LATHROP-MANTECA FIRE PROTECTION DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2013

JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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BOARD OF DIRECTORS

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Robert Gleason

* * * *

Fire Chief / Board Secretary
Gene Neely

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

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, 2013, 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lathrop-Manteca Fire Protection District as of June 30, 2013, 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

Emphasis of Matter

As discussed in Note 11 to the financial statements, the prior year fund balance and net position have been restated to reflect certain assets and liabilities that were not appropriately presented in the financial statements for the year ended June 30, 2012. The nature and effect of these restatements are further described in Note 11. Our opinion is not modified with respect to this matter.

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 and Schedule of Funding Progress – Other Postemployment Benefits 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 Office of Management and Budget Circular A-133, 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 February 16, 2016 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
February 16, 2016

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 2012-2013

The District's government-wide total assets increased by \$106,950 to \$4,461,226. However, liabilities increased \$2,605,413 mainly due to the recognition of other postemployment benefit (OPEB) liabilities of \$2,087,774 and a loan from the City of Lathrop for \$504,271.Total revenues increased by \$252,831 while expenses increased by \$1,245,580. The increases are due to the Safer Grant Personnel from the Department of Homeland Security grant award which increased the salaries and benefits in the fire protection services and recognition of the long-term liabilities from the OPEB actuarial. The total long-term liabilities and capital asset balances were not properly reflected in the prior year government-wide financial statements resulting in a prior period restatement of \$2,091,216

Included in the required supplemental information section is a budgetary comparison schedule. That schedule indicates that we had an excess (deficiency) variance of \$(81,148). When comparing actual activity with the amounts budgeted. Variance details are listed on the schedule on page 31.

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 general fund. 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 decreased $394,797 due to current year depreciation and prior period adjustments.

Long-Term Liabilities

Long-term liabilities reflected in the government-wide financial statements were $2,417,278 higher than the prior year due mainly to a prior period restatement of $1,966,635. Governmental Accounting Standards Board (GASB) statement number 45 required the recognition of OPEB liabilities beginning in 2009/10, however, this liability was not previously included in the government-wide financial statements of the District. In addition, the District had procured loans from the City of Lathrop in prior years that were also not reflected on the government-wide financial statements. The total prior period adjustment was an increase in long-term liabilities of $1,966,635. OPEB and compensated absences increased a total of $602,325 in fiscal year 2013. Payments on capital leases were $151,682.

Net Position

Condensed Statement of Net Position

	2013	2012	Dollar Change	Percentage Change
ASSETS				
Current assets	$ 1,109,948	$ 608,201	$ 501,747	82.50%
Capital assets, net	3,351,278	3,746,075	(394,797)	-10.54%
Total assets	4,461,226	4,354,276	106,950	2.46%
LIABILITIES				
Current liabilities	286,035	97,900	188,135	192.17%
Long-term liabilities	3,504,186	1,086,908	2,417,278	222.40%
Total liabilities	3,790,221	1,184,808	2,605,413	219.90%
NET POSITION				
Net investment in capital assets	2,680,926	2,853,402	(172,476)	-6.04%
Unrestricted	(2,009,921)	316,066	(2,325,987)	-735.92%
Total net position	$ 671,005	$ 3,169,468	(2,498,463)	-78.83%

The increase in current assets is primarily a result of net income of $305,186 for the year and an increase in current liabilities.

Condensed Statement of Activities

	2013	2012	Dollar Change	Percentage Change
REVENUES				
Program revenues				
Charges for services	$ 444,266	$ 292,061	$ 152,205	52.11%
Operating grants and contributions	558,026	-	558,026	100.00%
General revenues				
Property taxes	2,448,358	2,449,118	(760)	-0.03%
Special assessments	1,811,357	2,063,300	(251,943)	-12.21%
Impact mitigation fees	160,705	162,568	(1,863)	-1.15%
Other	75,794	278,628	(202,834)	-72.80%
Total revenues	5,498,506	5,245,675	252,831	4.82%
EXPENSES				
Fire protection services	5,695,513	4,568,023	1,127,490	24.68%
Administration	157,301	92,150	65,151	70.70%
Interest on long-term debt	52,939	-	52,939	100.00%
Total expenses	5,905,753	4,660,173	1,245,580	26.73%
Change in Net Position	(407,247)	585,502	(992,749)	-169.56%
Total Net Position - Beginning of Year	3,169,468	2,583,966	585,502	22.66%
Prior period restatement	(2,091,216)	-	(2,091,216)	-100.00%
Total Net Position - End of Year	$ 671,005	$ 3,169,468	$ (2,498,463)	-78.83%

