LATHROP-MANTECA FIRE PROTECTION DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2018

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CERTIFIED PUBLIC ACCOUNTANTS

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LATHROP-MANTECA FIRE PROTECTION DISTRICT

JUNE 30, 2018

BOARD OF DIRECTORS

Mark Elliott
Chair

Tosh Ishihara
Vice Chair

Gloryanna Rhodes

Jeremy Coe

Bennie Gatto

* * * *

Fire Chief / Board Secretary
Gene Neely

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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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, 2018, 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, 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The District has not restated the actual and pro forma effect of the restatement on the financial statements as of and for the year ended June 30, 2017. This data is not readily available due to an actuary study not being prepared in accordance with GASB 75 for measurement dates prior to June 30, 2017. Our opinion is not modified with respect to this matter.

The effects of this restatement are described in Note 1 to the basic financial statements. The implementation of GASB 75 required the District to recognize its unfunded actuarial accrued liability as its net OPEB liability, causing a decrease in the net position in the current year. The District currently funds this obligation on a pay-as-you go basis. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due.

Prior Period Restatement

As discussed in Note 1 to the financial statements, the District identified differences in its cash and capital asset accounts recorded in the prior year financial statements in error. The District has not restated the actual and pro forma effect of the restatement on the financial statements as of and for the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 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
February 21, 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 2017-2018

The District's government-wide total assets and deferred outflows increased by $249,984, to $13,848,275, mainly due to increase in current assets and capital assets, net of $1,834,854 offset by a decrease in deferred outflows in the current year of $1,584,870.

Total net position increased by $59,841, to ($14,095,281). Although revenues increased by $1,960,067 in 2017-2018, expenses also increased by $983,214.

Included in the required supplemental information section is a General Fund budgetary comparison schedule. That schedule indicates that we had an excess variance of $934,668. Variance details are listed on the schedule on page 34.

Overview of the Financial Statements

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

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

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

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

The District as a Whole

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

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

Capital Assets

The District owns real property at each of its five fire station locations. The Administration building is located at Station 35 in the River Island Development in Lathrop. 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.

Long-Term Liabilities

Long-term liabilities reflected in the government-wide financial statements were $2,653,116 higher than the prior year due mainly to an increase in the Net OPEB Liability of $3,715,296 and a decrease in Net Pension Liability of $1,263,421.

Net Position

Condensed Statement of Net Position

	2018	2017	Dollar Change	Percentage Change
ASSETS				
Current assets	$ 5,557,749	$ 4,568,832	$ 988,917	21.64%
Capital assets, net	4,863,544	4,017,607	845,937	21.06%
Total assets	10,421,293	8,586,439	1,834,854	21.37%
DEFERRED OUTFLOWS OF RESOURCES	3,426,982	5,011,852	(1,584,870)	-31.62%
LIABILITIES				
Current liabilities	89,697	175,405	(85,708)	-48.86%
Long-term liabilities	26,531,183	23,878,067	2,653,116	11.11%
Total liabilities	26,620,880	24,053,472	2,567,408	10.67%
DEFERRED INFLOWS OF RESOURCES	1,322,676	380,048	942,628	248.03%
NET POSITION				
Net investment in capital assets	4,250,812	3,694,128	556,684	15.07%
Restricted	1,303,877	763,889	539,988	70.69%
Unrestricted	(19,649,970)	(15,293,246)	4,356,724	28.49%
Total net position	$ (14,095,281)	$ (10,835,229)	$ 3,260,052	30.09%

Condensed Statement of Activities

	2018	2017	Dollar Change	Percentage Change
REVENUES				
Program revenues				
Charges for services	$ 1,148,078	$ 862,971	$ 285,107	33.04%
Capital grants and contributions	235,316	-	235,316	0.00%
General revenues				
Property taxes	3,913,164	3,560,951	352,213	9.89%
Special assessments	1,952,267	1,936,731	15,536	0.80%
Impact mitigation fees	1,376,389	719,587	656,802	91.27%
Measure C taxes	1,895,424	1,460,348	435,076	29.79%
Other	155,545	175,538	(19,993)	-11.39%
Total revenues	10,676,183	8,716,126	1,960,057	22.49%
EXPENSES				
Fire protection services	10,407,661	9,442,447	965,214	10.22%
Administration	169,879	172,106	(2,227)	-1.29%
Interest on long-term debt	38,802	18,575	20,227	108.89%
Total expenses	10,616,342	9,633,128	983,214	10.21%
Change in Net Position	59,841	(917,002)	976,843	-106.53%
Total Net Position - Beginning of Year	(10,835,229)	(9,918,227)	(917,002)	9.25%
Prior period restatement	(3,319,893)	-	(3,319,893)	-100.00%
Total Net Position - End of Year	$ (14,095,281)	$ (10,835,229)	$ (3,260,052)	30.09%

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 Administrative Office. The Lathrop – Manteca Fire Protection District practices multiple budget and planning strategies which also encompasses ways to build up reserves 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 economictrends. 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.

