LATHROP-MANTECA FIRE PROTECTION DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2016

JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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LATHROP-MANTECA FIRE PROTECTION DISTRICT

JUNE 30, 2016

BOARD OF DIRECTORS

Gloryanna Rhodes
Chair

Robert Gleason
Vice Chair

Bennie Gatto

Manuel Medeiros

Tye Peyton

* * * *

Fire Chief / Board Secretary
Gene Neely

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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Board of Directors
Lathrop-Manteca Fire Protection District
Lathrop, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lathrop-Manteca Fire Protection District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lathrop-Manteca Fire Protection District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the General Fund Budgetary Comparison Schedule, Schedule of Funding Progress – Other Postemployment Benefits, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

<u>Other Reporting Required by *Government Auditing Standards*</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2017 on our consideration of the District'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 District’s internal control over financial reporting and compliance.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis provides an overview of the Lathrop-Manteca Fire Protection District's financial activities based on current known facts, decisions, and conditions. This information is presented in conjunction with the audited basic financial statements, which follow this section.

Financial Highlights for Fiscal Year 2015-2016

The District's government-wide total assets increased by $383,000, to $7,934,607, mainly due to increased cash flow in the current year.

Total net position decreased by $79,508, to ($9,918,227). Although revenues decreased by $1,246,880 in 2015-2016, expenses also decreased by $1,222,558. The District's decrease in spending in 2015-2016 is correlated by the significant decrease in grants received.

Included in the required supplemental information section is a General Fund budgetary comparison schedule. That schedule indicates that we had an excess variance of $33,282. Variance details are listed on the schedule on page 34.

Overview of the Financial Statements

This annual report consists of financial statements for the District as a whole with more detailed information about the District's major funds. The statement of net position and the statement of activities provide information about the activities of the District as a whole and present a long-term view of the District's finances and include capital assets and long-term liabilities. The fund financial statements present a short term view of the District's activities and therefore include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future.

The Balance Sheet presents a snapshot of the assets of the District, the District's liabilities and the net difference reflected as its fund balance at the end of the fiscal year.

The Statement of Revenues, Expenditures and Changes in Fund Balance measures the extent to which the District's operating cost were funded from general revenues.

The Notes to Financial Statements provides additional disclosures and information to assist the reader in understanding the District's financial condition

The District as a Whole

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

The change in net position (the difference between total assets and total liabilities) over time is one indicator of whether the District's financial health is improving or deteriorating. However, one must consider other nonfinancial factors in making an assessment of the District's health, such as changes in the economy, changes in the District's tax base, and changes in the District's boundaries, etc. to assess the overall health of the District.

Capital Assets

The District owns real property at each of its four fire station locations. The Administration building is located at the main fire station. In addition, the District owns a considerable amount of vehicles and specialized equipment used by fire district personnel in performing fire, rescue and EMS activities. These fixed assets, net of accumulated depreciation, are reflected in the District's government-wide financial statements. Overall, the net capital asset balance increased $121,729.

Long-Term Liabilities

Long-term liabilities reflected in the government-wide financial statements were $3,011,091 higher than the prior year due mainly to an increase in the Net Pension Liability of $2,832,683.

Net Position

Condensed Statement of Net Position

	2016	2015	Dollar Change	Percentage Change
ASSETS				
Current assets	$ 3,663,173	$ 3,401,912	$ 261,261	7.68%
Capital assets, net	4,271,434	4,149,705	121,729	2.93%
Total assets	7,934,607	7,551,617	382,990	5.07%
DEFERRED OUTFLOWS OF RESOURCES	3,407,760	1,305,372	2,102,388	100.00%
LIABILITIES				
Current liabilities	287,351	963,846	(676,495)	-70.19%
Long-term liabilities	20,716,160	17,705,069	3,011,091	17.01%
Total liabilities	21,003,511	18,668,915	2,334,596	12.51%
DEFERRED INFLOWS OF RESOURCES	257,083	26,793	230,290	100.00%
NET POSITION				
Net investment in capital assets	3,874,151	3,681,933	192,218	5.22%
Restricted	427,539	284,831	142,708	50.10%
Unrestricted	(14,219,917)	(13,805,483)	(414,434)	-3.00%
Total net position	$ (9,918,227)	$ (9,838,719)	$ (79,508)	-0.81%

Condensed Statement of Activities

	2016	2015	Dollar Change	Percentage Change
REVENUES				
Program revenues				
Charges for services	$ 787,330	$ 519,509	$ 267,821	51.55%
Operating grants and contributions		325,183	(325,183)	-100.00%
Capital grants and contributions	467,209	1,899,296	(1,432,087)	100.00%
General revenues				
Property taxes	3,091,846	2,804,938	286,908	10.23%
Special assessments	1,931,600	1,830,030	101,570	5.55%
Impact mitigation fees	746,222	745,608	614	0.08%
Measure C taxes	1,268,487	1,165,715	102,772	8.82%
Other	86,808	336,103	(249,295)	-74.17%
Total revenues	8,379,502	9,626,382	(1,246,880)	-12.95%
EXPENSES				
Fire protection services	8,294,774	9,534,175	(1,239,401)	-13.00%
Administration	144,012	122,174	21,838	17.87%
Interest on long-term debt	20,224	25,219	(4,995)	100.00%
Total expenses	8,459,010	9,681,568	(1,222,558)	-12.63%
Change in Net Position	(79,508)	(55,186)	(24,322)	44.07%
Total Net Position - Beginning of Year	(9,838,719)	1,447,877	(11,286,596)	-779.53%
Prior period restatement		(11,231,410)	11,231,410	-100.00%
Total Net Position - End of Year	$ (9,918,227)	$ (9,838,719)	$ (79,508)	0.81%

Economic Outlook

The Lathrop-Manteca Fire Protection District's financial position has been negatively affected by the downturn of the national, state and local economy, and continues to face significant economic challenges. These trends, coupled with the continued economic downturn, provide a continuing somewhat sobering outlook for the next several years. The Lathrop-Manteca fire Protection District presents a financial plan for the 2016-2017 fiscal year, which delivers its vital services but eliminates non-essentials. The District is focusing on core services, budget-balancing strategies while continuing to encompass ways to build up future reserves to ensure equipment and apparatus replacement.