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 2013-2014 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 2014. 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, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 1,064,350
Receivables	45,598
Capital assets, net of accumulated depreciation	3,351,278
Total Assets	4,461,226
LIABILITIES	
Accounts payable and other current liabilities	286,035
Long-term liabilities:	
Due within one year	404,207
Due in more than one year	3,099,979
Total Liabilities	3,790,221
NET POSITION	
Net investment in capital assets	2,680,926
Unrestricted	(2,009,921)
Total Net Position	$ 671,005

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

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF ACTIVITIES

JUNE 30, 2013

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities				
Fire Protection Services	$ 5,695,513	$ 444,266	$ 558,026	$ (4,693,221)
Administration	157,301			(157,301)
Interest on long-term debt	52,939			(52,939)
Total governmental activities	$ 5,905,753	$ 444,266	$ 558,026	(4,903,461)
General Revenues				
Taxes and subventions:				
Property taxes				2,448,358
Special assessments				1,811,357
Impact mitigation fees				160,705
Rental income				22,359
Interest and investment earnings				1,125
Miscellaneous				52,310
Total general revenues				4,496,214
Change in net position				(407,247)
Net Position, July 1, 2012, as originally reported				3,169,468
Prior period restatement				(2,091,216)
Net Position, July 1, 2012, as restated				1,078,252
Net Position, June 30, 2013				$ 671,005

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

LATHROP-MANTECA FIRE PROTECTION DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Capital Outlay Fund	Total
ASSETS			
Cash	$ 321,680	$ 742,670	$ 1,064,350
Accounts receivable	45,598		45,598
Total Assets	$ 367,278	$ 742,670	$ 1,109,948
LIABILITIES			
Liabilities			
Accounts payable	$ 50,834	118,938	$ 169,772
Accrued wages	101,617		101,617
Total Liabilities	152,451	118,938	271,389
FUND BALANCE			
Fund balances			
Assigned	4,721	623,732	628,453
Unassigned	210,106		210,106
Total Fund Balances	214,827	623,732	838,559
Total liabilities and fund balances	$ 367,278	$ 742,670	$ 1,109,948

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, 2013

Total fund balances - governmental funds		$ 838,559
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	$ 4,981,456	
Accumulated depreciation	(1,630,178)	
Capital assets, net		3,351,278
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 statement of net position, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(14,646)
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	(504,271)	
Capital leases payable	(670,352)	
Other postemployment benefits	(2,087,774)	
Compensated absences payable	(208,313)	
		(3,504,186)
Total net position, governmental activities:		$ 671,005

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Outlay Fund	Total
REVENUES			
Property taxes	$ 2,448,358	$ -	$ 2,448,358
Special assessments	1,811,357		1,811,357
Federal grant	558,026		558,026
Impact mitigation fee	23,534	137,171	160,705
Licenses/permits	124,287		124,287
Plan check & service fees	53,037		53,037
Other services	266,942		266,942
Interest income	100	1,025	1,125
Miscellaneous income	52,310		52,310
Total revenues	5,337,951	138,196	5,476,147
EXPENDITURES			
Salaries and wages	2,306,970		2,306,970
Employee benefits	1,912,122		1,912,122
Insurance	237,957		237,957
Maintenance	95,495		95,495
Administration charges	56,770		56,770
Fuel, lube and tires	63,814		63,814
Communications	28,858		28,858
Director's expense	6,325		6,325
Dispatching	53,437		53,437
Firefighter supplies	65,096		65,096
Legal and professional services	17,552		17,552
Office expense	17,857		17,857
Public relations and training	31,689		31,689
Utilities	49,726		49,726
Debt service - principal		151,682	151,682
Debt service - interest		38,293	38,293
Miscellaneous expense	59,677		59,677
Total expenditures	5,003,345	189,975	5,193,320
Excess(deficiency) of revenues over expenditures	334,606	(51,779)	282,827
OTHER FINANCING SOURCES (USES)			
Operating transfers in		370,672	370,672
Operating transfers out	(370,672)		(370,672)
Rental income	22,359		22,359
Total other financing sources (uses)	(348,313)	370,672	22,359
Net change in fund balances	(13,707)	318,893	305,186
Fund balances, July 1, 2012, as originally reported	205,462	304,839	510,301
Prior period adjustment	23,072	-	23,072
Fund balances, July 1, 2012, as restated	228,534	304,839	533,373
Fund balances, June 30, 2013	$ 214,827	$ 623,732	$ 838,559

