR SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in fiscal year 2016-17. We have cited them here to keep you abreast of developments:

GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2015 - 01: Compliance with Purchasing Policy

Criteria: The Department's Purchasing Policy requires staff to use a purchase order for any expenditure in excess of \$50.

Condition: During our testing of 25 disbursements for testing of compliance with the Department's purchasing policy and supporting documentation and 18 disbursements greater than \$50 did not have a purchase order.

Effect: The Department is not in compliance with their purchasing policy. The current practice creates a weakness in internal controls over cash disbursements.

Cause: The purchase order system is not being used correctly and consistently by fire department staff.

Recommendation: We recommend that the Fire Department establish procedures to ensure compliance with the policy, or updated the policy to reflect the Department's current practice. The use of purchase orders will provide the Department with more timely information and facilitate management in addressing budget concerns more timely and effectively.

Management Response: The Department is currently in the process of updating the Manual of Operations (2007 version), which includes the Accounting Practices section. The new policy will address the current practice being utilized by employees making purchases.

Current Status: See Finding 2016-02

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF PRIOR YEAR OTHER MATTERS

2015 - 02: Evidence of Bank Reconciliation Preparer and Reviewer

Criteria: Bank reconciliations should have a documentary trail indicating the initials or signature of the preparer and reviewer and date of completion from both employees. This is to ensure that there are two separate employees preparing and reviewing the bank reconciliations in a timely manner.

Condition: We understand that the Department's procedure is to reconcile the bank account within 30 days from receipt of the bank statement. However, per review of the December 2014 and June 2015 bank reconciliation, there was no indication of who prepared or reviewed and when those tasks were performed. This is an issue that was brought to management's attention in the prior year.

Effect: Segregation of duties is an effective internal control because it reduces the risk of mistakes and errors. Without documentation from the preparer and reviewer we were unable to determine if the bank reconciliation was completed by separate employees in a timely manner.

Cause: The Department appears to have been preparing and reviewing timely, however, was not aware that documenting their initials or signatures and dates were needed.

Recommendation: We recommend that the Department implement procedures to ensure that each preparer and reviewer of the bank reconciliation documents their initials or signature and date of completion.

Management Response: Currently the bank statements are reviewed and initialed by the Fire Chief and the Administrative Assistant. All reconciliations are reviewed by the Administrative Assistant and a third party consultant employed by the District to provide budgetary assistance. The Department will implement a procedure to have the reviewers initial the reconciliations.

Current Status: Not implemented. See Finding 2016-01

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REQUIRED COMMUNICATIONS

To the Board of Directors of
the Ross Valley Fire Department
San Anselmo, California

We have audited the basic financial statements of the Ross Valley Fire Department (Department) for the year ended June 30, 2016. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB Statement No. 72 – Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

The pronouncement became effective, and as disclosed in Note 2C to the financial statements.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Department's financial statements was:

- *Estimated Fair Value of Investments:* As of June 30, 2016, the Department held approximately \$1.3 million of cash and investments, as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2016. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2016.
- *Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on accounting valuations prepared by the California Public Employees Retirement System and GASB 67/68 Pension Accounting Reports prepared by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated December 22, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the required supplementary information accompanying the financial statements, we 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 did not express an opinion nor 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.

This information is intended solely for the use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, CA
December 22, 2016

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ROSS VALLEY FIRE DEPARTMENT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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**ROSS VALLEY FIRE DEPARTMENT
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ross Valley Fire Department
San Anselmo, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund, of the Ross Valley Fire Department (Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department'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 the 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 Department'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 Department'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Department as of June 30, 2016, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 as discussed in Note 1H to the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplement Information 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.

Maze + Associates

Pleasant Hill, California
December 22, 2016

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

This discussion and analysis of the Ross Valley Fire Department (the "Department") fiscal performance provides an overview of the Department's financial activities for the fiscal year ended June 30, 2016. Please review it in conjunction with the transmittal letter and the basic financial statements, which begin on page 21.

FINANCIAL HIGHLIGHTS

From the Statement of Net Position and Statement of Activities – see pages 12-13

➤ **Background**

At the end of the fiscal year ending June 30, 2015, the Fire Department's net position total net position was (\$8,316,114) as compared with \$1,271,497 as of June 30, 2014. The decrease in net position, and overall negative net position, was due to the compliance with GASB Statement 68 which was effective beginning in the 2014-2015 fiscal year. GASB 68 requires, among other things, state and local governments to present net pension liabilities at the entity wide level for the first time, which results in a reduction of total net position due to the pension liability. Implementation of GASB 68 and the presentation of the liability on its financial statements does not impact the Department's ability to fund continuing operations.

- At the end of fiscal year ending June 30, 2016, the Fire Department's total net position is (\$6,955,625), an increase of \$1,360,489. The increase is due mainly to an increase in total assets of \$509,157, including an increase of \$425,980 in cash, and a decrease in long term debt (pension obligation bonds) of \$556,254.
- The statement of net position, appearing as the first statement of the basic financial statements and summarized in Management's Discussion and Analysis, reports the Department's total assets to be \$3,008,924, deferred outflows of resources at \$1,214,092, total liabilities of \$9,492,216, deferred inflows of resources at \$1,686,425, and net position of (\$6,955,625).
- The Department's total revenue was \$9,598,396 and total expenditures were \$8,237,907, resulting in an increase in net position of \$1,360,489.
- The Department's capital assets, totaled \$3,771,617 including \$ 2,292,041 in accumulated depreciation, resulting in net capital assets of \$1,479,576.
- The Department's long-term debt and obligations totaled \$8,641,587 as of June 30, 2016, a decrease of \$398,814 compared to the prior fiscal year. The decrease is primarily due to the payments toward outstanding pension obligation bonds.

ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS

The Department's basic financial statements are comprised of three components: government-wide financial statements, governmental funds financial statements, and notes to the financial statements. Supplementary information in addition to the basic financial statements is also presented.

Government-wide financial statements found on pages 12-13

The Government-wide financial statements are designed to provide readers with a broad overview of the Department's finances in a manner similar to a private-sector business. There are two government-wide financial statements - The Statement of Net Position and the Statement of Activities and Changes in Net Position ("Statement of Activities").

The Statement of Net Position presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statement of Activities presents information showing how the Department's net assets changed during the fiscal year. Accruals of revenue and expenses are taken into account regardless of when cash is received or paid.

Like in a private-sector business capital assets are depreciated, the principal portion of the debt service is net an expenditure, and compensated absences are expensed in the period earned.

Governmental fund financial statements found on pages 16-19

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The major differences between fund financial statements and government-wide financial statements are in the way debt proceeds, capital outlay, and compensated absences are recorded. Reconciliations between the two types of financial statements are found on pages 17 and 19.

Notes to the financial statements on pages 21-39

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required Supplementary information on page 42-46

In addition to basic financial statements and accompanying notes, this report also presents budgetary comparison schedules.

ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net position for the Department is summarized below and an analysis follows:

	Governmental Activities		Total Percent Change
	2016	2015	
Cash and investments	\$ 1,338,192	\$ 912,212	47%
Capital assets, net	1,479,576	1,493,007	-1%
Pension assets	13,249	12,690	4%
Other assets	177,907	81,858	117%
Total assets	3,008,924	2,499,767	4%
Pension related	1,214,092	1,331,390	-9%
Total deferred outflows of resources	1,214,092	1,331,390	-9%
Long-term debt, net	\$642,838	\$1,199,092	-46%
Other liabilities	8,849,378	8,513,268	4%
Total liabilities	9,492,216	9,712,360	-2%
Pension related	1,686,425	2,434,911	-31%
Total deferred inflows of resources	1,686,425	2,434,911	-31%
Net investment in capital assets	1,479,576	1,493,007	-1%
Unrestricted	(8,435,201)	(9,809,121)	-14%
Net position	\$ (6,955,625)	\$ (8,316,114)	-16%

The Fire Department's net position indicates that liabilities exceed assets by \$6,955,625 as of June 30, 2016. This is due largely to the application of GASB 68 which requires that net pension liabilities be included in the government wide statements.

Total assets increased by \$509,157 as compared to the previous year.

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Long term debt decreased by \$556,254. Long-term debt includes compensated absences, capital leases for fire apparatus, and the Pension Obligation Bonds.

Other liabilities increased by \$336,110. Other liabilities include; accounts payable, pension obligation, accrued liabilities, and current portion of long-term debt.

Investment in capital assets consists of capital assets less any related debt that is still outstanding.

Analysis of Changes in Net Position

Changes in net position for the Department are summarized below and an analysis follows:

	Governmental Activities		Total Percent Change
	2016	2015	
Revenues:			
Program revenues:			
Charges for services	\$ 9,263,908	\$ 8,894,023	4%
General revenues:			
Investment earnings	3,621	1,526	137%
Miscellaneous	6,871	5,035	36%
Prior authority retirement	323,996		
Total revenues	9,598,396	8,900,584	8%
Expenses:			
Fire services	8,237,907	9,225,977	-11%
Total expenses	8,237,907	9,225,977	-11%
Change	\$ 1,360,489	\$ (325,393)	-518%

Revenues increased by \$697,812 and expenses increased by \$998,070 from 2015 levels. Net position increased by \$1,360,489.

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

GOVERNMENTAL FUNDS ANALYSIS

The following schedule presents a summary of general fund revenues and expenditures for the fiscal years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Revenues:		
Intergovernmental:		
Town of San Anselmo (Contract)	\$ 2,883,411	\$ 2,775,491
Town of Fairfax (Contract)	1,657,215	1,594,625
Sleepy Hollow (Contract)	910,401	876,018
County of Marin (Contract)	141,683	135,404
Town of Ross (Contract)	1,661,482	1,639,490
Ross Apprentice Program		
Prior Authority		
Side fund payment	584,223	565,911
Retiree health	154,474	168,329
MERA Bond	38,220	38,220
Debt service contribution		85,983
Other sources	1,232,481	838,507
Charges for services	324,314	176,045
Investment earnings	3,621	1,526
Miscellaneous	6,871	5,035
Total revenue	<u>9,598,396</u>	<u>8,900,584</u>
Expenditures:		
Salaries and benefits	7,242,453	6,667,837
Services and supplies	1,281,793	1,091,858
Debt service:		
Principal	556,254	606,452
Interest	27,969	45,442
Capital outlay	116,745	494,971
Total expenditures	<u>9,225,214</u>	<u>8,906,560</u>
Excess of expenditures over revenues	<u>373,182</u>	<u>(5,976)</u>
Fund balances, beginning of year	<u>931,423</u>	<u>937,399</u>
Fund balances, end of year	<u><u>\$ 1,304,605</u></u>	<u><u>\$ 931,423</u></u>

**ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

COMMENTS ON BUDGET COMPARISONS – see Supplementary information page 42

Revenue: Total revenue was higher than the budgeted amount by \$676,022, or 7.5%. Charges for services such as resale inspections and plan checks, exceeded budget estimates by \$174,314. Reimbursements from Office of Emergency Services and for worker's compensation payments accounted for the remainder of the increase since these reimbursements are not budgeted. Total revenue increased by \$697,812 when compared with prior year revenue.