We are projecting that the District will have minimal revenue growth in 2017. This financial assumption is based upon recent trends in real property values, changes in population or other service-level indicators, changes in political environment, recent annexations contributing to the expansion or decline of the District's service boundaries and global economy trends. It is our assessment that when the housing market stabilizes, jobs will be more readily available, and consumer confidence increases. This has to take place before the district, which receives the majority of its financial support from housing, will be able to increase our revenues.

Additional Financial Information

This financial report is designed to provide the District's financial statement users with an overview of the District's financial operations and financial condition. Additional information can be obtained from the Lathrop-Manteca Fire Protection District, in care of Gene Neely, 800 East J Street, Lathrop, California 95330.

BASIC FINANCIAL STATEMENTS

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	3,064,733
Accounts receivable		298,440
Prepaid expense		300,000
Capital assets, net of accumulated depreciation		4,271,434
Total Assets		7,934,607
DEFERRED OUTFLOWS OF RESOURCES		
Pension related		3,407,760
LIABILITIES		
Accounts payable and other current liabilities		287,351
Long-term liabilities:		
Due within one year		455,250
Due in more than one year		20,260,910
Total Liabilities		21,003,511
DEFERRED INFLOWS OF RESOURCES		
Pension related		257,083
NET POSITION		
Net investment in capital assets		3,874,151
Restricted		427,539
Unrestricted		(14,219,917)
Total Net Position	$	(9,918,227)

The accompanying notes are an integral part of these financial statements.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF ACTIVITIES

JUNE 30, 2016

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Fire Protection Services	$ 8,294,774	$ 787,330	$ -	$ 467,209	$ (7,040,235)
Administration	144,012				(144,012)
Interest on long-term debt	20,224				(20,224)
Total governmental activities	$ 8,459,010	$ 787,330	$ -	$ 467,209	(7,204,471)

General Revenues	
Taxes and subventions:	
Property taxes	3,091,846
Special assessments	1,931,600
Measure C taxes	1,268,487
Impact mitigation fees	746,222
Rental income	35,921
Interest and investment earnings	11,693
Miscellaneous	39,194
Total general revenues	7,124,963
Change in net position	(79,508)
Net Position, July 1, 2015	(9,838,719)
Net Position, June 30, 2016	$ (9,918,227)

LATHROP-MANTECA FIRE PROTECTION DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	Captial Outlay Fund	Measure C Fund	Developer Account Fund	Facility Fee Fund	Total
ASSETS						
Cash	$ 1,289,609	$ 444,414	$ 427,539	$ 29,316	$ 873,855	$ 3,064,733
Accounts receivable	45,540				252,900	298,440
Prepaid expense					300,000	300,000
Total Assets	$ 1,335,149	$ 444,414	$ 427,539	$ 29,316	$ 1,426,755	$ 3,663,173
LIABILITIES						
Liabilities						
Accounts payable	$ 67,247				$ 34,941	$ 102,188
Accrued wages	176,083					176,083
Total Liabilities	243,330	-	-	-	34,941	278,271
FUND BALANCE						
Fund balances						
Nonspendable	-				300,000	300,000
Restricted			$ 427,539			427,539
Assigned	4,761	$ 444,414		$ 29,316	1,091,814	1,570,305
Unassigned	1,087,058					1,087,058
Total Fund Balances	1,091,819	444,414	427,539	29,316	1,391,814	3,384,902
Total liabilities and fund balances	$ 1,335,149	$ 444,414	$ 427,539	$ 29,316	$ 1,426,755	$ 3,663,173

The accompanying notes are an integral part of these financial statements.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total fund balances - governmental funds		$ 3,384,902
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost	$ 6,763,334	
Accumulated depreciation	(2,491,900)	
Net		4,271,434
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(9,080)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
State loan payable - Chapter 1168/85	$ (33,476)	
Loan - City of Lathrop	(201,709)	
Capital leases payable	(397,283)	
Other postemployment benefits	(3,651,920)	
Net pension liability	(16,143,338)	
Compensated absences payable	(288,434)	
		(20,716,160)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported becauses they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources related to pensions		3,407,760
Deferred inflows of resources related to pensions		(257,083)
Total net position, governmental activities:		$ (9,918,227)