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

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, 2013

Total net change in fund balances - governmental funds		$ 305,186
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:	$ -	
Depreciation expense:	(230,472)	
		(230,472)
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:		151,682
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:		(14,646)
Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue, In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:		(16,672)
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:		(561,887)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(40,438)
Total change in net position - governmental activities		$ (407,247)

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 five members 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. The District had no restricted net position at June 30, 2013.

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.

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.

I. FUND BALANCE (Continued)

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. 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.

M. 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, 2013 is $1,064,350.

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, 2013, the San Joaquin County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

<u>Interest Rate Risk</u>

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.

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk
The District's investment policy limits the amount it may invest with certain issuers. At June 30, 2013, 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 consisted of a $370,672 transfer from the General Fund to the Capital Outlay Fund for debt service payments.

4. CAPITAL ASSETS

A schedule of changes in Governmental Activities capital assets for the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Prior Period Adjustments	Additions	Deletions	Balance June 30, 2013
Governmental Activities					
Capital assets, Depreciable:					
Buildings	$ 3,049,877	$ (82,694)	$ -	$ -	$ 2,967,183
Furniture & Equipment	294,953	(294,953)	-	-	-
Trucks	3,067,870	(577,727)	-	(475,870)	2,014,273
Total Capital Assets, being depreciated	6,412,700	(955,374)	-	(475,870)	4,981,456
Accumulated Depreciation					
Buildings	778,446	(174,157)	96,187	-	700,476
Furniture & Equipment	162,637	(162,637)	-	-	-
Trucks	1,725,542	(470,927)	134,285	(459,198)	929,702
Total Accumulated Depreciation	2,666,625	(807,721)	230,472	(459,198)	1,630,178
Net Capital Assets being depreciated	3,746,075	(147,653)	(230,472)	(16,672)	3,351,278
Capital Assets, net	$ 3,746,075	$ (147,653)	$ (230,472)	$ (16,672)	$ 3,351,278

The entire amount of depreciation expense is allocated to fire protection services in the statement of activities. The prior period adjustments are described in Note 11.

5. LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Prior Period Restatement	Additions	Deductions	Balance June 30, 2013	Amounts Due Within One Year
State Loan - Chapter 1168/85	$ 33,476	$ -	$ -	$ -	$ 33,476	$ -
Loan - City of Lathrop	-	504,271	-	-	504,271	100,854
Capital Lease Obligations	892,673	(70,639)	-	151,682	670,352	105,420
Postemployment Benefits	-	1,525,887	759,820	197,933	2,087,774	197,933
Compensated Absences	160,759	7,116	40,438	-	208,313	-
	$ 1,086,908	$ 1,966,635	$ 800,258	$ 349,615	$ 3,504,186	$ 404,207

Payments on capital lease obligations are made from the Capital Outlay Fund. Payments on the City of Lathrop loan will be made from the General Fund. The prior period restatements are described in Note 11.

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, 2013 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
2014	$ 100,854
2015	100,854
2016	100,854
2017	100,854
2018	100,855
Total	$ 504,271

5. LONG-TERM LIABILITIES (Continued)

Capital Lease Obligations

During the year ended June 30, 2013, the District had three capital leases for the purchase of four fire trucks (Engines) in effect. The following are the lease-purchases and their terms in place during the year ended June 30, 2013:

Asset	Maturity Date	Interest Rate	Purchase Price	Balance June 30, 2012	Payments	Balance June 30, 2013
Engine 34	8/1/2012	4.18%	$ 316,567	$ 50,984	$ 50,984	$ -
Engine 30	4/11/2015	4.60%	281,995	131,995	41,998	89,997
Engine 32 & 33	12/28/2020	4.60%	630,892	639,055	58,700	580,355
			$ 1,229,454	$ 822,034	$ 151,682	$ 670,352

The amount financed for engine 32 and 33 included $80,117 for old engine 33 resulting in a balance due at June 30, 2012 higher than the purchase price of the two new engines.