Expenditures: Total expenditures exceeded the final budget by \$183,494, or 2%. This was primarily due to a legal settlement in the amount of \$144,000 regarding pay under the Fair Labor Standards Act. Total expenditures increased by \$318,654 as compared to the previous fiscal year. The increase was due to increased labor costs due to negotiated settlements, one time purchases of financial software, one time station maintenance allocations to each fire station and for one time legal fees.

HISTORY AND ECONOMIC FACTORS

Ross Valley Fire Service was formed in 1982 by merging the Fire Departments of the Towns of Fairfax and San Anselmo through a Joint Powers Agreement. In addition to these two entities, the Sleepy Hollow Fire Protection District contracted with the Town of San Anselmo to provide fire protection services, through June 2010.

An Amended and Restated Joint Powers Agreement (JPA) was entered into, effective July 1, 2010, between the Town of Fairfax, Town of San Anselmo, and Sleepy Hollow Fire Protection District to provide fire protection, emergency medical and related services within their respective jurisdictions. As part of the Amended and Restated JPA, the name of the Department was changed from Ross Valley Fire Service to Ross Valley Fire Department. The Board of Directors was expanded to six members, two voting members appointed by and serving at the pleasure of each of the member agencies

The First Amendment to the Amended and Restated Joint Powers Agreement, effective July 1, 2012, expanded the JPA to include the Town of Ross as a member. The Board of Directors was expanded to eight members, two voting members appointed by and serving at the pleasure of each of the member agencies. Personnel from the Town of Ross Fire Department as of June 30, 2012, with the exception of the Fire Chief, became Department employees as of July 1, 2012. Effective July 1, 2012, the cost sharing percentages were set as follows: Town of San Anselmo 40.53% Town of Fairfax 23.30%, Town of Ross 23.37%, and Sleepy Hollow Fire Protection District 12.80%.

The Department is mainly funded directly by each of the member agencies, so it must compete with Police, Public Works, etc. for General Fund dollars. The Department also provides contract services to the County of Marin, for initial response to the unincorporated areas which border the jurisdiction and the Ross Valley Paramedic Authority, to provide engine company paramedics. The Department also collects fees for service related to fire inspection services.

Staff prepares the draft budget in concert with the Executive Officer. The draft budget normally goes to the Fire Board for discussion in May and then adoption in June. This time frame ensures that the adopted budget can be then folded into the budget of member agencies.

ROSS VALLEY FIRE DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Fire Chief, Ross Valley Fire Department, 777 San Anselmo Avenue, San Anselmo, CA 94960.

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ROSS VALLEY FIRE DEPARTMENT

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

ROSS VALLEY FIRE DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments (Note 2)	\$1,338,192
Accounts receivable	177,104
Interest receivable	803
Capital assets, net of accumulated depreciation (Note 3)	1,479,576
OPEB asset (Note 9)	13,249
Total Assets	3,008,924
DEFERRED OUTFLOWS OF RESOURCES	
Pension related (Note 8)	1,214,092
LIABILITIES	
Current Liabilities:	
Accounts payable	62,257
Accrued liabilities	149,237
Compensated absences (Note 5)	46,621
Long-term debt (Note 6)	592,514
Total Current Liabilities	850,629
Non-Current Liabilities:	
Compensated absences (Note 5)	790,332
Long-term debt, due in more than one year (Note 6)	50,324
Net pension liability (Note 8)	7,800,931
Total Non-Current Liabilities	8,641,587
Total Liabilities	9,492,216
DEFERRED INFLOWS OF RESOURCES	
Pension related (Note 8)	1,686,425
Total Deferred Inflows	1,686,425
NET POSITION (Note 7)	
Net investment in capital assets	1,479,576
Unrestricted	(8,435,201)
Total Net Position	(\$6,955,625)

See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Expenses:

Public safety - fire protection:	
Personnel services	\$6,798,528
Services and supplies	1,253,425
Depreciation	157,985
Interest	27,969
	8,237,907
Total Program Expenses	8,237,907

Program revenues:

Charges for services	9,263,908
	9,263,908
Total Program Revenues	9,263,908

Net program revenue under expenses	1,026,001
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General revenues:

Investment earnings	3,621
Miscellaneous	6,871
Prior authority retirement	323,996
	334,488
Total General Revenues	334,488

Change in Net Position	1,360,489
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Net Position - beginning of year	(8,316,114)
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Net Position - end of year	(\$6,955,625)
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See accompanying notes to basic financial statements

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ROSS VALLEY FIRE DEPARTMENT

FUND FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUNDS

ROSS VALLEY FIRE DEPARTMENT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General	Total Governmental Funds
ASSETS		
Cash and investments (Note 2)	\$1,338,192	\$1,338,192
Accounts receivable	177,104	177,104
Interest receivable	803	803
	Total Assets	Total Assets
	\$1,516,099	\$1,516,099
LIABILITIES		
Accounts payable	\$62,257	\$62,257
Accrued liabilities	149,237	149,237
	Total Liabilities	Total Liabilities
	211,494	211,494
FUND BALANCES (Note 7)		
Restricted		
Pension obligation bonds	1,246	1,246
Assigned:		
Compensated absences	49,023	49,023
Equipment	291,434	291,434
Breathing apparatus	80,000	80,000
Unassigned	882,902	882,902
	Total Fund Balances	Total Fund Balances
	1,304,605	1,304,605
Total Liabilities and Fund Balances	\$1,516,099	\$1,516,099

