# North County Dispatch Joint Powers Authority

Rancho Santa Fe, California

## Annual Financial Report

*For the Years Ended June 30, 2017 and 2016*

THE PUN GROUP
ACCOUNTANTS & ADVISORS

**North County Dispatch Joint Powers Authority**

**Board of Directors as of June 30, 2017**

| City/District Represented | Name |
|---|---|
| City of Carlsbad | Keith Blackburn |
| City of Encinitas | Mark Muir |
| North County FPD | Kathleen Thuner |
| City of Oceanside | Jim Wood |
| Rancho Santa Fe FPD | James Ashcraft |
| City of San Marcos | Sharon Jenkins |
| City of Solana Beach | Ginger Marshall |
| City of Vista | John Franklin |


**North County Dispatch Joint Powers Authority**
**16936 El Fuego Drive (P.O. Box 1206)**
**Rancho Santa Fe, California 92067**
**(858) 756-3006**

# North County Dispatch Joint Powers Authority
## Annual Financial Report
## For the Years Ended June 30, 2017 and 2016

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THE PUN GROUP
ACCOUNTANTS & ADVISORS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the North County Dispatch Joint Powers Authority
Rancho Santa Fe, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the North County Dispatch Joint Powers Authority (Authority), which comprise of the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows, for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2017 and 2016, and the respective changes in financial position, and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 to 8, and the Schedule of the Authority's Proportionate Share of the Plan's Net Pension Liability and Schedule of the Authority's Contributions to the Pension Plan on pages 39 and 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The Pun Group, LLP

San Diego, California
February 5, 2018

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

***Independent Auditors' Report***

To the Board of Directors
of the North County Dispatch Joint Powers Authority
Rancho Santa Fe, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows, for the years then ended, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated February 5, 2018.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during 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.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

The Pun Group, LLP

San Diego, California
February 5, 2018

# North County Dispatch Joint Powers Authority
## Management's Discussion and Analysis (Unaudited)
## For the Years Ended June 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the North County Dispatch Joint Powers Authority (Authority) provides an introduction to the financial statements of the Authority for the years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- In 2017, the Authority's net position increased 20.14% or $507,931 to $3,030,216.
- In 2016, the Authority's net position increased 25.72% or $516,022 to $2,522,285.
- In 2017, the Authority's operating revenues increased 3.19% or $134,136 to $4,335,253, from the prior year, due primarily to an increase in call volume which is charged on a per call basis.
- In 2016, the Authority's operating revenues increased 9.42% or $361,715 to $4,201,117, from the prior year, due primarily to an increase in call volume which is charged on a per call basis and grant reimbursements.
- In 2017, the Authority's operating expenses increased 4.39% or $155,710 to $3,701,550, due primarily to increases in salaries and wages and employee benefits.
- In 2016, the Authority's operating expenses increased 0.42% or $15,012 to $3,545,840, due primarily to increases in salaries and wages and decreases in employee benefits and facilities expenses.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The financial statements are comprised of two components: 1) financial statements and, 2) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.
The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the Authority's assets, deferred outflow of resources, liabilities, and deferred inflow of resources with the difference between the four reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

**Notes to the Basic Financial Statements**

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

## Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities:" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting,* which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net position* and changes in them. One can think of the Authority's net position – the difference between assets and liabilities – as a way to measure the Authority's financial health, or *financial position.* Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions.

## Condensed Balance Sheets

| | June 30, 2017 | June 30, 2016 | Change | June 30, 2015 | Change |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Current assets | $ 2,968,093 | $ 3,265,473 | $ (297,380) | $ 3,024,386 | $ 241,087 |
| Non-current assets | 923,926 | 700,257 | 223,669 | 436,282 | 263,975 |
| Capital assets, net | 935,649 | 394,489 | 541,160 | 395,717 | (1,228) |
| **Total assets** | 4,827,668 | 4,360,219 | 467,449 | 3,856,385 | 503,834 |
| **Deferred outflows of resources** | 1,139,354 | 635,931 | 503,423 | 319,284 | 316,647 |
| **Total assets and deferred outflows of resources** | $ 5,967,022 | $ 4,996,150 | $ 970,872 | $ 4,175,669 | $ 820,481 |
| **Liabilities:** | | | | | |
| Current liabilities | $ 1,001,587 | $ 830,693 | $ 170,894 | $ 594,788 | $ 235,905 |
| Non-current liabilities | 1,805,345 | 1,356,691 | 448,654 | 1,129,106 | 227,585 |
| **Total liabilities** | 2,806,932 | 2,187,384 | 619,548 | 1,723,894 | 463,490 |
| **Deferred inflows of resources** | 129,874 | 286,481 | (156,607) | 445,512 | (159,031) |
| **Net position:** | | | | | |
| Investment in capital assets | 935,649 | 394,489 | 541,160 | 395,717 | (1,228) |
| Unrestricted | 2,094,567 | 2,127,796 | (33,229) | 1,610,546 | 517,250 |
| **Total net position** | 3,030,216 | 2,522,285 | 507,931 | 2,006,263 | 516,022 |
| **Total liabilities, deferred outflows of resources and net position** | $ 5,967,022 | $ 4,996,150 | $ 970,872 | $ 4,175,669 | $ 820,481 |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows of resources of the Authority exceeded liabilities and deferred inflows of resources by $3,030,216 and $2,522,285 as of June 30, 2017 and 2016, respectively.

