LATHROP-MANTECA FIRE PROTECTION DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2019

JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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LATHROP-MANTECA FIRE PROTECTION DISTRICT

JUNE 30, 2019

BOARD OF DIRECTORS

John Gish
Chair

Mark Elliott
Vice Chair

Gloryanna Rhodes

Jeremy Coe

Tosh Ishihara

* * * *

Fire Chief / Board Secretary
Gene Neely

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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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, 2019, 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 opinion.

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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, 2019, 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, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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 Changes in the District's Net OPEB Liability and Related Ratios, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2020 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
June 25, 2020

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 2018-2019

The District's government-wide total assets and deferred outflows increased by $14,000,660, to $27,848,935, mainly due to increase in current assets and capital assets, net of $9,419,553 and an increase in deferred outflows in the current year of $4,581,107.

Total net position decreased by $570,504, to ($14,665,785). Although revenues increased by $1,929,847 in 2018-2019, expenses also increased by $2,560,192.

Included in the required supplementary information section is a General Fund budgetary comparison schedule. That schedule indicates that we had an excess variance of $512,753. Variance details are listed on the schedule on page 35.

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 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 five fire station locations. The Administration Office is located at Station 35 in the River Islands Development in Lathrop. In addition, the District owns a considerable number of vehicles and specialized equipment used by fire district personnel in performing fire, rescue and EMS activities. These capital assets, net of accumulated depreciation, are reflected in the District's government-wide financial statements.

Long-Term Liabilities

Long-term liabilities reflected in the government-wide financial statements were $12,922,636 higher than the prior year due mainly to an increase in the Station 35 reimbursement of $6,440,560 and an increase in the Net Pension Liability of $6,476,538.

Net Position

Condensed Statement of Net Position

	2019	2018	Dollar Change	Percentage Change
ASSETS				
Current assets	$ 7,000,586	$ 5,557,749	$ 1,442,837	25.96%
Capital assets, net	12,840,260	4,863,544	7,976,716	164.01%
Total assets	19,840,846	10,421,293	9,419,553	90.39%
DEFERRED OUTFLOWS OF RESOURCES	8,008,089	3,426,982	4,581,107	133.68%
LIABILITIES				
Current liabilities	186,902	89,697	97,205	108.37%
Long-term liabilities	39,453,819	26,531,183	12,922,636	48.71%
Total liabilities	39,640,721	26,620,880	13,019,841	48.91%
DEFERRED INFLOWS OF RESOURCES	2,873,999	1,322,676	1,551,323	117.29%
NET POSITION				
Net investment in capital assets	5,092,881	4,250,812	842,069	19.81%
Restricted	2,075,765	1,303,877	771,888	59.20%
Unrestricted	(21,834,431)	(19,649,970)	2,184,461	11.12%
Total net position	$ (14,665,785)	$ (14,095,281)	$ 570,504	4.05%

Condensed Statement of Activities

	2019	2018	Dollar Change	Percentage Change
REVENUES				
Program revenues				
Charges for services	$ 1,481,155	$ 1,148,078	$ 333,077	29.01%
Operating grants and contributions	519,791	-	519,791	N/A
Capital grants and contributions	-	235,316	(235,316)	0.00%
General revenues				
Property taxes	4,300,568	3,913,164	387,404	9.90%
Special assessments	2,105,673	1,952,267	153,406	7.86%
Impact mitigation fees	1,684,791	1,376,389	308,402	22.41%
Measure C taxes	2,334,251	1,895,424	438,827	23.15%
Other	179,801	155,545	24,256	15.59%
Total revenues	12,606,030	10,676,183	1,929,847	18.08%
EXPENSES				
Fire protection services	12,735,155	10,407,661	2,327,494	22.36%
Administration	382,225	169,879	212,346	125.00%
Interest on long-term debt	59,154	38,802	20,352	52.45%
Total expenses	13,176,534	10,616,342	2,560,192	24.12%
Change in Net Position	(570,504)	59,841	(630,345)	-1053.37%
Total Net Position - Beginning of Year	(14,095,281)	(10,835,229)	(3,260,052)	30.09%
Prior period restatement	-	(3,319,893)	3,319,893	-100.00%
Total Net Position - End of Year	$ (14,665,785)	$ (14,095,281)	$ (570,504)	4.05%