See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
 Reconciliation of the
 GOVERNMENTAL FUNDS - BALANCE SHEET
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2016

Total Fund Balances - Total Government Funds \$1,304,605

Amounts reported for governmental activities in the Statement
 of Net Position is different because:

CAPITAL ASSETS

Capital assets used in governmental activities are not
 financial resources. Therefore, they are not reported
 in the Governmental Funds Balance Sheet

Capital assets	3,771,617
Less: Accumulated depreciation	(2,292,041)

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows below are not current assets or financial resources; and
 deferred inflows are not due and payable in the current period and
 therefore are not reported in the Governmental Funds

Deferred outflows	1,214,092
Deferred inflows	(1,686,425)

LONG TERM ASSETS AND LIABILITIES

Long-term liabilities are not due and payable in the
 current period and therefore were not reported in
 the Governmental funds Balance Sheet. The long-term
 liabilities were adjusted as follows:

OPEB assets	13,249
Pension obligation bonds and capital leases	(642,838)
Compensated absences	(836,953)
Net pension liability	<u>(7,800,931)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>(\$6,955,625)</u></u>
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See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Total Governmental Funds</u>
REVENUES:		
Intergovernmental:		
Town of San Anselmo (Contract)	\$2,883,411	\$2,883,411
Town of Fairfax (Contract)	1,657,215	1,657,215
Sleepy Hollow (Contract)	910,401	910,401
County of Marin (Contract)	141,683	141,683
Town of Ross (Contract)	1,661,482	1,661,482
Prior Authority:		
Side fund payment	584,223	584,223
Retiree health	154,474	154,474
MERA Bond	38,220	38,220
Other sources	908,485	908,485
Charges for services	324,314	324,314
Investment earnings	3,621	3,621
Miscellaneous	6,871	6,871
Prior Authority Retirement	323,996	323,996
	<u>9,598,396</u>	<u>9,598,396</u>
Total Revenues		
EXPENDITURES:		
Current:		
Salaries and benefits	7,242,453	7,242,453
Services and supplies	1,281,793	1,281,793
Debt service:		
Principal	556,254	556,254
Interest	27,969	27,969
Capital Outlay	116,745	116,745
	<u>9,225,214</u>	<u>9,225,214</u>
Total Expenditures		
Net change in fund balance	373,182	373,182
Fund balances - beginning of year	<u>931,423</u>	<u>931,423</u>
Fund balances - end of year	<u><u>\$1,304,605</u></u>	<u><u>\$1,304,605</u></u>

See accompanying notes to basic financial statements

ROSS VALLEY FIRE DEPARTMENT
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds **\$373,182**

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

Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense

Capital outlay	116,745
Non-capitalized outlay expenditures	27,809
Depreciation expense	(157,985)

Governmental funds report the contribution to the pension system in excess of the required contribution as an expenditure when paid, but the amount is amortized in the Statement of Activities

Some expenses reported in the Statement of Activities do not require the use of the current financial resources and therefore are not reported as expenditures in governmental funds

Change in compensated absences	(66,126)
Change in OPEB	559
Pension expense	510,051

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position

Principal repayments on long-term debt	556,254
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Change in Net Position of Governmental Activities	\$1,360,489
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See accompanying notes to basic financial statements

**ROSS VALLEY FIRE DEPARTMENT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Ross Valley Fire Department

The Ross Valley Fire Department (the "Department") was created in 1982. An Amended and Restated Joint Powers Agreement was entered into effective July 1, 2010, between the Town of Fairfax, Town of San Anselmo and the Sleepy Hollow Fire Protection District ("Sleepy Hollow"), to provide fire protection, emergency medical and related services within their respective jurisdictions. On July 1, 2012, the Department entered into a First Amendment to the Amended and Restated Joint Powers Agreement to admit the Town of Ross as a member. The Department is governed by an eight voting member Board of Directors, consisting of, two from the Fairfax Town Council, two from the San Anselmo Town Council, two from Sleepy Hollow Fire Protection District, and two from Ross Town Council. The Department is administered by the Town Manager (Executive Officer) and shall rotate among Fairfax, San Anselmo, and Ross for two year terms, or such other terms as may be determined by the Board.

Effective July 1, 2012, the cost sharing percentages are as follows:

Town of San Anselmo	40.53%
Town of Fairfax	23.30%
Town of Ross	23.37%
Sleepy Hollow Fire Protection District	<u>12.80%</u>
	<u>100.00%</u>

B. Basis of Presentation

The accounting policies of the Department conform with accounting principles generally accepted in the United States of America and are applicable to governments. The following is a summary of the significant policies.

The accounts of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues and expenses or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In fiscal 2016, the Department had one fund.

Government - Wide Financial Statements

The Department's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Department accompanied by a total column. These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Department's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Government-Wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Department. In fiscal 2016, the Department operated one government program.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds. Fund financial statements report detailed information about the Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds are reported as separate columns in the governmental fund financial statements. Non-major funds are aggregated and presented in a single column. The Department had no non-major funds in the fiscal year ended June 30, 2016.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenses and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Accompanying schedules are presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-Wide financial statements.