A portion of the Authority's net position at June 30, 2017, 31% or $935,649, and June 30, 2016, 16% or $394,489 reflects its investment in capital assets net of accumulated depreciation. The Authority uses these capital assets to operate the Authority; consequently, these assets are *not* available for future spending.

At June 30, 2017 and 2016, the Authority shows a positive balance in its unrestricted net position of $2,094,567 and $2,127,796, respectively, that may be utilized in future years.

### Condensed Statement of Revenues, Expenses and Changes in Net Position

| | June 30, 2017 | June 30, 2016 | Change | June 30, 2015 | Change |
|---|---|---|---|---|---|
| Operating revenues | $ 4,335,253 | $ 4,201,117 | $ 134,136 | $ 3,839,402 | $ 361,715 |
| Operating expenses | (3,701,550) | (3,545,840) | (155,710) | (3,530,828) | (15,012) |
| **Operating loss before depreciation** | 633,703 | 655,277 | (21,574) | 308,574 | 346,703 |
| Depreciation expense | (144,694) | (159,244) | 14,550 | (153,530) | (5,714) |
| **Operating loss** | 489,009 | 496,033 | (7,024) | 155,044 | 340,989 |
| Non-operating revenues, net | 18,922 | 19,989 | (1,067) | 13,587 | 6,402 |
| **Change in net position** | 507,931 | 516,022 | (8,091) | 168,631 | 347,391 |
| Net Position: | | | | | |
| **Beginning of year** | 2,522,285 | 2,006,263 | 516,022 | 1,837,632 | 168,631 |
| **End of year** | $ 3,030,216 | $ 2,522,285 | $ 507,931 | $ 2,006,263 | $ 516,022 |

The Statement of Revenues, Expenses, and Changes in Net Position shows how the Authority's net position changed during the fiscal year. In the case of the Authority, net position increased by $507,931 and $516,022 as of June 30, 2017 and 2016.

### Total Revenues

| | June 30, 2017 | June 30, 2016 | Increase (Decrease) | June 30, 2015 | Increase (Decrease) |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Dispatching fees – member agencies | $ 3,603,148 | $ 3,325,659 | $ 277,489 | $ 3,105,937 | $ 219,722 |
| Dispatching fees – contract agencies | 474,613 | 472,119 | 2,494 | 535,635 | (63,516) |
| Contract reimbursements | 252,492 | 242,073 | 10,419 | 194,710 | 47,363 |
| Grant reimbursements | 5,000 | 161,266 | (156,266) | 3,120 | 158,146 |
| **Total operating** | 4,335,253 | 4,201,117 | 134,136 | 3,839,402 | 361,715 |
| **Non-operating:** | | | | | |
| Interest earnings | 15,951 | 17,991 | (2,040) | 12,209 | 5,782 |
| Other non-operating revenues | 2,971 | 1,998 | 973 | 1,378 | 620 |
| **Total non-operating** | 18,922 | 19,989 | (1,067) | 13,587 | 6,402 |
| **Total revenues** | $ 4,354,175 | $ 4,221,106 | $ 133,069 | $ 3,852,989 | $ 368,117 |

In 2017, the Authority's operating revenues increased 3.19% or $134,136 to $4,335,253, from the prior year, due primarily to an increase in call volume which is charged on a per call basis.

In 2016, the Authority's operating revenues increased 9.42% or $361,715 to $4,201,117, from the prior year, due primarily to an increase in call volume which is charged on a per call basis and grant reimbursements.

## Total Expenses

| | June 30, 2017 | June 30, 2016 | Increase (Decrease) | June 30, 2015 | Increase (Decrease) |
|---|---|---|---|---|---|
| **Operating expenses:** | | | | | |
| Salaries and wages | $ 2,385,068 | $ 2,228,091 | $ 156,977 | $ 2,116,318 | $ 111,773 |
| Employee benefits | 582,754 | 467,408 | 115,346 | 544,976 | (77,568) |
| Facilities | 188,795 | 147,912 | 40,883 | 190,541 | (42,629) |
| Insurance | 14,937 | 13,693 | 1,244 | 13,142 | 551 |
| Materials and services | 121,246 | 133,963 | (12,717) | 110,694 | 23,269 |
| Technological | 408,750 | 554,773 | (146,023) | 555,157 | (384) |
| **Operating expenses before depreciation** | 3,701,550 | 3,545,840 | 155,710 | 3,530,828 | 15,012 |
| Depreciation | 144,694 | 159,244 | (14,550) | 153,530 | 5,714 |
| **Total expenses** | $ 3,846,244 | $ 3,705,084 | $ 141,160 | $ 3,684,358 | $ 20,726 |

In 2017, the Authority's operating expenses increased 4.39% or $155,710 to $3,701,550, due primarily to increases in salaries and wages and employee benefits.