BASIC FINANCIAL STATEMENTS

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 5,380,004
Accounts receivable	177,745
Capital assets, net of accumulated depreciation	4,863,544
Total Assets	10,421,293
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	3,159,068
OPEB related	267,914
Total Deferred Outflows	3,426,982
LIABILITIES	
Accounts payable and other current liabilities	89,697
Long-term liabilities:	
Due within one year	517,396
Due in more than one year	26,013,787
Total Liabilities	26,620,880
DEFERRED INFLOWS OF RESOURCES	
Pension related	698,708
OPEB related	623,968
Total Deferred Inflows	1,322,676
NET POSITION	
Net investment in capital assets	4,250,812
Restricted	1,303,877
Unrestricted	(19,649,970)
Total Net Position	$ (14,095,281)

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, 2018

		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	$ 10,407,661	$ 1,148,078	$ 235,316	$ -	$ (9,024,267)
Administration	169,879				(169,879)
Interest on long-term debt	38,802				(38,802)
Total governmental activities	$ 10,616,342	$ 1,148,078	$ 235,316	$ -	(9,232,948)
General Revenues					
Taxes and subventions:					
Property taxes					3,913,164
Special assessments					1,952,267
Measure C taxes					1,895,424
Impact mitigation fees					1,376,389
Rental income					73,193
Interest and investment earnings					45,493
Miscellaneous					36,859
Total general revenues					9,292,789
Change in net position					59,841
Net Position, July 1, 2017, as originally reported					(10,835,229)
Prior period restatement					(3,319,893)
Net Position, July 1, 2017, as restated					(14,155,122)
Net Position, June 30, 2018					$ (14,095,281)

LATHROP-MANTECA FIRE PROTECTION DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Captial Outlay Fund	Measure C Fund	Developer Account Fund	Facility Fee Fund	Total
ASSETS						
Cash	$ 1,434,960	$ 441,337	$ 1,303,877	$ 1,347	$ 2,198,483	$ 5,380,004
Accounts receivable	38,847	-	-	-	138,898	177,745
Due from other funds	103,902	190	-	-	-	104,092
Total Assets	$ 1,577,709	$ 441,527	$ 1,303,877	$ 1,347	$ 2,337,381	$ 5,661,841
LIABILITIES						
Liabilities						
Due to other funds	$ -	$ -	$ -	$ -	$ 104,092	$ 104,092
Accrued wages	81,875	-	-	-	-	81,875
Total Liabilities	81,875	-	-	-	104,092	185,967
FUND BALANCE						
Fund balances						
Restricted			1,303,877			1,303,877
Assigned	4,850	441,527		1,347	2,233,289	2,681,013
Unassigned	1,490,984					1,490,984
Total Fund Balances	1,495,834	441,527	1,303,877	1,347	2,233,289	5,475,874
Total liabilities and fund balances	$ 1,577,709	$ 441,527	$ 1,303,877	$ 1,347	$ 2,337,381	$ 5,661,841

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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

JUNE 30, 2018

Total fund balances - governmental funds		$ 5,475,874
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	$ 9,027,570	
Accumulated depreciation	(4,164,026)	
Net		4,863,544
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:		(7,822)
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	(333,052)	
Capital leases payable	(246,205)	
Net OPEB liability	(7,759,301)	
Net pension liability	(17,786,633)	
Compensated absences payable	(372,516)	
		(26,531,183)
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		3,159,068
Deferred outflows of resources related to OPEB		267,914
Deferred inflows of resources related to pensions		(698,708)
Deferred inflows of resources related to OPEB		(623,968)
Total net position, governmental activities:		$ (14,095,281)