The accompanying notes are an integral part of these financial statements.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Capital Outlay Fund	Measure C Fund	Developer Account Fund	Facility Fee Fund	Total
REVENUES						
Property taxes	$ 3,091,846					$ 3,091,846
Special assessments	1,931,600					1,931,600
Measure C taxes			$ 1,268,487			1,268,487
Federal grant		$ 467,209				467,209
Impact mitigation fee	24,973				$ 721,249	746,222
Licenses/permits	121,717	(1,392)				120,325
Plan check & service fees	179,371					179,371
Other services	487,634					487,634
Interest income	2,268	2,083	2,221	$ 1,073	4,048	11,693
Miscellaneous income	39,194					39,194
Total revenues	5,878,603	467,900	1,270,708	1,073	725,297	8,343,581
EXPENDITURES						
Salaries and wages	3,151,016	650				3,151,666
Employee benefits	2,572,911					2,572,911
Insurance	270,939					270,939
Maintenance	112,038				60	112,098
Administration charges	60,601					60,601
Fuel, lube and tires	56,787					56,787
Communications	32,250					32,250
Director's expense	7,450					7,450
Dispatching	109,696					109,696
Firefighter supplies	70,882					70,882
Legal and professional services	70,816				625	71,441
Office expense	16,964					16,964
Public relations and training	36,428					36,428
Utilities	57,520					57,520
Capital Outlay		134,713		222,618	206,218	563,549
Debt service - principal	103,991	67,352				171,343
Debt service - interest	571	21,320				21,891
Miscellaneous expense	58,997					58,997
Total expenditures	6,789,857	224,035	-	222,618	206,903	7,443,413
Excess(deficiency) of revenues over expenditures	(911,254)	243,865	1,270,708	(221,545)	518,394	900,168
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,128,000	88,670			50,000	1,266,670
Operating transfers out	(138,670)		(1,128,000)			(1,266,670)
Rental income	35,921					35,921
Total other financing sources (uses)	1,025,251	88,670	(1,128,000)	-	50,000	35,921
Net change in fund balances	113,997	332,535	142,708	(221,545)	568,394	936,089
Fund balances, July 1, 2015	977,822	111,879	284,831	250,861	823,420	2,448,813
Fund balances, June 30, 2016	$ 1,091,819	$ 444,414	$ 427,539	$ 29,316	$ 1,391,814	$ 3,384,902

LATHROP-MANTECA FIRE PROTECTION DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Total net change in fund balances - governmental funds		$ 936,089
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay:	$ 467,356	
Depreciation expense:	(345,627)	
		121,729
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		171,343
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:		1,667
In governmental funds, postemployment benefits other than pensions (OPEB) costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		(349,487)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measure by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(264)
Pensions: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and the actual employer contribution was:		(960,585)
Total change in net position - governmental activities		$ (79,508)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Manteca-Lathrop Rural County Fire Protection District was established in 1936 to provide fire protection for the township of Lathrop, rural Lathrop and rural Manteca. The Fire District was organized under the laws of the State of California, Health and Safety Code section 13800, known as the Fire Protection District law of 1987. It is governed by a five member Board of Directors who are elected at-large to serve a four-year term. Since 1936 the District has developed into a proactive Fire Department covering 100 square miles including the recently incorporated City of Lathrop.

The District staffs four strategically located fire stations with career personnel, as well as volunteer firefighters. In February of 2002, the Board of Directors changed the name to the Lathrop-Manteca Fire Protection District.

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. In the government-wide Statement of Net Position, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts — net investment in capital assets; restricted net position; and unrestricted net position.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the Districts general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is allocated to General Government function and reported in total in the Statement of Activities. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column.

B. BASIS OF PRESENTATION (CONTINUED)

Basic Financial Statements

The basic financial statements include Management's Discussion and Analysis (MD&A), providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a change in the fund financial statements to focus on the major funds.

Reporting Entity

The reporting entity for the Lathrop-Manteca Fire Protection District includes all the funds and operations under the jurisdiction of the District.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-121.

Governmental Fund Financial Statements

Governmental fund financial statements (i.e. balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used, or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Budgets and Budgetary Accounting

The Board of Directors annually adopts a District-wide budget resolution. The preliminary budget may be amended by the Board of Directors and is adopted by resolution by the Board of Directors on or before June 30. The final budget is then adopted by the Board of Directors on or before August 30. Budget appropriations lapse at the end of the year. The budget is prepared on a cash basis, which does not vary significantly from the basis of accounting used in the financial statements. Management can transfer budgeted amounts between expenditure accounts within an object level without the approval of the Board of Directors.

D. FUND ACCOUNTING

The accounts of the District 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 its assets, liabilities, fund balance, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District funds are as follows:

Major Funds:

General Fund- The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Outlay Fund - The Capital Outlay Fund is used to support the capital improvement plan designed to fund future capital purchases.

D. FUND ACCOUNTING (CONTINUED)

Measure C Fund - The Measure C Fund is used to account for the collection of Measure C tax dollars, which provides funding for public safety within the boundaries of the City of Lathrop.

Developer Account Fund - The Developer Account Fund is used to account for billing for services provided during development projects. This account is to fund any and all billing that will be required to research, acquire outside services and provide staff time to facilitate the developments when requested.

Facility Fee Fund - The Facility Fee Fund is used to account for the collection of fire facility fees, which provides funding for public safety within the boundaries of the District.

E. CAPITAL ASSETS

Capital assets purchased or acquired, with an original cost of $5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 3 - 15 years depending on asset types.

F. INTERFUND ACTIVITY

Interfund activity is reported as loans, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

G. COMPENSATED ABSENCES

The District accrues the cost for compensated absences when such time is earned. Employees have a vested interest in accrued vacation time. All vacation hours will eventually either be used or paid by the District. For those employees who do not use their accrued balances during the current fiscal year, their balances carry over to the next fiscal year. As this occurs, the District incurs an obligation to pay for these unused hours. All compensated absences for governmental activities are paid out of the general fund.

H. GOVERNMENT-WIDE NET POSITION

Net investment in capital assets consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net position consists of amounts that are restricted by the Districts creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted - remaining net position not identified as invested in capital assets or restricted.

I. FUND BALANCE

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions*,*"* the District is required to report fund balances in the following categories: Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

Nonspendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (prepaid expense) or must remain intact pursuant to legal or contractual requirements.