Economic Outlook

The Lathrop – Manteca Fire Protection District's financial position has been positively impacted by the amount of growth and development that is taking place within the District's jurisdictional limits. The District is anticipating continued growth in new construction, along with revenues from tax measures and grants. The Lathrop – Manteca Fire District received a grant from FEMA which currently funds 9 fulltime firefighter positions within the organization to offer more effective and efficient service to its' constituents. The Fire District has been able to construct a new fire station which houses an Engine Company as well as the District's Main Administration Office. The Lathrop – Manteca Fire Protection District practices multiple budget and planning strategies which also encompasses ways to build up reserves and to ensure equipment, apparatus and station maintenance are being addressed.

We are projecting that the District will have some revenue growth in 2020. This financial assumption is based upon recent trends in real property values, changes in population or other service-level indicators, and global economy trends. The recent projections in the housing market continue to show an increase which will impact the District, which receives the majority of its financial support from housing.

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, 19001 Somerston Parkway, Lathrop, California 95330.

BASIC FINANCIAL STATEMENTS

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 6,619,687
Accounts receivable	380,899
Capital assets, net of accumulated depreciation	12,840,260
Total Assets	19,840,846
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	7,713,963
OPEB related	294,126
Total Deferred Outflows	8,008,089
LIABILITIES	
Accounts payable and other current liabilities	186,902
Long-term liabilities:	
Due within one year	659,412
Due in more than one year	38,794,407
Total Liabilities	39,640,721
DEFERRED INFLOWS OF RESOURCES	
Pension related	1,305,200
OPEB related	1,568,799
Total Deferred Inflows	2,873,999
NET POSITION	
Net investment in capital assets	5,092,881
Restricted	2,075,765
Unrestricted	(21,834,431)
Total Net Position	$ (14,665,785)

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

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

		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	$ 12,735,155	$ 1,481,155	$ 519,791	$ -	$ (10,734,209)
Administration	382,225				(382,225)
Interest on long-term debt	59,154				(59,154)
Total governmental activities	$ 13,176,534	$ 1,481,155	$ 519,791	$ -	(11,175,588)
General Revenues					
Taxes and subventions:					
Property taxes					4,300,568
Special assessments					2,105,673
Measure C taxes					2,334,251
Impact mitigation fees					1,684,791
Rental income					72,698
Interest and investment earnings					84,266
Miscellaneous					22,837
Total general revenues					10,605,084
Change in net position					(570,504)
Net Position, July 1, 2018					(14,095,281)
Net Position, June 30, 2019					$ (14,665,785)

LATHROP-MANTECA FIRE PROTECTION DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2019

	General Fund	Capital Outlay Fund	Measure C Fund	Facility Fee Fund	Non-Major Developer Account Fund	Total
ASSETS						
Cash	$ 2,398,393	$ 498,953	$ 1,822,951	$ 1,898,607	$ 783	$ 6,619,687
Accounts receivable	17,714	252,814	-	110,371	-	380,899
Due from other funds	103,902	190	-	-	-	104,092
Total Assets	$ 2,520,009	$ 751,957	$ 1,822,951	$ 2,008,978	$ 783	$ 7,104,678
LIABILITIES						
Liabilities						
Accounts payable	$ 33,414	$ -	$ -	$ 62,589	$ -	$ 96,003
Due to other funds	-	-	-	104,092.00	-	104,092.00
Accrued wages	79,776	-	-	-	-	79,776
Total Liabilities	113,190	-	-	166,681	-	279,871
FUND BALANCE						
Fund balances						
Restricted	-	252,814	1,822,951	-	-	2,075,765
Assigned	4,850	499,143	-	1,842,297	783	2,347,073
Unassigned	2,401,969	-	-	-	-	2,401,969
Total Fund Balances	2,406,819	751,957	1,822,951	1,842,297	783	6,824,807
Total liabilities and fund balances	$ 2,520,009	$ 751,957	$ 1,822,951	$ 2,008,978	$ 783	$ 7,104,678

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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