In 2016, the Authority's operating expenses increased 0.42% or $15,012 to $3,545,840, due primarily to increases in salaries and wages and decreases in employee benefits and facilities expenses.

## Capital Asset Administration

Capital assets balances as of June 30 were as follows:

| | Balance June 30, 2017 | Balance June 30, 2016 | Balance June 30, 2015 |
|---|---|---|---|
| **Capital assets:** | | | |
| Depreciable assets | $ 1,942,879 | $ 1,310,691 | $ 1,152,675 |
| Accumulated depreciation | (1,007,230) | (916,202) | (756,958) |
| **Total capital assets, net** | $ 935,649 | $ 394,489 | $ 395,717 |

The capital asset activities of the Authority are summarized above and in Note 3 to the basic financial statements.

## Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Authority's current financial position, net position, or operating results in terms of past, present and future.

## Requests for Information

This financial report is designed to provide the Authority's funding sources, customers, stakeholders, and other interested parties with an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Quynh Dinh, Budget & Finance Manager of the Authority at 16936 El Fuego Drive (P.O. Box 1206), Rancho Santa Fe, CA 92067. Telephone (858) 400-2813.

## BASIC FINANCIAL STATEMENTS

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### Note 1 – Reporting Entity and Summary of Significant Accounting Policies

***Organization and Operations of the Reporting Entity***

The North County Dispatch Joint Powers Authority (Authority) was formed on June 11, 1984, and is legally recognized under the State of California Government Code Article 2, Chapter 4, Part 2, Division 2, Title 5, Sections 55631 through 55634, and Article 1, Chapter 5, Division 7, Title 1, Sections 6500 through 6530.

Under the Joint Powers Agreement, Rancho Santa Fe Fire Protection District, North County Fire Protection District, and the cities of Vista, San Marcos, Solana Beach, Oceanside, Encinitas, and Carlsbad have agreed to jointly exercise all powers granted them under the provisions of the California Health and Safety Code, Part 2.7, Chapter 5, Section 13800 et seq. The Authority's purpose is to provide dispatching and emergency communication services for fire protection, security, and medical services.

***Basis of Presentation***

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (GASB) commonly referred to as accounting principles generally accepted in the United States of America (U.S. GAAP). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The Financial Statements (i.e., the balance sheets, the statements of revenues, expenses and changes in net position, and statements of cash flows) report information on all of the activities of the primary government. The Authority accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Financial Statements are reported using the *"economic resources"* measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

In accordance with U.S. GAAP, the balance sheets reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

> **Deferred Outflows of Resources** represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.
>
> **Deferred Inflows of Resources** represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Use of Estimates***

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results most likely will differ from those estimates.

***Cash and Cash Equivalents***

Substantially all of Authority's cash is invested in interest bearing cash accounts. The Authority considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

***Investments***

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

U.S. GAAP, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheets, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and/or liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

***Accounts Receivable***

Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded. Historical experience indicates that uncollectible accounts receivable are immaterial.

***Prepaid Items***

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

***Capital Assets***

Capital assets acquired and/or constructed are capitalized at historical cost. The Authority's policy has set the capitalization threshold for reporting capital assets at $20,000. Amortization/depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | 10 to 35 years |
| Furniture and equipment | 3 to 20 years |
| Vehicles | 3 to 5 years |

## Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

### *Compensated Absences*

The Authority's policy is to permit employees to accumulate a limited amount of earned vacation pay, sick leave and holiday benefits as follows:

**Vacation Pay** – All dispatch employees will receive vacation pay of 96 hours per year for the first through fourth year of service; 132 hours for the fifth through ninth year; 150 hours for the tenth through fourteenth year; and 168 hours for years thereafter. Any unused vacation pay at year-end will accrue to the next year up to a maximum of 240 hours. Non-dispatch employees may accrue up to a maximum of 400 hours.

**Sick Leave** – All full-time employees are allowed a maximum accrual of 1,000 hours. Sick leave may not be used in place of vacation pay. Any unused sick leave at year-end will accrue to the next year up to a maximum of 1,000 hours, at which time employees shall convert any additional accrued sick leave to straight time pay hour for hour, or the employee may convert the additional accrued sick leave to vacation time at a formula of three hours of sick leave to one hour of vacation. Part-time employees receive 24 hours of paid sick leave per fiscal year. New part-time employees can only use paid sick leave upon their 90th day of employment. Unused sick leave does not roll over from fiscal year to fiscal year, and cannot be cashed out.