Restricted Fund Balance reflects amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance reflects 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: the Board of Directors. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned Fund Balance reflects amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Under the District’s adopted policy, only the Board of Directors is authorized to assign amounts for specific purposes.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

When expenditures are incurred for purposes of which restricted, committed, assigned and unassigned fund balances are available, the District considers restricted funds to have been spent first, followed by committed, assigned and unassigned, respectively.

J. PROPERTY TAXES

Secured property taxes are attached as an enforceable lien on property as of January 1. Taxes are due in two installments on or before November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due in one installment on or before July 1 and become delinquent on August 31. The County of San Joaquin bills and collects taxes for the District. Tax revenues are recognized by the District when received.

K. CASH AND CASH EQUIVALENTS

For presentation in the financial statements, all cash and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents.

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

M. PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Lathrop-Manteca Fire Protection District's San Joaquin County Employees' Retirement Association (SJCERA) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SJCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. ENCUMBRANCES

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

O. USE OF ESTIMATES

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

2. CASH AND INVESTMENTS

The District's total cash balance at June 30, 2016 is $3,064,733.

Pooled Funds

The District maintains substantially all of its cash in the San Joaquin County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the deposits are maintained in a recognized pooled investment fund under the care of a third party and the share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial risk classifications is required.

In accordance with applicable State laws, the San Joaquin County Treasurer may invest in derivative securities. However, at June 30, 2016, the San Joaquin County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2016 are as shown as follows:

Description	Level 1	Level 2	Level 3	Total
US Agency, Treasury & Municipal Notes (USATM):				
US Agency Notes:	$ 2,468,120			$ 2,468,120
Corporate Bonds	21,949			21,949
Commercial Paper		$ 280,328		280,328
Certificates of Deposit		33,108		33,108
LAIF	42,111	29,264		71,375
Money Market Accounts		54,904		54,904
Cash Held in Bank	134,949			134,949
Cash Held in County	$ 2,667,129	$ 397,604	$ -	$ 3,064,733

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 longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and/or having the pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Concentration of Credit Risk

The District's investment policy limits the amount it may invest with certain issuers. At June 30, 2016, the District had no concentration of credit risk and complied with the requirements of the District's investment policy.

3. INTERFUND TRANSACTIONS

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the year ended June 30, 2016 consisted of the following:

Transfer from Measure C Fund to General Fund to cover personnel expenses.	$ 1,128,000
Transfer from General Fund to Capital Outlay Fund to pay Engine 32 & 33 lease payments.	88,670
Transfer from General Fund to Facility Fee Fund to reduce interfund loan balance.	50,000
Total Transfers	$ 1,266,670

4. CAPITAL ASSETS

A schedule of changes in Governmental Activities capital assets for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital Assets, not being depreciated:				
Construction in progress	$ -	$ 222,618	$ -	$ 222,618
Capital assets, Depreciable:				
Buildings	3,162,958			3,162,958
Furniture & Equipment	294,714	194,664		489,378
Trucks	2,838,306	50,074		2,888,380
Total Capital Assets, being depreciated	6,295,978	244,738	-	6,540,716
Accumulated Depreciation				
Buildings	896,347	115,764		1,012,111
Furniture & Equipment	10,028	38,973		49,001
Trucks	1,239,898	190,890		1,430,788
Total Accumulated Depreciation	2,146,273	345,627	-	2,491,900
Net Capital Assets being depreciated	4,149,705	(100,889)	-	4,048,816
Capital Assets, net	$ 4,149,705	$ 121,729	-	$ 4,271,434

The entire amount of depreciation expense is allocated to fire protection services in the statement of activities.

5. LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
State Loan - Chapter 1168/85	$ 33,476			$ 33,476	
Loan - City of Lathrop	302,563		$ 100,854	201,709	$ 100,854
Capital Lease Obligations	467,772		70,489	397,283	73,804
Postemployment Benefits	3,302,433	$ 641,965	292,478	3,651,920	280,592
Net Pension Liability	13,310,655	2,832,683		16,143,338	
Compensated Absences	288,170	264		288,434	
	$ 17,705,069	$ 3,474,912	$ 463,821	$ 20,716,160	$ 455,250

5. LONG-TERM LIABILITIES (CONTINUED)

State Loan – Chapter 1168/85

The District applied for and received a state loan in the amount of the shortfall in funding received through supplemental roll tax revenue during the 1984-85 fiscal year. The loan is interest free and was to be repaid from the 1984-85 fiscal year supplemental roll tax revenue received by the District after January 15, 1986. No due date has been assigned to the loan. The balance due on the loan at June 30, 2016 is $33,476.

Loan – City of Lathrop

In September 2010, the District entered into a loan agreement with the City of Lathrop for $395,000 to cover a budget shortfall. Outside the agreement, the City also loaned $60,531 for engineering consultant work for the 218 tax and $48,740 for 40% of a consultant used related to Measure C. The total amount of the loan is $504,271. The loan is a non-interest bearing loan with 5 annual payments with payments beginning in June 2014. Future minimum loan payments are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2017	$ 100,854	$ -	$ 100,854
2018	100,855	-	100,855
Total	$ 201,709	$ -	$ 201,709

Capital Lease Obligations

During the year ended June 30, 2016, the District had three capital leases for the purchase of three fire trucks (Engines) and copiers. The following are the lease-purchases and their terms in place during the year ended June 30, 2016:

Asset	Maturity Date	Interest Rate	Purchase Price	Balance June 30, 2015	Payments	Balance June 30, 2016
Engine 32 & 33	12/28/2020	4.60%	630,892	454,568	67,352	387,216
Copiers	5/1/2019	4.84%	13,204	13,204	3,137	10,067
			$ 644,096	$ 467,772	$ 70,489	$ 397,283

5. LONG-TERM LIABILITIES (CONTINUED)

The annual payments required to amortize the capital leases outstanding as of June 30, 2016, are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2017	$ 73,804	$ 18,576	$ 92,380
2018	77,275	15,106	92,381
2019	80,599	11,473	92,072
2020	80,905	7,767	88,672
2021	84,700	3,973	88,673
Total	$ 397,283	$ 56,895	$ 454,178

Accrued interest of $9,080 is included in the government-wide financial statements.