JUNE 30, 2019

Total fund balances - governmental funds		$ 6,824,807
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	$ 17,552,213	
Accumulated depreciation	(4,711,953)	
Net		12,840,260
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:		(11,123)
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)	
Aerial Fire Truck lease	(224,740)	
Capital leases payable	(1,082,079)	
Station 35 loan	(6,440,560)	
Net OPEB liability	(7,047,988)	
Net pension liability	(24,263,171)	
Compensated absences payable	(361,805)	
		(39,453,819)
Deferred outflows and inflows of resources relating to pensions and OPEB: 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		7,713,963
Deferred outflows of resources related to OPEB		294,126
Deferred inflows of resources related to pensions		(1,305,200)
Deferred inflows of resources related to OPEB		(1,568,799)
Total net position, governmental activities:		$ (14,665,785)

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 FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	Capital Outlay Fund	Measure C Fund	Facility Fee Fund	Non-Major Developer Account Fund	Total
REVENUES						
Property taxes	$ 4,300,568	$ -	$ -	$ -	$ -	$ 4,300,568
Special assessments	2,105,673	-	-	-	-	2,105,673
Measure C taxes	-	-	2,334,251	-		2,334,251
Federal grant	519,791	-				519,791
Impact mitigation fee	25,983	252,814	-	1,405,994	-	1,684,791
Licenses/permits	147,686	(576)	-	-	-	147,110
Plan check & service fees	205,935	-	-	-		205,935
Other services	1,128,110	-	-	-	-	1,128,110
Interest income	12,339	8,192	23,724	39,975	36	84,266
Miscellaneous income	22,837	-	-		-	22,837
Total revenues	8,468,922	260,430	2,357,975	1,445,969	36	12,533,332
EXPENDITURES						
Salaries and wages	4,656,731		-	-	-	4,656,731
Employee benefits	3,365,034	-	-	-	-	3,365,034
Insurance	353,160	-	-	-		353,160
Maintenance	218,490		-	1,007,363		1,225,853
Administration charges	78,645	-	-	1,127	-	79,772
Fuel, lube and tires	87,369	-	-	-	-	87,369
Communications	48,431	-	-	-	-	48,431
Director's expense	7,500	-	-	-	-	7,500
Dispatching	116,753	-	-	-	-	116,753
Firefighter supplies	103,446	-	-	194,493		297,939
Legal and professional services	63,847	-	-	73,780	600	138,227
Office expense	17,085	-	-	219,894		236,979
Public relations and training	86,129	-	-	49,810	-	135,939
Utilities	66,893	-	-	-		66,893
Capital Outlay	-	-	-	7,494,812		7,494,812
Debt service - principal	80,599	-	-	245,657		326,256
Debt service - interest	11,473	-	-	44,380	-	55,853
Miscellaneous expense	57,951	-	-	23	-	57,974
Total expenditures	9,419,536	-	-	9,331,339	600	18,751,475
Excess(deficiency) of revenues over expenditures	(950,614)	260,430	2,357,975	(7,885,370)	(564)	(6,218,143)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,838,901	50,000			-	1,888,901
Operating transfers out	(50,000)	-	(1,838,901)	-	-	(1,888,901)
Rental income	72,698	-		-	-	72,698
Other financing sources		-	-	7,494,378	-	7,494,378
Total other financing sources (uses)	1,861,599	50,000	(1,838,901)	7,494,378	-	7,567,076
Net change in fund balances	910,985	310,430	519,074	(390,992)	(564)	1,348,933
Fund balances, July 1, 2018	1,495,834	441,527	1,303,877	2,233,289	1,347	5,475,874
Fund balances, June 30, 2019	$ 2,406,819	$ 751,957	$ 1,822,951	$ 1,842,297	$ 783	$ 6,824,807

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, 2019

Total net change in fund balances - governmental funds		$ 1,348,933
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:	$ 8,524,643	
Depreciation expense:	(547,927)	
		7,976,716
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:		326,256
In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were:		(7,494,378)
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:		(3,301)
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:		(207,306)
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:		10,711
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:		(2,528,135)
Total change in net position - governmental activities		$ (570,504)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Lathrop-Manteca 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 five 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

<u>Government-wide Financial Statements</u>

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.

<u>Fund Financial Statements</u>

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. The District has one non-major fund: Developer Account Fund.

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.

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.

<u>Non-Major Fund:</u>

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.