The annual payments required to amortize the capital leases outstanding as of June 30, 2013, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service
2014	$ 105,420	$ 73,249	$ 178,669
2015	110,365	24,337	134,702
2016	67,352	21,320	88,672
2017	70,511	18,161	88,672
2018	73,818	14,854	88,672
2019-2023	242,885	23,131	266,016
Total	$ 670,352	$ 175,051	$ 845,403

Accrued interest of $14,646 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, 2013:

	General Fund	Capital Outlay Fund	Total
Assigned For:			
Capital Projects	$ -	$ 623,732	$ 623,732
Health Reserve Fund	4,721	-	4,721
Total Assigned	4,721	623,732	628,453
Unassigned:			
Unassigned/Unappropriated	210,106	-	210,106
Total Unassigned	210,106	-	210,106
Total Fund Balances	$ 214,827	$ 623,732	$ 838,559

7. EMPLOYEE RETIREMENT PLAN

The District participates in the San Joaquin County Employees' Retirement Association (SJCERA), a cost sharing multiple employer defined benefit pension plan.

Plan Description

The following description of SJCERA is provided for general information purposes. SJCERA is governed by the Board of Retirement under the 1937 County Employees' Retirement Law (1937 Act). Members should refer to the 1937 Act for more complete information.

The Plan issues a separate annual audited financial statement report. Copies of the report are available on SCJERA's website www.scjera.org

General

The Plan is a cost sharing multiple employer defined benefit pension plan covering San Joaquin County and certain other special districts within the county. It provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries.

7. EMPLOYEE RETIREMENT PLAN (Continued)

The Plan maintains its own accounting records and controls its own assets. The Plan's net position, including the post-employment healthcare program-sick leave bank benefit, totaled approximately $2.2 billion at December 31, 2012. The Plan's financial statements are presented on the accrual basis of accounting. The Plan member and employer contributions that should have been made in the calendar year based on the actuarially determined contribution rates are recognized as revenues of that calendar year. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Plan's investments are reported at fair value. All administrative costs of the Plan are paid from the Plan's investment earnings.

The amount of retirement income is depends upon the member's retirement status, number of years of retirement service credit, final compensation, age at retirement and the retirement option selected. Currently the plan provides a 2.0% at age 55 ½ formula for active general members and a 3.0% at age 50 formula for active safety members. Pension provisions include a death benefit for the surviving spouse.

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, 2012. 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. The past service liability is amortized over a 20-year period. For the year ended June 30, 2013, 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	1.53% - 5.82%	1.53% - 5.82%
Tier 2	5.75% - 14.00%	5.75% - 14.00%
Required employer contribution rates		
Tier 1 Safety Members	55.61%	51.53%
Tier 2 Safety Members	41.28%	41.28%
Tier 1 Miscellaneous Members	30.69%	N/A
Tier 2 Miscellaneous Members	23.46%	23.46%

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

The employers' actual contributions to the Plan for the years ending June 30, 2013, 2012 and 2011 were $1,065,502, $887,768 and $1,015,469, respectively, and equaled the required contributions for each year.

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).

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 2013, the District's annual OPEB cost for the Plan was $759,820. 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, 2013, were as follows:

Annual required contribution	$ 765,238
Interest on net OPEB obligation	61,035
Adjustment to annual required contribution	(66,453)
Annual OPEB cost (expense)	759,820
Contributions made	(197,933)
Change in net OPEB obligation (asset)	561,887
Net OPEB obligation (asset) - beginning of year	1,525,887
Net OPEB obligation (asset) - end of year	$ 2,087,774

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2011	$ 677,135	$ 192,939	28%	$ 1,001,484
June 30, 2012	$ 717,342	$ 192,939	27%	$ 1,525,887
June 30, 2013	$ 759,820	$ 197,933	26%	$ 2,087,774

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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.