6. FUND BALANCES

The District follows GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. The following schedule is a summary of the components of the ending fund balance by fund type at June 30, 2016:

	General Fund	Capital Outlay Fund	Measure C Fund	Developer Account Fund	Facility Fee Fund	Total
Nonspendable:						
Prepaid Expenses	$ -	$ -	$ -	$ -	$ 300,000	$ 300,000
Resticted For:						
Captial Projects			427,539			427,539
Assigned For:						
Capital Projects		444,414		29,316		473,730
Fire Facilities					1,091,814	1,091,814
Health Reserve Fund	4,761					4,761
Total Assigned	4,761	444,414		29,316	1,091,814	1,570,305
Unassigned:						
Unassigned	1,087,058					1,087,058
Total Fund Balances	$ 1,091,819	$ 444,414	$ 427,539	$ 29,316	$ 1,391,814	$ 3,084,902

7. EMPLOYEE RETIREMENT PLAN

Plan Description

The District contributes to the San Joaquin County Employees' Retirement Association (SJCERA), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Retirement. The Association provides retirement, disability, death, and survivor benefits to plan members and beneficiaries. The County Employee's Retirement Act of 1937 is the statutory basis for the Association. The Board of Retirement has the authority to establish and amend benefit provisions. The Association issues a publicly available financial report that includes financial statements and required supplementary information for the Association. The Plan issues a separate annual audited financial statement report. Copies of the report are available on SJCERA's website www.scjera.org

Funding Policy

Contribution rates for the employers and employees were determined in accordance with actuarially determined contribution requirements by an actuarial valuation performed as of January 1, 2014. Employee contributions are payable over each employee's future working lifetime. The employer rates reflect the entry age normal funding method. Under this method, the normal cost is being paid over the future working lifetimes of the members. For the year ended June 30, 2016, contribution rates as a percentage of the annual covered payroll were as follows:

Hire date	Prior to January 1, 2012	On or after January 1, 2012
Required employee contribution rates		
Tier 1	1.63% - 9.22%	8.78% - 14.38%
Tier 2	9.38% - 15.59%	9.38% - 15.59%
Required employer contribution rates		
Tier 1 Safety Members	66.05%	61.85%
Tier 2 Safety Members	53.99%	53.99%
Tier 1 Miscellaneous Members	37.30%	N/A
Tier 2 Miscellaneous Members	29.47%	29.47%

Member contribution rates depend on the member's age upon joining the plan and the plan in which they participate.

Contributions

The employers' actual contributions to the Plan for the years ending June 30, 2016, 2015 and 2014 were $1,551,709, $1,436,038 and $1,277,677, respectively, and equaled the required contributions for each year.

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

At June 30, 2016, the District reported a liability of $16,143,338, for its proportional share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations, actuarially determined. The District's proportionate share of the net pension liability as of December 31, 2014 and 2015 was as follows:

Proportion - December 31, 2014	1.01030%
Proportion - December 31, 2015	1.04940%
Change - Increase (Decrease)	0.03910%

As of June 30, 2016, the District 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	$ 615,568	
Difference between proportionate share of aggregate employer contributions and actual contributions for 2015-16.		$ (40,884)
Change in employer's proportion and differences between proportionate share of contributions	431,822	
Net differences between projected and actual earnings on plan investments	2,360,370	
Net differences between expected and actual experience		(216,199)
Total	$ 3,407,760	$ (257,083)

The amounts 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, 2017.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$ 669,712
2017	$ 669,712
2018	$ 668,917
2019	$ 526,769

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	January 1, 2015
Measurement Date	December 31, 2015
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	3.00%
Amortization Growth Rate	3.25%
Salary Increases	3.25% plus merit component
COLA increases	2.60%
Post-Retirement Mortality	Sex distinct RP-2000 Combined, Mortality, projected with generational improvements using Scale BB

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from organizations will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability:

Asset Class	Target Allocation	Long-term Expected Real Rate of
Fixed Income	24.0%	1.20%
U.S. Equities	16.3%	5.80%
Non-U.S. Equities	16.3%	6.20%
Global Equity	1.5%	6.20%
Real Estate	10.0%	4.40%
Real Assets	7.0%	1.80%
Global Opportunistic Strategy	15.0%	7.50%
Risk Parity	10.0%	4.50%
Total	100.0%	

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-perentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability	$ 21,684,418	$ 16,143,338	$ 11,579,293

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SJCERA financial reports.

Payable to the Pension Plan

As of June 30, 2016, the District had no outstanding required contributions to the pension plan.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. The District provides retiree health benefits for eligible retired employees. The District reported two different retiree healthcare benefit programs:

1. The first program is a negotiated benefit under which unused sick leave hours can be converted, by formula, to months of District-paid medical, dental and/or vision premiums. Under this arrangement, once the credited hours are depleted, the retiree becomes responsible for the 100% of the ongoing premium cost, if he or she opts to continue it.