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. OTHER POSTEMPLOYMENT BENEFITS

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Lathrop-Manteca Fire Protection District's OPEB plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the District. 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.

O. 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.

P. 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 held in the San Joaquin County Treasury at June 30, 2019 is $6,619,687.

Pooled Funds

The District maintains 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, 2019, 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, 2019, 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, 2019 consisted of the following:

Transfer from Measure C Fund to General Fund to cover personnel expenses.	$ 1,838,901
Transfer from General Fund to Capital Outlay Fund to cover maintenance expenses	50,000
Total Transfers	$ 1,888,901

At June 30, 2019, the Facility Fee Fund had a balance due to other funds of $104,092, due to the General Fund in the amount of $103,902 and the Capital Outlay Fund in the amount of $190.

4. CAPITAL ASSETS

A schedule of changes in Governmental Activities capital assets for the year ended June 30, 2019 is as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Governmental Activities				
Capital Assets, not being depreciated:				
Land	$ -	$ 334,000	$ -	$ 334,000
Construction in progress	350,103		345,703	4,400
Total Capital Assets, not being	.			.
depreciated	350,103	334,000	345,703	338,400
Capital assets, Depreciable:				
Land Improvements	195,531	-	-	195,531
Buildings	2,957,977	6,786,264	-	9,744,241
Building Improvements	28,775	287,391	-	316,166
Computer Equipment	501,979	183,281	-	685,260
Furniture	-	66,469	-	66,469
Vehicles	428,673	97,660	-	526,333
Fire Apparatus	4,460,078	1,053,818	-	5,513,896
Fire Fighting Equipment	104,454	61,463	-	165,917
Total Capital Assets, being depreciated	8,677,467	8,536,346	-	17,213,813
Accumulated Depreciation				
Land Improvements	35,610	9,777	-	45,387
Buildings	851,306	130,502	-	981,808
Building Improvements	1,856	10,943	-	12,799
Computer Equipment	297,210	113,773	-	410,983
Vehicles	207,986	67,649	-	275,635
Fire Apparatus	2,748,692	197,054	-	2,945,746
Fire Fighting Equipment	21,366	18,229	-	39,595
Total Accumulated Depreciation	4,164,026	547,927	-	4,711,953
Net Capital Assets being depreciated	4,513,441	7,988,419	-	12,501,860
Capital Assets, net	$ 4,863,544	$ 8,322,419	345,703	$ 12,840,260

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, 2019 is as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019	Amounts Due Within One Year
State Loan - Chapter 1168/85	$ 33,476	$ -	$ -	$ 33,476	$ -
Capital Lease Obligations	579,257	1,053,818	326,256	1,306,819	330,926
Station 35 Reimbursement	-	6,440,560	-	6,440,560	-
Net OPEB Liability	7,759,301	-	711,313	7,047,988	328,486
Net Pension Liability	17,786,633	6,476,538	-	24,263,171	-
Compensated Absences	372,516	321,752	332,463	361,805	-
	$ 26,531,183	$ 14,292,668	$ 1,370,032	$ 39,453,819	$ 659,412

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, 2019 is $33,476.

Capital Lease Obligations

During the year ended June 30, 2019, 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, 2019:

Asset	Maturity Date	Interest Rate	Purchase Price	Balance June 30, 2018	Payments	Balance June 30, 2019
Engine 32 & 33	12/28/2020	4.60%	$ 630,892	$ 242,887	$ 77,281	$ 165,606
2017 Pierce Fire Truck	3/25/2021	2.47%	841,224	333,052	108,311	224,741
Copiers	5/1/2019	4.84%	13,204	3,318	3,318	-
Engine 35	5/31/2025	3.25%	634,558	-	85,095	549,463
Brush 35	5/31/2025	4.52%	419,260	-	52,251	367,009
			$ 2,539,138	$ 579,257	$ 326,256	$ 1,306,819

5. LONG-TERM LIABILITIES (CONTINUED)

The annual payments required to amortize the capital leases outstanding as of June 30, 2019, are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2020	$ 330,926	$ 47,782	$ 378,708
2021	342,682	36,026	378,708
2022	149,651	23,822	173,473
2023	155,272	18,200	173,472
2024	161,111	12,362	173,473
2025	167,177	6,298	173,475
Total	$ 1,306,819	$ 144,491	$ 1,451,310

Accrued interest of $11,123 is included in the government-wide financial statements.