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, 2013 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%, 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, 2013 was $193,682. The following is a summary of the audited financial information of FASIS as of June 30, 2013:

Total Assets	$ 49,783,974
Total Liabilities	32,256,509
Net Position	17,527,465
Total Liabilities and Net Position	$ 49,783,974
Total Revenues	8,100,449
Total Expenditures	(10,095,471)
Change in Net Position	$ (1,995,022)

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.

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. PRIOR PERIOD RESTATEMENTS

Fund Balance

The District recognized $23,072 of revenues related to the 2012 fiscal year in the current fiscal year. As a result we increased the beginning general fund balance and reduced revenues by this amount.

Net Position

The District reviewed capital asset amounts reported in the prior year audited financial statements and determined that certain assets had been removed from operation or were under the District's capitalization threshold. As a result, the beginning capital asset balance was reduced by $955,374, the related depreciation accounts were reduced by $807,721 and net position was reduced by $147,653.

Long-term liabilities were incorrectly reported in the prior year audited financial statements. Capital lease obligations were overstated by $70,639. Compensated absences were understated by $7,116. A loan from the City of Lathrop in the amount of $504,271 was not recognized as a long-term liability. The District provides other postemployment benefits for retirees that were not recognized as a long-term liability in the amount of $1,525,887. The overall effect of the restatement of these liabilities was a reduction in beginning net position of $1,966,635.

The net effect of the above restatements is to reduce beginning net position by $2,091,216.

12. SUBSEQUENT EVENTS

The District's management evaluated its June 30, 2013 financial statements for subsequent events through February 16, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events, other than those described below, that would require recognition or disclosure in the financial statements.

The District entered into a lease-purchase in March 2014 for the purchase of five copiers at a cost of $16,436 and financed over 60 months with an interest rate of 4.844%. Payments are $309 per month.

REQUIRED SUPPLEMENTARY INFORMATION

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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

JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	$ 2,449,118	$ 2,449,118	$ 2,448,358	$ (760)
Special assessments	1,852,805	1,852,805	1,811,357	(41,448)
Federal grant	615,499	615,499	558,026	(57,473)
Impact mitigation fee	-	-	23,534	23,534
Licenses/permits	81,598	81,598	124,287	42,689
Plan check & service fees	57,075	57,075	53,037	(4,038)
Other services	164,683	164,683	266,942	102,259
Interest income	(1,086)	(1,086)	100	1,186
Miscellaneous income	64,143	64,143	52,310	(11,833)
Total revenues	5,283,835	5,283,835	5,337,951	54,116
EXPENDITURES				
Salaries and wages	2,124,324	2,124,324	2,306,970	(182,646)
Employee benefits	2,203,567	2,203,567	1,912,122	291,445
Insurance	225,354	225,354	237,957	(12,603)
Maintenance	98,000	98,000	95,495	2,505
Administration charges	59,557	59,557	56,770	2,787
Fuel, lube and tires	66,547	66,547	63,814	2,733
Communications	29,879	29,879	28,858	1,021
Director's expense	8,000	8,000	6,325	1,675
Dispatching	55,207	55,207	53,437	1,770
Firefighter supplies	73,800	73,800	65,096	8,704
Legal and professional services	48,000	48,000	17,552	30,448
Office expense	15,385	15,385	17,857	(2,472)
Public relations and training	25,000	25,000	31,689	(6,689)
Utilities	46,213	46,213	49,726	(3,513)
Miscellaneous expense	69,450	69,450	59,677	9,773
Total expenditures	5,148,283	5,148,283	5,003,345	144,938
Excess(deficiency) of revenues over expenditures	135,552	135,552	334,606	199,054
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(88,672)	(88,672)	(370,672)	(282,000)
Rental income	20,561	20,561	22,359	1,798
Total other financing sources (uses)	(68,111)	(68,111)	(348,313)	(280,202)
Net change in fund balances	67,441	67,441	(13,707)	(81,148)
Fund balances, July 1, 2012	228,534	228,534	228,534	-
Fund balances, June 30, 2013	$ 295,975	$ 295,975	$ 214,827	$ (81,148)

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2013

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, 2013	$ 6,598,622	$ -	$ 6,598,622	0%	$2,114,952	312.0%

See accompanying notes to required supplementary information.

PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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.

SUPPLEMENTARY INFORMATION

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Department of Homeland Security			
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2011-FH-01063	$ 588,026
			$ 588,026

OTHER INDEPENDENT AUDITOR'S REPORTS

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 16, 2016.