2. The second arrangement is defined based on the terms of a resolution executed with CalPERS upon joining that medical program in 2006. This resolution provides for the District to pay 100% of the monthly medical premiums for the retiree and all eligible dependents for their lifetime, *but not more than* the PERS Choice plan premiums charged in the Bay Area region. Eligibility for coverage and this benefit is determined based on strict requirements per the Public Employees' Medical and Hospital Care Act (PEMHCA).

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost is calculated based on the annual required contribution (ARC). For fiscal year 2016, the District's annual OPEB cost for the Plan was $641,965. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016, were as follows:

Annual required Contribution	$ 669,434
Interest on net OPEB obligation	132,097
Adjustment to annual required contribution	(159,566)
Annual OPEB cost (expense)	641,965
Contributions made	(292,478)
Change in net OPEB obligation (asset)	349,487
Net OPEB obligation (asset) - beginning of year	3,302,433
Net OPEB obligation (asset) - end of year	$ 3,651,920

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2014	$ 810,037	$ 197,933	24%	$ 2,699,878
June 30, 2015	$ 862,665	$ 260,110	30%	$ 3,302,433
June 30, 2016	$ 641,965	$ 292,478	46%	$ 3,651,920

Funding Policy. The Governing Board retains the authority to establish and amend plan benefit provisions, including those related to contributions. The District currently pays for postemployment health care benefits on a pay-as-you-go basis and these financial statements assume that pay-as-you-go funding will continue.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members to that point. The unfunded actuarial accrued liability is being amortized over 30 years on a level percent of pay basis.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement age and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the liabilities were computed using the entry age normal cost method. The actuarial assumptions utilized a 4% discount rate and a 2.75% general inflation rate. The valuation assumes an initial healthcare cost trend rate of 7.5%, which grades down to an ultimate rate of 4.5% by the year 2023.

9. JOINT VENTURE

The District is a member with other fire districts in a Joint Powers Authority, Fire Agencies Self Insurance System (FASIS), which provides coverage for workers' compensation. FASIS provides first dollar coverage up to a limit of $500,000 per occurrence. This coverage is extended to provide excess coverage above $500,000 to statutory coverage limits through FASIS participation in the Local Agency Workers' Compensation Excess Joint Powers Authority. FASIS is governed by a Board of Directors consisting of representatives from member districts. The Board controls the operations of FASIS, including selection of management and approval of operating budgets. Member contributions paid by the District to FASIS for the year ended June 30, 2016 was $230,059. The following is a summary of the audited financial information of FASIS as of June 30, 2016:

Total Assets	$	50,044,626
Total Liabilities		31,976,928
Net Position		18,067,698
Total Liabilities and Net Position	$	50,044,626
Total Revenues	$	11,252,483
Total Expenditures		10,568,124
Change in Net Position	$	684,359

The relationship between Lathrop-Manteca Fire Protection District and the Joint Powers Authority are such that they are not component units of the District for financial reporting purposes.

9. JOINT VENTURE

The District incurred unanticipated expenditures in excess of appropriations in expenditure classifications for which the budget was not revised.

Excess of expenditures over appropriations for the year ended June 30, 2016 were as follows:

	Excess Expenditures
General Fund	
Salaries and wages	$ 474,252
Employee benefits	91,672
Insurance	20,100
Maintenance	9,038
Administration charges	1,044
Communications	1,871
Dispatching	9,489
Firefighter supplies	29,918
Office expense	1,964
Utilities	11,307
Debt service - principal	3,991
Debt service - interest	571

10. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

11. COMMITMENTS

On March 25, 2016, the District entered into a lease purchase agreement with PNC Equipment Finance LLC for an Aerial Fire Truck at a cost of $841,224 and an interest rate of 2.47%. The anticipated delivery date of the Aerial Fire Truck is May 25, 2017. For the year ended June 30, 2016, the District made the first principal and interest prepayment totaling $300,000, which is reflected as a prepaid expense in the balance sheet and statement of net position. Scheduled annual payments of the lease purchase agreement as of June 30, 2016, are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2017	$ 104,251	$ 12,312	$ 116,563
2018	105,692	10,872	116,564
2019	108,311	8,253	116,564
2020	110,995	5,569	116,564
2021	113,745	2,819	116,564
Total	$ 542,994	$ 39,825	$ 582,819

12. SUBSEQUENT EVENTS

The District's management evaluated its June 30, 2016 financial statements for subsequent events through April 14, 2017, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND

JUNE 30, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 2,806,040	$ 3,091,846	$ 285,806
Special assessments	1,903,888	1,931,600	27,712
Federal grant	204,166		(204,166)
Impact mitigation fee	23,534	24,973	1,439
Licenses/permits	99,163	121,717	22,554
Plan check & service fees	46,505	179,371	132,866
Other services	166,743	487,634	320,891
Interest income	99	2,268	2,169
Miscellaneous income	101,057	39,194	(61,863)
Total revenues	5,351,195	5,878,603	527,408
EXPENDITURES			
Salaries and wages	2,676,764	3,151,016	(474,252)
Employee benefits	2,481,239	2,572,911	(91,672)
Insurance	250,839	270,939	(20,100)
Maintenance	103,000	112,038	(9,038)
Administration charges	59,557	60,601	(1,044)
Fuel, lube and tires	66,547	56,787	9,760
Communications	30,379	32,250	(1,871)
Director's expense	8,000	7,450	550
Dispatching	100,207	109,696	(9,489)
Firefighter supplies	40,964	70,882	(29,918)
Legal and professional services	118,227	70,816	47,411
Office expense	15,000	16,964	(1,964)
Public relations and training	45,000	36,428	8,572
Utilities	46,213	57,520	(11,307)
Debt service - principal	100,000	103,991	(3,991)
Debt service - interest		571	(571)
Miscellaneous expense	108,879	58,997	49,882
Total expenditures	6,250,815	6,789,857	(539,042)
Excess(deficiency) of revenues over expenditures	(899,620)	(911,254)	(11,634)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,128,000	1,128,000	
Operating transfers out	(168,226)	(138,670)	29,556
Rental income	20,561	35,921	15,360
Total other financing sources (uses)	980,335	1,025,251	44,916
Net change in fund balances	80,715	113,997	33,282
Fund balances, July 1, 2015	977,822	977,822	-
Fund balances, June 30, 2016	$ 1,058,537	$ 1,091,819	$ 33,282

See accompanying notes to required supplementary information.