<u>Station 35 Reimbursement Agreement</u>

The District entered into a reimbursement agreement with River Islands Development for the purchase and construction of the River Islands Fire Station during the 2018-19 fiscal year. The Fire Facility Fees collected will be used to pay the reimbursement agreement after the District's use of fire facilities fees for fire equipment and trucks. All remaining fire facilities fees collected in any applicable calendar year shall be used to pay River Islands Development until such time that they have been reimbursed the full amount. The agreement is interest free and is to be repaid prior to the conveyance of the fire station to the District. No payments were made in 2018-19. The balance due on the loan at June 30, 2019 is $6,440,560.

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, 2019:

	General Fund	Capital Outlay Fund	Measure C Fund	Facility Fee Fund	Developer Account Fund	Total
Resticted For:						
Rescue Boat	$ -	$ 252,814	$ -	$ -	$ -	$ 252,814
Capital Projects	-	-	1,822,951	-	-	1,822,951
Total Restricted	-	252,814	1,822,951	-	-	2,075,765
Assigned For:						
Capital Projects	-	499,143	-	-	783	499,926
Fire Facilities	-	-	-	1,842,297	-	1,842,297
Health Reserve Fund	4,850	-	-	-	-	4,850
Total Assigned	4,850	499,143	-	1,842,297	783	2,347,073
Unassigned:						
Unassigned	2,401,969	-	-	-	-	2,401,969
Total Fund Balances	$ 2,406,819	$ 751,957	$ 1,822,951	$ 1,842,297	$ 783	$ 6,824,807

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, 2018. 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, 2019, 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	4.78% - 9.14%	5.95% - 15.04%
Tier 2	9.21% - 14.61	9.21% - 14.61%
Required employer contribution rates		
Tier 1 Safety Members	81.65%	76.89%
Tier 2 Safety Members	70.50%	70.50%
Tier 1 Miscellaneous Members	44.42%	N/A
Tier 2 Miscellaneous Members	35.39%	35.39%

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, 2019, 2018 and 2017 were \$2,018,992, \$1,962,065 and \$1,715,421, 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, 2019, the District reported a liability of $24,263,171, for its proportional share of the net pension liability. The net pension liability was measured as of December 31, 2018, 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, 2017 and 2018 was as follows:

Proportion - December 31, 2017	1.12440%
Proportion - December 31, 2018	1.30470%
Change - Increase (Decrease)	0.18030%

As of June 30, 2019, 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	$ 717,726	
Changes in assumptions	1,311,585	
Difference between proportionate share of aggregate employer contributions and actual contributions for 2018-19.		$ (514,587)
Change in employer's proportion and differences between proportionate share of contributions	2,732,994	(154,864)
Net differences between projected and actual earnings on plan investments	2,660,285	
Net differences between expected and actual experience	291,373	(635,749)
Total	$ 7,713,963	$ (1,305,200)

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, 2019.

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

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	
2020	$ 2,072,343
2021	$ 1,440,193
2022	$ 939,728
2023	$ 1,238,771

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	January 1, 2018
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions	
Discount Rate	7.25% net of investment expenses
Inflation	2.90%
Amortization Growth Rate	3.15%
Salary Increases	3.15% plus merit component
COLA increases	2.60%
Post-Retirement Mortality	Sex distinct tables from CALPERS' 2013 experience study, with generational mortality improvements projected from 2009 using Projection Scale MP-2015

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. 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.

7. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Asset Class	Target Allocation	Long-term Expected Real Rate of
Global Public Equities	30.0%	9.15%
Stable Fixed Income	10.0%	4.45%
Credit	14.0%	7.45%
Risk Parity	14.0%	6.55%
Private Appreciation	12.0%	9.75%
Crisis Risk Offest (CRO)	20.0%	5.50%
Short Term Investments/Cash/Cash Equivalents	0.0%	3.15%
Total	100.0%	

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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	Discount Rate - 1% (6.25%)	Current Discount Rate (7.25%)	Discount Rate + 1% (8.25%)
Plan's Net Pension Liability	$ 32,573,121	$ 24,263,171	$ 17,439,906

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, 2019, 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).