Revenues susceptible to accrual are interest revenue and charges for services. Licenses and permits are not susceptible to accrual because, generally, they are not measurable until received in cash.

Expenses are generally recognized when incurred under the modified accrual basis of accounting. Principal and interest on general long-term debt is recognized when due. All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenses and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenses and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenses of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Department, are intergovernmental revenues and interest. Expenses are recorded in the accounting period in which the related fund liability is incurred.

**ROSS VALLEY FIRE DEPARTMENT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Department's General Fund was the only major fund in the fiscal year ended June 30, 2016. The General Fund is the operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

C. *Budgets and budgetary accounting*

The Department follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the June Board meeting, the Chief and Executive Officer submit to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenses and the means of financing them.
2. The budget is legally enacted through the passage of a resolution.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Expenditures exceeded budget for the following funds:

Fund	Expenditures in Excess of Appropriations
General Fund	\$183,524

D. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expense of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. All appropriations lapse at fiscal year-end.

E. *Statement calculations and use of estimates*

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

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

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position or balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

H. New GASB Pronouncements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2016.

GASB Statement No. 72 – *Fair Value Measurement and Application*. The intention of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures.

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Department's cash on deposit or first trust deed mortgage notes with a value of 150% of the Conservancy's cash on deposit as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Conservancy's name and places the Conservancy ahead of general creditors of the institution.

Investments are stated at cost, which approximates fair value at June 30, 2016.

B. Classification

The Department's cash and investments consist of the following at June 30, 2016:

LAIF	\$589,913
Cash in checking accounts	747,033
Cash with Fiscal Agent	1,246
Total cash and investments	\$1,338,192

C. Fair Value Hierarchy

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2016:

	Level 2	Total
LAIF	\$589,913	\$589,913
Cash in checking accounts		747,033
Cash with Fiscal Agent		1,246
Total cash and investments	\$589,913	\$1,338,192

The California Local Agency Investment Fund, classified in Level 2 of the fair value hierarchy, is valued based on the fair value of the underlying assets of the pool.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity is of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Department is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Department reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2016, these investments matured in an average of 167 days.

All of the Department's investments are held in LAIF and mature in less than twelve months.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. None of the Department's investments are subject to credit ratings.

NOTE 3 – CAPITAL ASSETS

The Department's capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities by function.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The Department has assigned the useful lives listed below to capital assets:

Building improvements	5-40 years
Fire Trucks	15-20 years
Furniture and fixtures	3-5 years
Non-emergency vehicles	10 years
Machinery and equipment	3-10 years

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 3 – CAPITAL ASSETS (Continued)

A summary of changes in capital assets for the fiscal year ended June 30, 2016 is as follows:

	Balance at June 30, 2015	Additions	Balance at June 30, 2016
Capital assets being depreciated:			
Vehicles	\$2,145,607		\$2,145,607
Machinery and equipment	1,278,469	\$144,554	1,423,023
Furniture and fixtures	40,213		40,213
Building Improvements	162,774		162,774
	<u>3,627,063</u>	<u>144,554</u>	<u>3,771,617</u>
Total capital assets being depreciated			
Less accumulated depreciation for:			
Vehicles	1,279,544	83,099	1,362,643
Machinery and equipment	771,394	67,093	838,487
Furniture and fixtures	34,093	1,380	35,473
Building Improvements	49,025	6,413	55,438
	<u>2,134,056</u>	<u>157,985</u>	<u>2,292,041</u>
Total accumulated depreciation			
Net capital assets being depreciated	<u>\$1,493,007</u>	<u>(\$13,431)</u>	<u>\$1,479,576</u>

NOTE 4 – DEFERRED COMPENSATION ARRANGEMENT

The Department provides a deferred compensation plan (the "Plan") according to Internal Revenue Code Section 457. The Plan is available to all employees and permits the deferral of a portion of the participating employees' salaries. Deferred amounts may not be withdrawn until termination, retirement, death or unforeseeable emergency. Prior to August 20, 1996, the assets of the Plan were owned by the Department and were subject to claims from general creditors. On August 20, 1996, President Clinton signed into law changes affecting Internal Revenue Code Section 457. New plan agreements, which have been amended to comply with the amended provisions, require plans to hold assets in trust for the exclusive benefit of the participants and their beneficiaries. The Department has an obligation to ensure that the Plan's funds are prudently managed and invested. Participating employees may direct Plan investments to several categories of investment mutual funds provided by the Plan's trustee. Since the assets of the Plan are no longer available to general creditors, the respective assets and liabilities of the Plan are not included on the accompanying financial statements.

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 5 – COMPENSATED ABSENCES

Employees of the Department accumulate vacation compensation based on years of service. Each employee may accumulate and carry forward a maximum of 1-1/2 years' vacation entitlement. Employees may also accumulate sick pay up to a maximum number of hours as set out in the current memorandum of understanding. At retirement, an employee may elect to convert unused sick pay to cash at one-half of the accumulated value.

Additionally, employees may earn 1-1/2 compensatory hours for each hour of off-duty attendance of qualified educational programs. Compensatory hours of those employees who earn an educational incentive are assessed annually to ensure that they have met their statutory 30 hours per year of education. These required hours may not be used for any other purpose and are deducted from each qualifying employee's total compensatory hours. Employees with balances of less than 30 hours at the time of the annual assessment forfeit their right to educational incentive until the statutory 30 hours is achieved. Any remaining balance after applying the deduction is accumulated to a maximum of 240 hours.