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2016

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
June 30, 2010	$ 5,026,030	$ -	$ 5,026,030	0%	$ 1,921,000	261.6%
June 30, 2013	$ 7,012,977	$ -	$ 7,012,977	0%	$ 2,114,952	331.6%
June 30, 2016	$ 3,974,317	$ -	$ 3,974,317	0%	$ 2,360,628	168.4%

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

JUNE 30, 2016

	December 31, 2014 [1]	December 31, 2015 [1]
Proportion of the net pension liability	1.0103%	1.0494%
Proportionate share of the net pension liability	$ 13,310,655	$ 16,143,338
Covered-employee payroll [2]	$ 2,301,028	$ 2,537,964
Proportionate Share of the net pension liability as percentage of covered-employee payroll	578.47%	636.07%
Plan's fiduciary net position as a percentage of the total pension liability	65.18%	61.07%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.
[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2016

	Fiscal Year 2013-14 [1]	Fiscal Year 2014-15 [1]
Actuarially Determined Contribution	$ 1,436,038	$ 1,551,709
Contributions in relation to the actuarially determined contributions	1,436,038	1,551,709
Contribution deficiencey (excess)	$ -	$ -
Covered-employee payroll [2]	$ 2,816,052	$ 2,537,964
Contributions as a percentage of covered-employee payroll	50.99%	61.14%

[1] Historical information is required only for measurement periods for which GASB 68 is applicable.
[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

See accompanying notes to required supplementary information.

PURPOSE OF SCHEDULES

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP) and Actual – General Fund

The District employs budget control by account codes and by individual appropriation accounts. The budgets are revised during the year by the Board of Directors to provide for revised priorities. Expenditures cannot legally exceed appropriations by object level, which is a category of account codes such as salaries and benefits or charges for services. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The budgeting is on the cash basis which is another comprehensive basis of accounting.

Schedule of Funding Progress - Other Postemployment Benefits

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

Schedule of Proportionate Share of the Net Pension Liability

Changes in assumptions

In 2016, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

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

Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

Valuation Date	January 1, 2015
Measurement Date	December 31, 2015
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	3.00%
Amortization Growth Rate	3.25%
Salary Increases	3.25% plus merit component
COLA increases	2.60%
Post-Retirement Mortality	Sex distinct RP-2000 Combined, Mortality, projected with generational improvements using Scale BB

SUPPLEMENTARY INFORMATION

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Department of Homeland Security			
Assistance to Firefighters	97.044	EMW-2013-FR-00428	$ 467,209
Total			$ 467,209

OTHER INDEPENDENT AUDITOR'S REPORTS

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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 AUDITOR'S REPORT

Board of Directors
Lathrop-Manteca Fire Protection District
Lathrop, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Lathrop-Manteca Fire Protection District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 14, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses: 2016-01 and 2016-02.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies: 2016-03.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

Lathrop-Manteca Fire Protection District's Response to Findings

Lathrop-Manteca Fire Protection District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. Lathrop-Manteca Fire Protection District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

James Marta + Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 14, 2017

Section I – Summary of Audit Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified not considered to be material weakness(es)?	X	Yes		None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

The District expended less than $750,000 in federal awards in 2015-16 and was not subject to a Single Audit.

Section II – Financial Statement Findings

2016-01 Accrual Accounting – Material Weakness

Observation:
The District does not have a process in place to determine accruals at year-end for accounts receivable, prepaid expenses, accounts payable and other liabilities. These accruals are required in order to report in accordance with generally accepted accounting principles (GAAP).

Recommendation:
Management needs to develop a monthly and annual closing process to identify any potential accruals at year end.

1. Accounts receivable – Any billing or amounts due to the District for services provided, rental of space or tower rental as of the end of the fiscal year should be accrued and recorded in the fund financial statements.
2. Prepaid expenses – The District needs to determine if any amounts paid in one fiscal year are also applicable to a subsequent fiscal year. Those amounts that are applicable to the subsequent fiscal year should be recorded as prepaid expenses in the fund financial statements.
3. Accounts payable – Management should review all invoices received in July and August to determine if any of these were applicable to the previous fiscal year. The amounts applicable to the prior fiscal year should be recorded as accounts payable in the fund financial statements.
4. Other liabilities – Management may be aware of other amounts due for which they have not been invoiced. If the goods or services were received prior to July 1, then these amounts should be recorded as accrued expenses in the fund financial statements. This would also include wages, benefits and related taxes for the period ended June 30, but not paid until July.

Management Response:
Management has been utilizing the recommended process for accrual accounting, as the accounting software is transitioned to Quick Books. Quick Books will allow staff and management to assist in identifying any potential accruals at year end, while also preparing to transition from the San Joaquin County accounting to a localized financial institution. This will give the management team local control over the funding and expenditure tracking and reporting.