Benefits Provided. The District offers retiree access to retire medical, dental and vision coverage. Under the Public Employees' Medical and Hospital Care Act (PEMHCA), the District is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued; if a surviving spouse is entitled to survivor pension benefits, he or she may continue coverage and receive the PEMHCA benefit as well. The District's contribution toward the medical plan premiums is the PEMHCA minimum employer contribution (MEC) of $133 per month in 2018 and $136 per month in 2019.

- Any retiree who satisfies the requirement for access to coverage described below and elects medical coverage through CalPERS is entitled to this MEC benefit from the District.

- For those hired on or before July 1, 2012 and who do not cash out any unused sick leave at the time of retirement, the District will provide one month of medical, dental and/or vision coverage for every 24 hours of accumulated sick leave. The benefit covers the premium for any coverage level up to but not exceeding the applicable PERS Choice Bay Area premium rate.

Access to coverage. Coverage requires the employee to satisfy the requirements for retirement under the San Joaquin County Employees' Retirement Association (SJCERA). Retirement eligibility under SJCERA is as follows:

- Members who joined SJCERA for the first time prior to January 1, 2013: (1) age 50 and 10 years of service, or (2) 20 years of service (30 years of service for General employees), regardless of age, or (3) for General employees, age 70, regardless of service.

- Members who joined SJCERA for the first time on or after January 1, 2013: (1) age 50 (age 52 for General employees) and 5 years of service, or (2) age 70, regardless of service.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Employees covered by benefit. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	13
Inactive employees entitles to but not yet receiving benefit payments	-
Active employees	42
	55

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018.

Actuarial assumptions. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the actuarial assumptions shown in the following table, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2018
Funding Method	Entry Age Normal Cost, level percent of pay
Discount Rate	3.53% as of June 30, 2017
	3.87% as of June 30, 2018
Salary Increases	3.00%
Inflation rate	2.50%
Healthcare cost trend rates	5.4 % in 2021 and fluctuates until rate of 4% in 2076

The demographic actuarial assumptions used in the valuation are based on those applicable to "general" employees as shown in the report on the January 1, 2018 actuarial valuation of the San Joaquin County Employees' Retirement Association program. The mortality rates (prior to projection) were those described by SJCERA in their 2019 study, except for the basis used to project mortality improvement.

Discount rate. The discount rate used to measure the total OPEB liability was 3.87 percent. The discount rate used is based on the Bond Buyer GO 20 Bond Index.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2018	$ 7,759,301	$ -	$ 7,759,301
Changes for the year:			
Service cost	399,590	-	399,590
Interest	283,280	-	283,280
Differences between expected and actual experience	(255,754)	-	(255,754)
Contributions - employer	-	267,914	(267,914)
Net investment income	-	-	-
Changes of Assumptions	(870,515)	-	(870,515)
Benefit payments	(267,914)	(267,914)	-
Administrative expense	-	-	-
Net changes	(711,313)	-	(711,313)
Balances at June 30, 2019	$ 7,047,988	$ -	$ 7,047,988

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.53 percent) or 1-percentage-point higher (4.53 percent) than the current discount rate:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB liability (asset)	$ 8,046,856	$ 7,047,988	$ 6,226,422

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00%) than the current healthcare cost trend rates:

	-1% Decrease (4.4%)	Trend Rates (5.4%)	+1% Increase (6.4%)
Net OPEB liability (asset)	$ 6,066,293	$ 7,047,988	$ 8,279,228

OPEB plan fiduciary net position. The Plan has no assets.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

For the year ended June 30, 2019, the District recognized OPEB expense of $618,017. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	$ 294,126	$ -
Changes of assumptions	-	1,337,732
Differences between expected and actual experience		231,067
Total	$ 294,126	$ 1,568,799

The District will recognize the contributions made subsequent to the measurement date in the next fiscal year. In addition, future recognition of these deferred resources is shown below:

Year ended June 30	Total Deferred Outflows/(Inflows) of Resources
2020	$ (181,438)
2021	(181,438)
2022	(181,438)
2023	(181,438)
2024	(181,438)
Thereafter	(661,609)
Total	$ (1,568,799)

Payable to the OPEB Plan

The District had no outstanding amount of contributions to the Plan required for the year ended June 30, 2019.