### *Pensions*

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

The following timeframes are used for pension reporting:

| CalPERS | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Valuation date | June 30, 2015 | June 30, 2014 |
| Measurement date | June 30, 2016 | June 30, 2015 |
| Measurement period | July 1, 2015 to June 30, 2016 | July 1, 2014 to June 30, 2015 |

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retires) as of the beginning of the measurement period.

### *Net Position*

The financial statements utilize a net position presentation. Net position is categorized as follows:

**Investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation.

**Unrestricted** – This component of net position is the amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

## Note 2 – Cash and Investments

Cash and investments as June 30 were classified in the accompanying financial statements as follows:

| Description | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 2,766,429 | $ 3,241,915 |
| Restricted – cash and cash equivalents | 923,926 | 700,257 |
| Total | $ 3,690,355 | $ 3,942,172 |

Cash and investments as of June 30 consisted of the following:

| Description | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Demand deposits held with financial institutions | $ 88,267 | $ 46,631 |
| Investments | 3,602,088 | 3,895,541 |
| Total | $ 3,690,355 | $ 3,942,172 |

### *Demand Deposits*

At June 30, 2017 and 2016, the carrying amount of the Authority's demand deposits was $88,267 and $46,631, respectively, and the financial institution balance was $164,553 and $195,125, respectively. The $76,286 and $148,494 respective net difference as of June 30, 2017 and 2016 represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

**Note 2 – Cash and Investments (Continued)**

***Custodial Credit Risk***

The custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's investment policy requires that collateral be held by an independent third party with whom the Authority has a current custodial agreement.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the Authority's bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2017 and 2016 none of the Authority's deposits and investments was exposed to disclosable custodial credit risk.

***Investments***

The Authority's investments as of June 30, 2017 were as follows:

| Type of Investments | Measurement Input | Credit Rating | June 30, 2017 Fair Value | Maturity 12 Months or Less |
|---|---|---|---|---|
| San Diego County Pooled Investment Fund (SDCPIF) | Level 2 | AAAf/S1 | $ 3,602,088 | $ 3,602,088 |
| **Total investments** | | | $ 3,602,088 | $ 3,602,088 |

The Authority's investments as of June 30, 2016 were as follows:

| Type of Investments | Measurement Input | Credit Rating | June 30, 2016 Fair Value | Maturity 12 Months or Less |
|---|---|---|---|---|
| San Diego County Pooled Investment Fund (SDCPIF) | Level 2 | AAAf/S1 | $ 3,895,541 | $ 3,895,541 |
| **Total investments** | | | $ 3,895,541 | $ 3,895,541 |

***Authorized Investments and Investment Policy***

***Investments Authorized by the California Government Code and the Authority's Investment Policy***

The Authority is legally empowered by statute and resolution to invest in the San Diego County Pooled Investment Fund and other investment types that are authorized for the Authority to invest in under the California Government Code.

**Note 2 – Cash and Investments (Continued)**

***San Diego County Pooled Investment Fund (SDCPIF)***

The SDCPIF is a local government investment pool managed by the County Treasurer's Office on behalf of Investment Pool participants. Depositors in the Investment Pool include both mandatory participants, those agencies required by law to deposit their funds with the County Treasurer's Office, and voluntary participants, agencies that place their funds in the Investment Pool as an investment option. Voluntary participants, including cities, fire districts, and various special districts accounted for approximately 5.16% of the Investment Pool as of June 30, 2017.

Pursuant to Section 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasurer's Oversight Committee (TOC) that monitors and reviews the Investment Policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public having expertise in, or an academic background in public finance.

To mitigate credit risk, the Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long-term or "A1" for short-term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by the California Government Code Section 53601, having fair market value of 102% or greater than the amount of the repurchase agreement. The Investment Pool does not hold any investments in structured notes.

The Authority's investments with the County Treasurer's Office include a portion of the pool funds invested in asset-backed securities. As of June 30, 2017 and 2016, the Authority had $3,602,088 and $3,895,541, respectively, invested with the SDCPIF, which had invested 2.03% and 0.55%, respectively, of the pool investment funds in asset-backed securities.

SDPIF has indicated to the Authority that as of June 30, 2017 and 2016 the value of its portfolio approximated $8.950 billion and $8.698 billion, respectively. The SDPIF fair value factor of 0.99605 and 1.00218, respectively, was used to calculate the fair value of the investments in SDPIF as of June 30, 2017 and 2016.

**Fair Value Measurement Input**

The Authority categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The Authority has presented its measurement inputs as noted in the table above.

**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. As of June 30, 2017 and 2016, the Authority's investment in the SDPIF was rated AAAf/S1 as noted in the table above.

## Note 2 – Cash and Investments (Continued)

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The Authority's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The Authority has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

### Concentration of Credit Risk

The Authority's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the Authority's total investments except for those in SDPIF.