Compensatory absences as shown on the Statement of Net Position include the value of accumulated vacation, the portion of sick pay benefits expected to be paid at retirement and the value of compensatory time accumulated.

The following is a schedule of changes in compensated absences for the fiscal year ended June 30, 2016:

	Governmental Activities
Beginning Balance	\$770,827
Additions	129,354
Payments	<u>(63,228)</u>
Ending Balance	<u>\$836,953</u>
Current Portion	<u>\$46,621</u>

NOTE 6 – LONG TERM DEBT

The following is a schedule of changes in long-term debt for the fiscal year ended June 30, 2016:

	Balance June 30, 2015	Retirements	Balance June 30, 2016	Current Portion
Pension Obligation Bonds	<u>\$1,199,092</u>	<u>\$556,254</u>	<u>\$642,838</u>	<u>\$592,514</u>
Total	<u>\$1,199,092</u>	<u>\$556,254</u>	<u>\$642,838</u>	<u>\$592,514</u>

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 6 – LONG TERM DEBT (Continued)

Pension Obligation Bonds: On May 31, 2012, the Department issued \$2,656,934 in taxable pension obligation bonds to refund the Department's outstanding Safety Plan Side Fund obligation to the California Public Employees' Retirement System. As of June 30, 2016, the outstanding balance was \$642,838. Principal and interest payments are due monthly commencing July 15, 2012. Monthly payments escalate from \$44,464 per month to \$50,451. The bonds are fully amortized on July 15, 2017. Interest rate is fixed during the entire term at 3.03%.

The minimum annual payments on the above bond are as follows:

Ending June 30	Principal	Interest	Total
2017	\$592,514	\$11,316	\$603,830
2018	50,324	127	50,451
Total	<u>\$642,838</u>	<u>\$11,443</u>	<u>\$654,281</u>

NOTE 7 – NET POSITION AND FUND BALANCES

Net Position is on the full accrual basis while Fund Balances are measured on the modified accrual basis

A. Net Position

Net Position is the excess of all the Department's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the Department's capital assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include debt service and acquisition and construction of facilities and equipment.

Unrestricted describes the portion of Net Position which is not restricted to use.

When both restricted and unrestricted resources are available, the Department's policy is to first apply restricted resources and then unrestricted resources as necessary.

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 7 – NET POSITION AND FUND BALANCES

B. Fund Balances

The Department has adopted the provisions of GASB Statement No. 54, "Fund Balance and Governmental Fund Type Definitions". GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. GASB 54 establishes the following classifications depicting the relative strength of the constraints that control how specific amounts can be spent:

Nonspendable: Nonspendable fund balances includes amounts that cannot be spent because they are not in spendable form, such as prepaid items or items that are legally or contractually required to be maintained intact, such as principal of an endowment fund. As of June 30, 2016, the Department did not have any nonspendable fund balances.

Restricted: Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation. As of June 30, 2016, the Department has restricted fund balance totaling \$1,246.

Committed: Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Board of Directors is considered the highest authority for the Department.

Assigned: Assigned fund balances include amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. As of June 30, 2016, the Department has assigned fund balances totaling \$420,457.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. As of June 30, 2016, the Department has unassigned fund balance totaling \$882,902.

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

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Department’s separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Department resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

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

	Miscellaneous	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 3.0%
Required employee contribution rates	7.947%	6.250%
Required employer contribution rates	10.958%	6.237%
	Safety	
	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible compensation	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	8.980%	12.250%
Required employer contribution rates	18.191%	11.923%

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – PENSION PLAN (Continued)

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Department is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	Safety Tier I	Safety Tier II
Contributions - employer	\$36,073	\$963,065	\$120,769

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

As of June 30, 2016, the Department reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
Miscellaneous	(\$730)
Safety Tier I	7,801,900
Safety Tier II	(239)
Total Net Pension Liability	\$7,800,931

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

	Miscellaneous	Safety Tier I	Safety Tier II
Proportion - June 30, 2014	0.001%	0.207%	0.000%
Proportion - June 30, 2015	0.000%	0.189%	0.000%
Change - Increase (Decrease)	-0.001%	-0.018%	0.000%

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – PENSION PLAN (Continued)

For the year ended June 30, 2016, the City's contributions to the Plan were \$1,119,907. At June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$1,119,907	
Differences between actual and expected experience	1,124	(\$103,191)
Changes in assumptions		(474,613)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	81,626	
Net differences between projected and actual earnings on plan investments		(\$245,869)
Adjustments due to differences in proportions	11,435	(862,752)
Total	\$1,214,092	(\$1,686,425)

\$1,119,907 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2017	(\$639,293)
2018	(652,848)
2019	(602,187)
2020	302,088

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – PENSION PLAN (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous & Safety Plans
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.2% - 20% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPers Membership Data for all Funds (3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvement using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS' website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 8 – PENSION PLAN (Continued)

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

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation
Global Equity	50.0%
Private Equity	14.0%
Global Fixed Income	17.0%
Liquidity	4.0%
Real Assets	11.0%
Inflation Sensitive Assets	4.0%
Absolute Return Strategy	0.0%
Total	100%

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 8 – PENSION PLAN (Continued)

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

	<u>Miscellaneous</u>	<u>Safety (Tiers I & II)</u>	<u>Total</u>
1% Decrease	6.65%	6.65%	6.65%
Net Pension Liability	\$90,771	\$13,679,736	\$13,770,507
Current Discount Rate	7.65%	7.65%	7.65%
Net Pension Liability	(\$730)	\$7,801,661	\$7,800,931
1% Increase	8.65%	8.65%	8.65%
Net Pension Liability	(\$76,275)	\$2,981,748	\$2,905,473

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described previously, the Department provides the following:

A. *Retiree Medical Benefits:*

The Department provides postretirement health care benefits to employees who retire from the Department. As of June 30, 2016 there were 31 participants receiving these health care benefits.