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, 2019 was $252,472. The following is a summary of the audited financial information of FASIS as of June 30, 2019:

Total Assets	$	57,957,092
Total Liabilities		43,342,522
Net Position		14,614,570
Total Liabilities and Net Position	$	57,957,092
Total Revenues	$	16,254,870
Total Expenditures		16,183,837
Change in Net Position	$	71,033

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. EXCESS EXPENDITURES

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, 2019 were as follows:

	Excess Expenditures
Salaries and wages	$ 1,009,468
Insurance	33,608
Maintenance	59,505
Administration charges	17,088
Communications	18,052
Firefighter supplies	2,194
Public relations and training	17,742
Utilities	20,680

11. POWER PURCHASE AGREEMENT (PPA)

In 2017, the District entered into a 20-year contract with American Renewable Capital (ARC), Inc. for a solar power generating system for approximately 50,000 kWh per year. The District will purchase 100% of the electricity produced by the system. ARC owns title to the system. At the end of the 20-year contract term, the District must exercise one of the following options: (a) purchase the system for the then fair market value of the system, not to be less than ten percent (10%) of the system purchase price under the installation contract; (b) extend the term of the agreement for five (5) years at the same kWh rate; (c) terminate the agreement and require ARC to remove the system from the site within one hundred twenty (120) days of the agreement termination date, at ARC's expense,; or (d) any other arrangement as mutually agreed to between the District and ARC. If the District has not exercised and consummated any of the above options prior to the expiration of this agreement, the term of this agreement will be automatically extended for two (2) years.

12. 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.

12. SUBSEQUENT EVENTS

The District's management evaluated its June 30, 2019 financial statements for subsequent events through June 25, 2020, 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, 2019

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 4,176,154	$ 4,300,568	$ 124,414
Special assessments	1,980,044	2,105,673	125,629
Federal grant	798,405	519,791	(278,614)
Impact mitigation fee	23,534	25,983	2,449
Licenses/permits	99,163	147,686	48,523
Plan check & service fees	86,254	205,935	119,681
Other services	204,041	1,128,110	924,069
Interest income	99	12,339	12,240
Miscellaneous income	6,057	22,837	16,780
Total revenues	7,373,751	8,468,922	1,095,171
EXPENDITURES			
Salaries and wages	3,647,263	4,656,731	(1,009,468)
Employee benefits	3,993,858	3,365,034	628,824
Insurance	319,552	353,160	(33,608)
Maintenance	158,985	218,490	(59,505)
Administration charges	61,557	78,645	(17,088)
Fuel, lube and tires	95,623	87,369	8,254
Communications	30,379	48,431	(18,052)
Director's expense	8,000	7,500	500
Dispatching	143,000	116,753	26,247
Firefighter supplies	101,252	103,446	(2,194)
Legal and professional services	81,227	63,847	17,380
Office expense	23,500	17,085	6,415
Public relations and training	68,387	86,129	(17,742)
Utilities	46,213	66,893	(20,680)
Debt service - principal	-	80,599	(80,599)
Debt service - interest	-	11,473	(11,473)
Miscellaneous expense	86,185	57,951	28,234
Total expenditures	8,864,981	9,419,536	(554,555)
Excess(deficiency) of revenues over expenditures	(1,491,230)	(950,614)	540,616
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,838,901	1,838,901	-
Operating transfers out	-	(50,000)	(50,000)
Rental income	50,561	72,698	22,137
Total other financing sources (uses)	1,889,462	1,861,599	(27,863)
Net change in fund balances	398,232	910,985	512,753
Fund balances, July 1, 2018	1,495,834	1,495,834	-
Fund balances, June 30, 2019	$ 1,894,066	$ 2,406,819	$ 512,753

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S OPEB LIABILITY AND RELATED RATIOS