## Note 3 – Capital Assets

Changes in capital assets for the year ended June 30, 2017 were as follows:

| Description | Balance July 1, 2016 | Additions | Deletions/ Transfers | Balance June 30, 2017 |
|---|---|---|---|---|
| **Depreciable assets:** | | | | |
| Furniture and equipment | $ 1,310,691 | $ 685,854 | $ (53,666) | $ 1,942,879 |
| **Total depreciable assets** | 1,310,691 | 685,854 | (53,666) | 1,942,879 |
| **Accumulated depreciation:** | | | | |
| Furniture and equipment | (916,202) | (144,694) | 53,666 | (1,007,230) |
| **Total accumulated depreciation** | (916,202) | (144,694) | 53,666 | (1,007,230) |
| **Total depreciable assets, net** | 394,489 | 541,160 | - | 935,649 |
| **Total capital assets, net** | $ 394,489 | $ 541,160 | $ - | $ 935,649 |

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

| Description | Balance July 1, 2015 | Additions | Deletions/ Transfers | Balance June 30, 2016 |
|---|---|---|---|---|
| **Depreciable assets:** | | | | |
| Furniture and equipment | $ 1,152,675 | $ 158,016 | $ - | $ 1,310,691 |
| **Total depreciable assets** | 1,152,675 | 158,016 | - | 1,310,691 |
| **Accumulated depreciation:** | | | | |
| Furniture and equipment | (756,958) | (159,244) | - | (916,202) |
| **Total accumulated depreciation** | (756,958) | (159,244) | - | (916,202) |
| **Total depreciable assets, net** | 395,717 | (1,228) | - | 394,489 |
| **Total capital assets, net** | $ 395,717 | $ (1,228) | $ - | $ 394,489 |

**Note 4 – Compensated Absences**

Changes in compensated absences for the year ended June 30, 2017 were as follows:

| Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 | Current Portion | Long-term Portion |
|---|---|---|---|---|---|
| $ 90,984 | $ 102,566 | $ (74,802) | $ 118,748 | $ 29,687 | $ 89,061 |

Changes in compensated absences for the year ended June 30, 2016 were as follows:

| Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 | Current Portion | Long-term Portion |
|---|---|---|---|---|---|
| $ 85,010 | $ 84,564 | $ (78,590) | $ 90,984 | $ 22,746 | $ 68,238 |

**Note 5 – Member Deposits – MDC Program**

In 2009, the Authority's Members agreed by resolution to deposit funds with the Authority for the purpose of purchasing Mobile Data Computers (MDC) to enhance communications and aid Member response teams. Upon purchase of an MDC, the contributing Member may withdraw funds to cover the costs. Interest is accrued to the various Member accounts based on each Member's account balance. The MDC program balance at June 30, 2017 and 2016 was $923,926 and $700,257, respectively.

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan

Changes in the net pension liability and the related deferred outflows and inflows of resources for the year ended June 30, 2017 were as follows:

| Type of Account | Balance as of July 1, 2016 | Additions | Deletions | Balance as of June 30, 2017 |
|---|---|---|---|---|
| **Deferred Outflows of Resources:** | | | | |
| Pension contributions made after the measurement date: | | | | |
| CalPERS – Miscellaneous Plan | $ 222,483 | $ 498,190 | $ (222,483) | $ 498,190 |
| Difference between actual and proportionate share of employer contributions: | | | | |
| CalPERS – Miscellaneous Plan | 133,211 | - | (56,246) | 76,965 |
| Adjustment due to differences in proportions: | | | | |
| CalPERS – Miscellaneous Plan | 264,028 | - | (94,296) | 169,732 |
| Differences between projected and actual earnings on pension plan investments: | | | | |
| CalPERS – Miscellaneous Plan | - | 388,386 | - | 388,386 |
| Differences between expected and actual experience: | | | | |
| CalPERS – Miscellaneous Plan | 16,209 | - | (10,128) | 6,081 |
| **Total deferred outflows of resources** | $ 635,931 | $ 886,576 | $ (383,153) | $ 1,139,354 |
| **Net Pension Liability:** | | | | |
| CalPERS – Miscellaneous Plan | $ 1,288,453 | $ 650,314 | $ (222,483) | $ 1,716,284 |
| **Deferred Inflows of Resources:** | | | | |
| Differences between projected and actual earnings on pension plan investments: | | | | |
| CalPERS – Miscellaneous Plan | $ 76,875 | $ - | $ (76,875) | $ - |
| Difference between actual and proportionate share of employer contributions: | | | | |
| CalPERS – Miscellaneous Plan | - | 11,701 | (3,162) | 8,539 |
| Adjustment due to differences in proportions: | | | | |
| CalPERS – Miscellaneous Plan | 56,255 | 29,751 | (39,294) | 46,712 |
| Changes in assumptions: | | | | |
| CalPERS – Miscellaneous Plan | 153,351 | - | (78,728) | 74,623 |
| **Total deferred inflows of resources** | $ 286,481 | $ 41,452 | $ (198,059) | $ 129,874 |