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: 2013-1, 2013-2, 2013-3 and 2013-4.

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: 2013-5 and 2013-6.

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
February 16, 2016

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited Lathrop-Manteca Fire Protection District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Recommendations.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

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Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities and each major fund of the District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We have issued our report thereon dated February 16, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
February 16, 2016

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified not considered to be material weaknesses?		Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.083	Staffing for Adequate Fire and Emergency Response

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as low-risk auditee?		Yes	X	No

Section II – Financial Statement Findings

2013-01 Capital Assets – Material Weakness

Observation:
The District does not maintain a listing of fixed assets or a depreciation schedule which is needed for the presentation of government-wide financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The auditor has included this information in the prior audit report; however it is the District's responsibility to maintain this schedule.

Recommendation:
The District should consider purchasing fixed asset tracking software or develop a process, which will make it easier to track and reconcile capital assets, values, and depreciation with the actual assets owned by the District. In addition, it is required to identify any capital assets purchased with federal dollars on this listing.

Management Response:
Management has put in place a tracking system which utilizes Excel software for maintaining and updating the tracking of the depreciation schedule. Management will be looking at software programs to help with this procedure in the future.

2013-02 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. An example would be if the quarterly insurance payment for July – September of 2015 were paid in June 2015, the entire amount would be prepaid.
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 will be utilizing the recommended process for the immediate future year-end accruals, however management will be bringing back a recommended process to transition from the San Joaquin County accounting to a localized financial institution. This will give the management team more local control over the funding and expenditure tracking/reporting.

2013-03 Long-Term Liabilities – Material Weakness

Observation:
Long-term liabilities are not being properly recorded in the fund financial statements and the related debt is not always properly reflected in the government-wide financial statements.

In the 2010/11 fiscal year, the District received a loan from the City of Lathrop:

a. The loan amount was recorded as miscellaneous revenues. The loan should be recorded as other financing sources in the fund financial statements.
b. $48,740 was included in the loan to pay for 40% of the Measure C tax consultant; however this was not recorded in the fund financial statements because the City paid the full amount to the consultant and just added the District's share to the loan balance.
c. The formal loan agreement was for $395,000; however additional loan amounts totaling $119,270 were not included in any formal addendum.
d. The balance of this loan has never been reflected as long-term debt in the government-wide financial statements, but remained in revenue. The understated debt amount was $504,271.

The District also had several capital leases for new fire engines that were not properly recorded in the fund financial statements. The District was only recording the lease payments as they were made and recording those payments as capital outlay.

a. When an asset is purchased and financed, the full cost of the asset should be recorded as capital outlay and the amount financed should be recorded as other financing sources in the fund financial statements.
b. When payments are made, they should be reflected as debt service payments and broken out between principal and interest payments.
c. The outstanding capital lease obligations were reflected in the government-wide financial statements; however we determined that the balance was overstated by $70,639.

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.

2013-04 Other Postemployment Benefits (OPEB) – Material Weakness

Observation:
The District currently provides retiree medical benefits through CalPERS as well as dental and vision benefits to retirees. The liabilities for these Other Postemployment Benefits are required to be recognized and disclosed in the government-wide financial statements in accordance with GASB Statement No. 45. The District should have begun recognizing this liability in fiscal year 2009/10.

Recommendation:
The District needs to hire an actuary to calculate the OPEB liability for the fiscal years ending June 30, 2012, 2013, 2014 and 2015 in order for its audited financial statements to be in compliance with Generally Accepted Government Accounting Standards. An actuarial study was completed during the audit resulting in a prior period adjustment of $1,525,887 and an ending OPEB liability of $2,087,774.

Management Response:
Management has already retained an actuarial to complete an OPEB liability. This report has been completed and given to the auditor.

2013-05 Segregation of Duties – Significant Deficiency

Observation:
Due to the limited number of employees working at the District office, we noted a lack of segregation of duties within the cash receipts area. Currently all critical cash receipt duties are combined and given to one employee. Also, although lists are currently made for all cash receipts when the mail is opened, the lists are not compared to what is actually deposited in the bank.