JUNE 30, 2019

	2018	2019
Total OPEB liability		
Service cost	$ 452,515	$ 399,590
Interest	238,226	283,280
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(255,754)
Changes of assumptions	(696,692)	(870,515)
Benefit payments, including refunds of member contributions	(282,056)	(267,914)
Net change in total OPEB liability	(288,007)	(711,313)
Total OPEB liability - beginning	8,047,308	7,759,301
Total OPEB liability - ending (a)	$ 7,759,301	$ 7,047,988
Plan fiduciary net position		
Contributions - employer	$ 282,056	$ 267,914
Net investment income	-	-
Benefit payments, including refunds of member contributions	(282,056)	(267,914)
Administrative expense	-	-
Net change in plan fiduciary net position	-	-
Plan fiduciary net position - beginning	-	-
Plan fiduciary net position - ending (b)	$ -	$ -
District's net OPEB liability - ending (a) - (b)	$ 7,759,301	$ 7,047,988
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%	0.0%
Covered-employee payroll	$ 3,345,919	$ 3,345,919
District's net OPEB liability as a percentage of covered-employee payroll	231.9%	210.6%

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

JUNE 30, 2019

	December 31, 2014 [1]	December 31, 2015 [1]	December 31, 2016 [1]	December 31, 2017 [1]	December 31, 2018 [1]
Proportion of the net pension liability	1.0103%	1.0494%	1.1424%	1.2440%	1.3047%
Proportionate share of the net pension liability	$ 13,310,655	$ 16,143,338	$ 19,050,054	$ 17,786,633	$ 24,263,171
Covered-employee payroll [2]	$ 2,301,028	$ 2,537,964	$ 2,599,290	$ 2,782,702	$ 3,298,966
Proportionate Share of the net pension liability as percentage of covered-employee payroll	578.47%	636.07%	732.89%	639.19%	735.48%
Plan's fiduciary net position as a percentage of the total pension liability	65.18%	61.07%	60.51%	64.54%	59.60%

[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, 2019

	Fiscal Year 2013-14 [1]	Fiscal Year 2014-15 [1]	Fiscal Year 2015-16 [1]	Fiscal Year 2016-17 [1]	Fiscal Year 2017-18 [1]
Actuarially Determined Contribution	$ 1,436,038	$ 1,551,709	$ 1,715,421	$ 1,962,065	$ 2,018,992
Contributions in relation to the actuarially determined contributions	1,436,038	1,551,709	1,715,421	1,962,065	2,018,992
Contribution deficiencey (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll (2)	$ 2,816,052	$ 2,537,964	$ 2,599,290	$ 2,782,702	$ 3,298,966
Contributions as a percentage of covered-employee payroll	50.99%	61.14%	66.00%	70.51%	61.20%

(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 Changes in the District's Net OPEB Liability and Related Ratios

GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. However, since this is the second year of implementation, only two years are currently available.

Schedule of Proportionate Share of the Net Pension Liability

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

Changes in assumptions

In 2019, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

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, 2018
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions	
Discount Rate	7.25% net of investment expenses
Inflation	2.90%
Amortization Growth Rate	3.15%
Salary Increases	3.15% plus merit component
COLA increases	2.60%
Post-Retirement Mortality	Sex distinct tables from CALPERS' 2013 experience study, with generational mortality improvements projected from 2009 using Projection Scale MP-2015

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 25, 2020.

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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financials statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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*.

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
June 25, 2020

Section I – Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_______	Yes	___X___	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_______	Yes	___X___	None reported
Noncompliance material to financial statements noted?	_______	Yes	___X___	No

Federal Awards

The District expended less than $750,000 in federal awards in 2018-19 and was not subject to a Single Audit.

Section II – Findings and Recommendations

No matters were reported.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2019

Recommendation	Current Status	Explanation If Not Implemented
2018-01 Annual Audit – Non-compliance		
While the District needs to get up to date on its required filings, it is equally important to establish the policies, procedures and internal controls that will allow the District to reconcile and compile accurate financial information on a timely basis. Timelines and processes should be developed and monitored by management and the board on a periodic basis throughout the year.	Implemented	Implemented
2017-02 Financial Systems – County Reconciliation - Deficiency	Implemented	Implemented
The QuickBooks accounting should be reconciled with the county each month. We also recommend that bank reconciliations in QuickBooks be performed to ensure all checks and check dates are accurately accounted for in QuickBooks. In addition, the District will need to record all accrual and other entries noted in observations 2016-01 and 2016-02.		