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Changes in the net pension liability and the related deferred outflows and inflows of resources for the year ended June 30, 2016 were as follows:

| Type of Account | Balance as of July 1, 2015 | Additions | Deletions | Balance as of June 30, 2016 |
|---|---|---|---|---|
| **Deferred Outflows of Resources:** | | | | |
| Pension contributions made after the measurement date: | | | | |
| CalPERS – Miscellaneous Plan | $ 311,307 | $ 222,483 | $ (311,307) | $ 222,483 |
| Difference between actual and proportionate share of employer contributions: | | | | |
| CalPERS – Miscellaneous Plan | 67,977 | 121,480 | (56,246) | 133,211 |
| Adjustment due to differences in proportions: | | | | |
| CalPERS – Miscellaneous Plan | - | 358,324 | (94,296) | 264,028 |
| Differences between expected and actual experience: | | | | |
| CalPERS – Miscellaneous Plan | - | 21,998 | (5,789) | 16,209 |
| **Total deferred outflows of resources** | $ 379,284 | $ 724,285 | $ (467,638) | $ 635,931 |
| **Net Pension Liability:** | | | | |
| CalPERS – Miscellaneous Plan | $ 1,065,348 | $ 534,412 | $ (311,307) | $ 1,288,453 |
| **Deferred Inflows of Resources:** | | | | |
| Differences between projected and actual earnings on pension plan investments: | | | | |
| CalPERS – Miscellaneous Plan | $ 358,004 | $ - | $ (281,129) | $ 76,875 |
| Adjustment due to differences in proportions: | | | | |
| CalPERS – Miscellaneous Plan | 87,508 | - | (31,253) | 56,255 |
| Changes in assumptions: | | | | |
| CalPERS – Miscellaneous Plan | - | 208,119 | (54,768) | 153,351 |
| **Total deferred inflows of resources** | $ 445,512 | $ 208,119 | $ (367,150) | $ 286,481 |

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

### *General Information about the Pension Plans*

*The Plans Description Schedule*

The Authority has engaged with CalPERS to administer the following pension plans for its employees (members):

| | Miscellaneous Plans | | |
|---|---|---|---|
| | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 3 |
| Hire date | Prior to March 1, 2013 | On or after March 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.7% @ 55 | 2.5% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5-years of service | 5-years of service | 5-years of service |
| Benefits payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 - 67 & up | 50 - 67 & up | 52 - 67 & up |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.7% | 2.0% to 2.5% | 1.0% to 2.5% |
| Required member contribution rates | 8.000% | 8.000% | 6.250% |
| Required employer contribution rates – FY 2016 | 11.634% | 9.498% | 6.555% |
| Required employer contribution rates – FY 2015 | 10.958% | 9.067% | 6.237% |

*Plan Description*

The Authority contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2015 and 2014 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

*Members Covered by Benefit Terms*

At June 30, 2016 (Valuation Date), the following members were covered by the benefit terms:

| | Miscellaneous Plans | | | |
|---|---|---|---|---|
| Plan Members | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 3 | Total |
| Active members | 18 | 3 | 7 | 28 |
| Transferred and terminated members | 30 | - | 3 | 33 |
| Retired members and beneficiaries | 12 | - | - | 12 |
| **Total plan members** | 60 | 3 | 10 | 73 |

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

### *General Information about the Pension Plans (Continued)*

Members Covered by Benefit Terms (Continued)

At June 30, 2015 (Valuation Date), the following members were covered by the benefit terms:

| | Miscellaneous Plans | | | |
|---|---|---|---|---|
| Plan Members | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 3 | Total |
| Active members | 20 | 1 | 5 | 26 |
| Transferred and terminated members | 32 | - | - | 32 |
| Retired members and beneficiaries | 11 | - | - | 11 |
| **Total plan members** | 63 | 1 | 5 | 69 |

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous members are calculated as a percentage of their plan based the average final 12 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based the average final 36 months compensation.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the Authority to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.65 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of $500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***General Information about the Pension Plans (Continued)***

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will 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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ending June 30, 2016 and 2015 (Measurement Dates), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

Contributions for the year ended June 30, 2017 were as follows:

| | Miscellaneous Plans | | | |
|---|---|---|---|---|
| Contribution Type | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 3 | Total |
| Contributions – employer | $ 446,116 | $ 26,019 | $ 26,056 | $ 498,191 |
| Contributions – members | 95,227 | 21,915 | 24,832 | 141,974 |
| **Total contributions** | $ 541,343 | $ 47,934 | $ 50,888 | $ 640,165 |

Contributions for the year ended June 30, 2016 were as follows:

| | Miscellaneous Plans | | | |
|---|---|---|---|---|
| Contribution Type | Classic Tier 1 | Classic Tier 2 | PEPRA Tier 3 | Total |
| Contributions – employer | $ 190,356 | $ 15,995 | $ 16,132 | $ 222,483 |
| Contributions – members | 99,122 | 13,951 | 16,165 | 129,238 |
| **Total contributions** | $ 289,478 | $ 29,946 | $ 32,297 | $ 351,721 |