Recommendations:
The objective of internal control over cash receipts is to provide control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system of the District will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of the District's personnel. The following procedures should be implemented to ensure efficient internal control:

- One employee should open the mail and make a control list of all receipts.
- The receipts should then go to another employee for further processing and deposit to the bank in a timely manner.
- Someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

Management Response:
This recommended process has been incorporated into our internal procedures.

2013-06 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 2013-02 and 2013-03 above. The appropriate in-house accounting system will allow the District to produce custom reports for both management and the board.

Management Response:
Management is currently looking at other software and possible cloud based solution to remedy this deficiency. Once the process/program has been vetted out the Management team will bring it to the board for approval.

2013-07 Timely Deposits

Observation:
During our testing of controls over the cash receipts cycle, we noted that cash and checks received of less than $50,000 are only deposited once a month. The checks are locked in a secure location.

Recommendation:
Deposits should be made, at a minimum, on a weekly basis, and not kept in the office over the weekend, either by ensuring that the deposits are made by the District's personnel or by directing these amounts to a lockbox. This practice will strengthen the District's internal control process over cash receipts and reduce the likelihood that cash could be lost or stolen before it is deposited in the bank.

Management Response:
This recommendation has been incorporated in to our internal procedures.

2013-08 Cash Accounts

Observation:
The District has two cash accounts which are not recorded in the District's general ledger. The District has a savings account with Financial Center Credit Union account with a balance ranging from $25 at June 30, 2012 to $403 at June 30, 2015. The District also has a petty cash account. The District's petty cash policy is to hold $300 in combined cash and receipt amounts, but we counted approximately $270 of cash and receipts with no explanation regarding the $30 difference.

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.

Management Response:
This recommendation has been incorporated into our internal procedures.

2013-09 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. Capitalization policies and procedures to include the methodology and lives for each category of assets.
3. Board member duties and responsibilities.
4. Budgeting.
5. Travel and reimbursement policies and procedures
6. Purchasing policies to include required authorization, check signing, bid procedures and credit cards.
7. Conflict of interest policy to include current staffing and board members.
8. Investment policy, which should be reviewed and approved annually by the board.
9. 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.

2013-10 Memorandum of Understanding

Observation:
The memorandum of understanding between the District and the Lathrop-Manteca Fire Fighters Association International Association of Firefighters Local #4317, AFL-CIO effective July 1, 2012 through July 1, 2015 is unclear in certain areas.

1. Section 6.01 Health Insurance – Paragraph 2 states, “The District also agrees to provide Vision and Dental Coverage for the employees and their dependents, with plans that are good as or better than existing.” It is unclear what “are good as or better than existing” means in this context.
2. Section 6.05 Retirement Contributions – Paragraph D indicates a retiree will receive one month of paid medical benefits for each 24 hours of accumulated sick leave. Based on inquiry, this includes vision and dental as well, but it is not stated.

There are similar clarifications that need to be made in the memorandum of understanding for members of the executive staff of the District for July 1, 2012 – July 1, 2013.

Recommendation:
The District should clarify these benefits in future agreements.

Management Response:
Management will be negotiating these items for clarification.

2013-11 Special District Filing Requirements

Observation:
Government Code Section 26909 (a) (2) requires that the annual audit report of a special district shall be filed with 12 months of the end of the fiscal year under examination. The annual audit for June 30, 2013 was not filed within the required time frame.

Recommendation:
The annual audit is an important process in evaluating the Districts financial reporting and compliance requirements. Every effort should be made to ensure the timely completion and filing of the audit and other related filing requirements. The District should identify and develop a timeline and process for all required filings.

Management Response:
Management has retained the current auditor to complete all audits to bring the Fire District in compliance.

2013-12 Special District Reserve Guidelines

Observation:
As of June 30, 2013, the District had a general fund balance of $214,827 and capital outlay fund balance of $742,670. The general fund balance represented 4.3% of operating expenditures for the year, which is approximately 16 days of operations. While there are no specific requirements for adequate reserves, many special districts target 3 – 6 months of operating reserves in addition to a capital outlay target.

Recommendation:
The District should review California Special Districts Association's "Special District Reserve Guidelines" and develop a policy to build reserves consistent with the mission, vision and long-term goals of the organization.

Management Response:
Management has had the Fire Board adopt a policy that requires the Fire District to maintain a minimum of 10% reserve.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2013

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS

JUNE 30, 2013

No matters were reported.