Plan Description

The Department provides medical insurance benefits under the CalPERS health plan to eligible retirees and dependents in accordance with a labor agreement. Employees are eligible for retiree health benefits if they retire from the Department and are eligible for a PERS pension.

Funding Policy and Annual Pension Cost

The Department's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount which was determined as part of a July 1, 2013 actuarial evaluation in accordance with the parameters of GASB Statement No. 45, "Accounting and Financial Reporting of Postretirement Benefits Other than Pensions by State and Local Government Employers". 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 Department over a 30 year closed period. The ARC is subject to change with each actuarial evaluation date performed every two years.

**ROSS VALLEY FIRE DEPARTMENT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016**

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Department has calculated the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as follows:

Annual required contribution	\$485,075
Adjustment to annual required contribution	<u> </u>
Annual OPEB cost	485,075
Contributions made	<u>(485,634)</u>
(Decrease) increase in net OPEB obligations	(559)
Net OPEB obligation (asset) June 30, 2015	<u>(12,690)</u>
 Net OPEB obligation (asset) June 30, 2016	 <u><u>(\$13,249)</u></u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The projection of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

In the January 1, 2013 actuarial evaluation, the entry age actuarial cost method was used. The actuarial assumptions include 7.50% investment rate of return and payroll increases of 3.25% per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 10 – PUBLIC ENTITY RISK POOLS

Fire Agencies Self Insurance System

Effective September 1993, the Department was self-insured for workers' compensation coverage as a member of the Fire Agencies Self-Insurance System (the "System"). The System is a public Authority risk pool created pursuant to a joint powers agreement between the approximately 200 member fire agencies. The System manages one pool for all member agencies. Each member pays an annual premium to the System based on the number of personnel, and estimated dollar amount of payroll and an experience factor. At fiscal year-end, when actual payroll expenses are available, an adjustment to the year's annual premium is made. The System reinsures through a commercial carrier for claims in excess of \$500,000 for each insured event. The System is not a component entity of the Authority for purposes of Government Standards Board Statement No. 14. The most recent condensed financial information for the system can be obtained by contacting the System at the following address or website:

Fire Agencies Self Insurance System
1750 Creekside Oaks Drive, Suite 200
Sacramento, CA 95833

www.fasis.brstest.com

Fire Agencies Insurance Risk Authority

Effective July 1, 1989 Ross Valley Fire Department was self-insured for property damages and general liability coverage as a member of the Fire Agencies Insurance Risk Authority (the "Risk Authority"). The Risk Authority is a public Authority risk pool created pursuant to a joint powers agreement between approximately 100 member fire agencies. The Risk Authority manages one pool for all member agencies. Each member pays an annual premium to the Risk Authority based on an actuarial calculation. The Risk Authority purchases first dollar coverage for general liability, auto liability, auto physical damage and property, from the American Alternative Insurance Company, a subsidiary of the Glatfelter Insurance Group. The Risk Authority's current policy through American Alternative Insurance Company is in force through June 30, 2012. Currently the Risk Authority continues to be fully insured for all lines of coverage including: General Liability, Auto Liability, Property, Director and Officers Errors and Omissions, and Medical Malpractice. The Risk Authority is not a component entity of Ross Valley Fire Department for purposes of Government Accounting Standards Board Statement No. 14. The most recent condensed financial information for the system can be obtained by contacting the System at the following address or website:

Fire Agencies Insurance Risk Authority
1255 Battery St, Suite 450
San Francisco, CA

www.faira.org

**ROSS VALLEY FIRE DEPARTMENT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 11 – CONTINGENCIES

On February 4, 1991, the Department was awarded a judgment of \$464,000, plus interest, relating to embezzlements committed by a former employee over several years. On July 18, 2006 the judgment was renewed to extend the period of enforceability through to July 17, 2016 and the total renewed judgment was \$277,567. On March 24, 2016, an application for renewal of judgment was submitted by the Department, which extends the period of enforceability through March 24, 2026 and the total renewed judgment was \$275,567. As of June 30, 2016, the balance owed is \$550,770 which includes interest of \$275,204 at 10% per annum. The Department has offset this receivable with an allowance for doubtful accounts since there have been no collections on the judgment. Therefore, this receivable is not recorded in the accompanying Statement of Net Position.

On December 2014, the Department was informed by the Firefighters that their regular rate of pay for overtime purposes had not been calculated correctly per the Fair Labor Standards Act and believed they were owed back overtime wages. An independent accounting firm was hired by the Department to calculate the possible back pay owed, whereas the Firefighters performed their own calculations. A finding was presented in favor of the Firefighters and on September 9, 2016 a settlement was reached in which the Department owed the Firefighters \$144,000. Payment was made immediately after the settlement date, liability accrued in fiscal 2016, and the dispute has been resolved.