2016-02 Long-Term Liabilities – Material Weakness

Observation:
Long-term liability payments are not being properly recorded in the fund financial statements.

Capital lease payments were recorded as equipment/capital outlay expense in the capital outlay fund and office expense in the general fund. In addition, the loan payment to the City of Lathrop was recorded as equipment/capital outlay expense in the general fund. When payments are made, they should be reflected as debt service payments and broken out between principal and interest payments.

Recommendation:
Management needs to understand the appropriate accounting for any financing and long-term obligations and ensure that they are properly recorded in the county general ledger. Management should also create a schedule for all long-term obligations to ensure they are appropriately tracked and reflected accurately in the government-wide financial statements.

Management Response:
Management has been made aware of its responsibility to properly allocate the payment from the county accounting system and to ensure they are recording the payments in the recommended manner. Management will continue to work with the County accounting department to ensure there are classified correctly within the appropriate subaccount.

2016-03 Financial Systems – Significant Deficiency

Observation:
San Joaquin County maintains the original accounting records for the District and the District utilizes Peachtree accounting software for certain financial transactions; however the full capabilities of the Peachtree program are not being utilized. In addition, some of the reports presented to the board are prepared using excel worksheets. This duplication of effort could lead to errors.

Recommendation:
The District should have an accounting software program and utilize its features to post all transactions and mirror the activity posted by the county. The in-house accounting should be reconciled with the county each month. In addition, the District will need to record all accrual and other entries noted in observations 2016-01 and 2016-02 above. The appropriate in-house accounting system will allow the District to produce custom reports for both management and the board.

Management Response:
Management looked at multiple accounting software programs, and decided to migrate accounting records to Quick Books Online. The Fire Board has been apprised of the ongoing software and accounting discrepancies in relation to previous methods of accounting used within the District and the San Joaquin County accounting. Management is looking to complete full integration of Quick Books online accounting in the 2016-2017 fiscal year.

2016-04 Cash Accounts – Management Recommendation

Observation:
The District has two cash accounts which are not recorded in the District's general ledger: a savings account with Financial Center Credit Union account with a balance of $708 and a petty cash balance with $300 as of June 30, 2016.

Recommendation:
The District should account for and present all cash accounts they own in their financial statements. If the account with Financial Center Credit Union is not needed by the District, the account should be closed.

Management Response:
Management will attempt to integrate this into the new accounting software and have this item reflected on Financial Reports.

2016-05 Policies and Procedures

Observation:
The District does not currently have a policies and procedures manual. The District hired a consultant to provide an evaluation of financial reporting and budget practices whose report dated September 11, 2014 indicated the need for the District to adopt certain policies and procedures.

Recommendation:
The District should create and update a policies and procedures manual and specifically address the financial and administrative policies of the organization. The manual should be organized into sections so that policies pertaining to specific areas may be easily located. The following are critical policies that should be developed in the near term; while other policies may be added later (some of these policies may already be in place):

1. Monthly and year-end closing policies and procedures.
2. Board member duties and responsibilities.
3. Budgeting.
4. Travel and reimbursement policies and procedures
5. Purchasing policies to include required authorization, check signing, bid procedures and credit cards.
6. Conflict of interest policy to include current staffing and board members.
7. Investment policy, which should be reviewed and approved annually by the board.
8. Records security and retention that includes and references all records and documents of the District.

Management Response:
Management is currently working on finalizing a policy and procedure manual. Although the manual will need to have additional policies adopted by the Fire Board it will be the starting point to accomplish the recommendation above.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2016

Recommendation	Current Status	Explanation If Not Implemented
2015-01 Accrual Accounting – Material Weakness		
Management needs to develop a monthly and annual closing process to identify any potential accruals at year end.	Not Implemented	Management will work with auditors to insure office staff is trained on accrual accounting and policies and procedures are developed.
2015-02 Long-Term Liabilities – Material Weakness Management needs to understand the appropriate accounting for any financing and long-term obligations and ensure that they are properly recorded in the county general ledger. Management should also create a schedule for all long-term obligations to ensure they are appropriately tracked and reflected accurately in the government-wide financial statements.	Not Implemented	Management will be implementing for 2016 and future audits.
2015-03 Financial Systems – Significant Deficiency The District should have an accounting software program and utilize its features to post all transactions and mirror the activity posted by the county. The in-house accounting should be reconciled with the county each month. In addition, the District will need to record all accrual and other entries noted in observations 2015-02 and 2015-03 above. The appropriate in-house accounting system will allow the District to produce custom reports for both management and the board.	Not Implemented	Management is in the process implementing QuickBooks accounting software. Implementation will be completed in 2017.
2015-04 Cash Accounts -Management Recommendation The District should account for and present all cash accounts they own in their financial statements. Also, we recommend the District reconcile the petty cash lockbox weekly to ensure that cash and supporting purchase receipts total $300; any differences should be investigated and resolved in a timely manner.	Partially implemented	Cash and supporting purchase receipts total $300 in the petty cash lockbox. Not all cash accounts have been incorporated in the general ledger in fiscal year 2016.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2016

Recommendation	Current Status	Explanation If Not Implemented
2015-05 Policies and Procedures		
The District should create and update a policies and procedures manual and specifically address the financial and administrative policies of the organization. The manual should be organized into sections so that policies pertaining to specific areas may be easily located. The following are critical policies that should be developed in the near term; while other policies may be added later.	Partially Implemented	Management in the process of finalizing a policies and procedures manual, which will be amended as needed.
2015-06 Memorandum of Understanding		
The District should clarify benefits offered to employees in the two memorandums of understanding with employee groups in future agreements.	Implemented	These agreements have been reviewed and updated as needed.