*Actuarial Methods and Assumptions Used to Determine the Total Pension Liability*

For the measurement periods ending June 30, 2016 and 2015 (Measurement Dates), the total pension liability was determined by rolling forward the June 30, 2015 and 2014 total pension liabilities. The June 30, 2016 and 2015 total pension liabilities were based on the following actuarial methods and assumptions:

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

### *Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans*

*Actuarial Methods and Assumptions Used to Determine the Total Pension Liability*

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirement of GASB Statement No. 68 |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table | Derived using CalPERS' Membership Data for all Funds. |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

All other actuarial assumptions used in the June 30, 2016 and 2015 Valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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.*

The table below reflects 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 geometric rates of return are net of administrative expenses.

On December 16, 2016, the CalPERS Board of Administration (the "Board") approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to the rates below over the next three years. This will increase the City's employer contribution costs beginning in fiscal year 2018-19. The phase in of the discount rate change approved by the Board for the next three fiscal years is as follows.

| Valuation Date | Required Contribution Rate | Discount Rate |
|---|---|---|
| June 30, 2016 | 2018-19 | 7.38% |
| June 30, 2017 | 2019-20 | 7.25% |
| June 30, 2018 | 2020-21 | 7.00% |

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Discount Rate (Continued)*

| Investment Type | New Strategic Allocation | Real Return Years 1 - 10[1] | Real Return Years 11+[2] |
|---|---|---|---|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixed Income | 20.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 1.00% | -0.55% | -1.05% |
| | 100.00% | | |

[1] An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

[2] An expected inflation rate-of-return of 3.0% is used for years 11+.

*Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate for the June 30, 2016 Valuation Date as follows:

| | Plan's Net Pension Liability/(Asset) | | |
|---|---|---|---|
| Plan Type | Discount Rate - 1% 6.65% | Current Discount Rate 7.650% | Discount Rate + 1% 8.65% |
| CalPERS – Miscellaneous Plan | 2,793,996 | $ 1,716,284 | $ 825,607 |

The following presents the Authority's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate for the June 30, 2015 Valuation Date as follows:

| | Plan's Net Pension Liability/(Asset) | | |
|---|---|---|---|
| Plan Type | Discount Rate - 1% 6.65% | Current Discount Rate 7.650% | Discount Rate + 1% 8.65% |
| CalPERS – Miscellaneous Plan | 2,211,286 | $ 1,288,453 | $ 526,546 |

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Pension Plan Fiduciary Net Position*

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

*Proportionate Share of Net Pension Liability and Pension Expense*

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2017:

| Plan Type and Balance Descriptions | Plan Total Pension Liability | Plan Fiduciary Net Position | Change in Plan Net Pension Liability |
|---|---|---|---|
| **CalPERS – Miscellaneous Plan:** | | | |
| Balance as of June 30, 2015 (Measurement Date) | $ 6,776,242 | $ 5,487,789 | $ 1,288,453 |
| Balance as of June 30, 2016 (Measurement Date) | $ 8,004,929 | $ 6,288,645 | $ 1,716,284 |
| **Change in Plan Net Pension Liability** | $ 1,228,687 | $ 800,856 | $ 427,831 |

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2016:

| Plan Type and Balance Descriptions | Plan Total Pension Liability | Plan Fiduciary Net Position | Change in Plan Net Pension Liability |
|---|---|---|---|
| **CalPERS – Miscellaneous Plan:** | | | |
| Balance as of June 30, 2014 (Measurement Date) | $ 6,277,359 | $ 5,212,011 | $ 1,065,348 |
| Balance as of June 30, 2015 (Measurement Date) | $ 6,776,242 | $ 5,487,789 | $ 1,288,453 |
| **Change in Plan Net Pension Liability** | $ 498,883 | $ 275,778 | $ 223,105 |

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015 and 2014). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016 and 2014). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-16 fiscal year and the 2014-15 fiscal year).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

The Authority's proportionate share of the net pension liability for the June 30, 2016 measurement date was as follows:

| | Percentage Share of Risk Pool | | |
|---|---|---|---|
| | **Fiscal Year Ending June 30, 2017** | **Fiscal Year Ending June 30, 2016** | **Change Increase/ (Decrease)** |
| Measurement Date | June 30, 2016 | June 30, 2015 | |
| Percentage of Risk Pool Net Pension Liability | 0.049405% | 0.046964% | 0.002441% |
| Percentage of Plan (PERF C) Net Pension Liability | 0.019834% | 0.018771% | 0.001063% |