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REQUIRED SUPPLEMENTARY INFORMATION

**ROSS VALLEY FIRE DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

COST-SHARING EMPLOYER DEFINED PENSION PLAN:

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule reports the proportion (percentage) of the collective net pension liability, the proportionate share (amount) of the collective net pension liability, the employer's covered employee payroll, the proportionate share (amount of the collective net pension liability as a percentage of the employer's covered employee payroll and the pension plan's fiduciary net position as a percentage of the total pension liability.

SCHEDULE OF CONTRIBUTIONS

This schedule reports the cost sharing employer's contributions to the plan which are actuarially determined, the employer's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered employee payroll.

SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS

This schedule presents trend information about whether the actuarial value of plans assets is increasing or decreasing over time relative to the actuarial liability for benefits.

**ROSS VALLEY FIRE DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY AND RELATED RATIO AS OF
THE MEASUREMENT DATE**

	Miscellaneous Plan			
	Tier I		Tier I	
	6/30/2014	6/30/2015	6/30/2014	6/30/2015
Plan's proportion of the Net Pension Liability (Asset)		(0.00048%)		(0.00003%)
Plan's proportion share of the Net Pension Liability (Asset)		(\$30,150)		(\$730)
Plan's Covered Employee Payroll		\$162,494		\$176,620
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll		(18.55%)		(0.41%)
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		104.96%		100.11%
Plan's Proportionate Share of Aggregate Employer Contributions		\$17,262		\$23,266
	Safety Plan			
	Tier I	Tier I	Tier II	Tier II
	6/30/2014	6/30/2015	6/30/2014	6/30/2015
Plan's proportion of the Net Pension Liability (Asset)	0.12390%	0.18935%	0.00000%	(0.00001%)
Plan's proportion share of the Net Pension Liability (Asset)	\$7,709,927	\$7,801,901	\$17	(\$239)
Plan's Covered Employee Payroll	\$3,457,282	\$3,285,846	\$41,987	\$271,684
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	223.01%	237.44%	0.04%	(0.09%)
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.42%	81.79%	81.72%	101.28%
Plan's Proportionate Share of Aggregate Employer Contributions	\$956,433	\$1,192,485	\$2	\$644

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

**ROSS VALLEY FIRE DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

**Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS**

	Miscellaneous Plan	
	Tier I	Tier I
	Fiscal Year 2015	Fiscal Year 2016
Actuarially determined contribution	\$35,800	\$23,266
Contributions in relation to the actuarially determined contributions	(35,800)	(23,266)
Contribution deficiency (excess)	\$0	\$0
Covered-employee payroll	\$162,494	\$176,620
Contributions as a percentage of covered-employee payroll	10.84%	13.17%
Notes to Schedule		
Valuation date:	6/30/2013	6/30/2014

	Safety Plan			
	Tier I	Tier I	Tier II	Tier II
	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2016
Actuarially determined contribution	\$1,208,390	\$1,192,485	\$82,982	\$644
Contributions in relation to the actuarially determined contributions	(1,208,390)	(1,192,485)	(82,982)	(644)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
Covered-employee payroll	\$3,457,282	\$3,285,846	\$41,987	\$271,684
Contributions as a percentage of covered-employee payroll	20.89%	36.29%	39.35%	0.24%
Notes to Schedule				
Valuation date:	6/30/2013	6/30/2014	6/30/2013	6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.50% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

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

**ROSS VALLEY FIRE DEPARTMENT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016**

**Schedule of Funding Progress – Other Post-Employment Benefits
As of the fiscal year ending June 30, 2016
Last Two Actuarial Valuations**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B - A)/C]
6/30/2011	\$501,941	\$5,419,061	\$4,917,120	9.26%	\$3,264,416	150.63%
6/30/2013	1,047,477	6,169,092	5,121,615	16.98%	3,565,949	143.63%

ROSS VALLEY FIRE DEPARTMENT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental :				
Town of San Anselmo (Contract)	\$2,883,411	\$2,883,411	\$2,883,411	
Town of Fairfax (Contract)	1,657,215	1,657,215	1,657,215	
Sleepy Hollow (Contract)	910,401	910,401	910,401	
County of Marin (Contract)	141,863	141,863	141,683	(\$180)
Town of Ross (Contract)	1,661,482	1,661,482	1,661,482	
Prior Authority:				
Side fund payment	584,223	584,223	584,223	
Retiree health	154,474	154,474	154,474	
MERA Bond	38,231	38,231	38,220	(11)
Retirement contributions	323,996	323,996	323,996	
Other sources	407,778	407,778	908,485	500,707
Charges for services	150,000	150,000	324,314	174,314
Investment earnings	1,800	1,800	3,621	1,821
Miscellaneous	7,500	7,500	6,871	(629)
Total Revenues	<u>8,922,374</u>	<u>8,922,374</u>	<u>9,598,396</u>	<u>676,022</u>
EXPENDITURES:				
Current:				
Salaries and benefits	7,509,231	6,951,231	7,242,453	(291,222)
Services and supplies	611,976	1,282,219	1,281,793	426
Debt service:				
Principal	539,926	539,926	556,254	(16,328)
Interest	45,496	45,496	27,969	17,527
Capital Outlay	81,841	222,848	116,745	106,103
Total Expenditures	<u>8,788,470</u>	<u>9,041,720</u>	<u>9,225,214</u>	<u>(183,494)</u>
Net Change in Fund Balance	<u>\$133,904</u>	<u>(\$119,346)</u>	373,182	<u>\$859,516</u>
Fund balance - beginning of year			<u>931,423</u>	
Fund balances - end of year			<u>\$1,304,605</u>	