The Authority's proportionate share of the net pension liability for the June 30, 2015 measurement date was as follows:

| | Percentage Share of Risk Pool | | |
|---|---|---|---|
| | **Fiscal Year Ending June 30, 2016** | **Fiscal Year Ending June 30, 2015** | **Change Increase/ (Decrease)** |
| Measurement Date | June 30, 2015 | June 30, 2014 | |
| Percentage of Risk Pool Net Pension Liability | 0.046964% | 0.043106% | 0.003858% |
| Percentage of Plan (PERF C) Net Pension Liability | 0.018771% | 0.017121% | 0.001650% |

For the years ended June 30, 2017 and 2016, the Authority recognized pension expense in the amounts of $265,991 and $29,911, respectively, for the CalPERS Miscellaneous Plan.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

### Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2016 is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2015 is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Account Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions made after the measurement date | $ 498,190 | $ - |
| Difference between actual and proportionate share of employer contributions | 76,965 | 8,539 |
| Adjustment due to differences in proportions | 169,732 | 46,712 |
| Differences between expected and actual experience | 6,081 | - |
| Differences between projected and actual earnings on pension plan investments | 388,386 | - |
| Changes in assumptions | - | 74,623 |
| **Total Deferred Outflows/(Inflows) of Resources** | $ 1,139,354 | $ 129,874 |

The Authority will recognize $498,190 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources*

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

| Amortization Period Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2018 | $ 128,140 |
| 2019 | 115,884 |
| 2020 | 166,667 |
| 2021 | 100,599 |
| **Total** | $ 511,290 |

*Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Account Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions made after the measurement date | $ 222,483 | $ - |
| Difference between actual and proportionate share of employer contributions | 133,211 | - |
| Adjustment due to differences in proportions | 264,028 | 56,255 |
| Differences between expected and actual experience | 16,209 | - |
| Differences between projected and actual earnings on pension plan investments | - | 76,875 |
| Changes in assumptions | - | 153,351 |
| **Total Deferred Outflows/(Inflows) of Resources** | $ 635,931 | $ 286,481 |

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

*Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources*

The Authority will recognize $222,483 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

| Amortization Period Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ 11,929 |
| 2018 | 13,323 |
| 2019 | 3,448 |
| 2020 | 98,267 |
| **Total** | $ 126,967 |

## Note 7 – Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the Authority as of June 30, 2017:

- Property: $1,490,433 liability limit with a $1,000 deductible.
- General liability: $3,000,000 general aggregate with $1,000,000 per occurrence.
- Automobile: $1,000,000 liability limit with a $1,000 deductible.
- Management liability: $3,000,000 annual aggregate with $1,000,000 per event.
- Excess liability: $2,000,000 annual aggregate with $1,000,000 per occurrence.

## Note 8 – Commitments and Contingencies

### *Grant Awards*

Grant funds received by the Authority are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

### *Litigation*

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**Note 9 – Board Designated Reserves**

Net Position includes the earmark reserves set by the Authority. Guideline for these earmarked reserves are as follow:

- 10% Contingency Reserve ($392,057): a provision for unforeseen event or circumstance, this reserve is set at 10% of operating budget.

- CalPERS Unfunded Accrued Liability Reserve ($50,000): This Reserve set aside funding to pay for CalPERS Unfunded Accrued Liability (UAL) Contribution. Fund allocation is evaluated annually based on level of excess revenue at year-end.

- Capital Improvement Program (CIP) Reserve ($1,513,766): An Equipment CIP Fund was established in fiscal year 2007/2008. The CIP replacement schedule summarize equipment purchases planned for current and future years.

- Encumbered Projects Reserve ($193,500): This fund is set aside for authorized projects. When projects are finalized, excess funds are reallocated to Undesignated Reserve.

- Geographic Informational System (GIS) Reserve ($19,947): The GIS Reserve is for GIS-related costs, such as hiring interns, preplan development, purchasing GIS tools and equipment, etc.

- JPA Mobile Data Computer Reserve ($16,803): MDC program is a joint venture with member agencies for the purpose of replacing and maintaining MDC units. This Reserve only has the Authority's MDC amount. Contributions from member agencies are held in separate, pass-through accounts.

- Operating Fund Reserve ($350,000): The reserve is based on three months of average personnel and operating cost.

- Operational Area Dispatch Responsibilities Reserve ($47,452): When the Authority took over Operational Area Dispatch Responsibilities from Monte Vista, a reserve was established to cover personnel costs in case of regional disaster response. This Reserve is used to pay Op Area related costs, and is replenished once reimbursement is received from the state or federal government.

- Sick Leave Reserve ($104,392): This Reserve is set at 50% of total sick leave liability.

- VHF Radio Infrastructure Reserve ($49,445): The fund was earmarked for VHF Radio Infrastructure Project and is re-evaluated annually until the project is completed.

- Undesignated Reserve ($83,956): This Reserve is for excess revenue that has not encumbered for specific projects or purposes.

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## REQUIRED SUPPLEMENTARY INFORMATION
## (UNAUDITED)

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