LATHROP-MANTECA FIRE PROTECTION DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Capital Outlay Fund	Measure C Fund	Developer Account Fund	Facility Fee Fund	Total
REVENUES						
Property taxes	$ 3,913,164	$ -	$ -	$ -	$ -	$ 3,913,164
Special assessments	1,952,267	-	-	-	-	1,952,267
Measure C taxes	-	-	1,895,424	-	-	1,895,424
Federal grant	235,316	-		-		235,316
Impact mitigation fee	134,240	-	-	-	1,242,149	1,376,389
Licenses/permits	127,510	(303)	-	-	-	127,207
Plan check & service fees	168,623	-	-	5,000	-	173,623
Other services	847,248	-	-	-	-	847,248
Interest income	10,863	5,374	9,531	167	19,558	45,493
Miscellaneous income	36,859	-	-	-		36,859
Total revenues	7,426,090	5,071	1,904,955	5,167	1,261,707	10,602,990
EXPENDITURES						
Salaries and wages	3,987,909	600	-	-	-	3,988,509
Employee benefits	3,302,562	-	-	-	-	3,302,562
Insurance	298,981	-	-	-	-	298,981
Maintenance	151,191	10,000	-	-	282,517	443,708
Administration charges	71,329	-	-	-	8,801	80,130
Fuel, lube and tires	70,233	-	-	-	-	70,233
Communications	49,878	-	-	-	-	49,878
Director's expense	6,100	-	-	-	-	6,100
Dispatching	131,538	-	-	-	-	131,538
Firefighter supplies	77,181	-	-	500	116,862	194,543
Legal and professional services	50,453	-	-	17,200	38,582	106,235
Office expense	19,318	-	-	22	2,995	22,335
Public relations and training	55,242	-	-	-	-	55,242
Utilities	61,335	-	-	-	-	61,335
Capital Outlay	-	-	-	-	865,072	865,072
Debt service - principal	100,854	-	-	-	585,447	686,301
Debt service - interest	-	-	-	-	40,060	40,060
Miscellaneous expense	61,314	-	-	-	-	61,314
Total expenditures	8,495,418	10,600	-	17,722	1,940,336	10,464,076
Excess(deficiency) of revenues over expenditures	(1,069,328)	(5,529)	1,904,955	(12,555)	(678,629)	138,914
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,364,967	-		-	134,683	1,499,650
Operating transfers out	(134,683)	-	(1,364,967)	-	-	(1,499,650)
Rental income	73,193	-		-	-	73,193
Other financing sources		-	-	-	841,224	841,224
Total other financing sources (uses)	1,303,477	-	(1,364,967)	-	975,907	914,417
Net change in fund balances	234,149	(5,529)	539,988	(12,555)	297,278	1,053,331
Fund balances, July 1, 2017, as originally reported	1,220,105	447,056	763,889	13,902	1,957,555	4,402,507
Prior period adjustment	41,580	-	-	-	(21,544)	20,036
Fund balances, July 1, 2017, as restated	1,261,685	447,056	763,889	13,902	1,936,011	4,422,543
Fund balances, June 30, 2018	$ 1,495,834	$ 441,527	$ 1,303,877	$ 1,347	$ 2,233,289	$ 5,475,874

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, 2018

Total net change in fund balances - governmental funds		$ 1,053,331
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:	$ 1,209,453	
Depreciation expense:	(405,097)	
		804,356
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:		686,301
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:		1,258
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:		(1,531,064)
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:		(46,318)
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:		(908,023)
Total change in net position - governmental activities		$ 59,841

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

B. BASIS OF PRESENTATION (CONTINUED)

Basic Financial Statements

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

Reporting Entity

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

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

Budgets and Budgetary Accounting

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

D. FUND ACCOUNTING

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District funds are as follows:

Major Funds:

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

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

D. FUND ACCOUNTING (CONTINUED)

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

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

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

E. CAPITAL ASSETS

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

F. INTERFUND ACTIVITY

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

G. COMPENSATED ABSENCES

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

H. GOVERNMENT-WIDE NET POSITION

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

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

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

I. FUND BALANCE

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

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

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

Committed Fund Balance reflects amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority: the Board of Directors. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

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

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

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

J. PROPERTY TAXES

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

K. CASH AND CASH EQUIVALENTS

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

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

M. PENSIONS

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

N. 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.

Q. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2017, the District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), which supersedes GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement addresses accounting and financial reporting for other postemployment benefits offered by the District and requires various note disclosures (Note 7) and required supplementary information. As a result, beginning of year net position has been reduced and restated by $3,453,333.

R. PRIOR PERIOD RESTATEMENT

The District discovered an error between the cash balances of two funds for $41,580 that required a restatement of beginning fund balance. The General Fund balance was increased by $41,580 and the Facility Fee Fund was reduced by the same amount. The District also had an outstanding warrant for $20,036 from June 2017 that was cancelled in the current fiscal year requiring a restatement of the beginning fund balance in the Facility Fee Fund. The District also identified capital assets and related depreciation that should have been included in the financial statements in the prior year resulting in a restatement which increase beginning net position by $113,404.

2. CASH AND INVESTMENTS

The District's total cash balance held in the San Joaquin County Treasury at June 30, 2018 is $5,380,004.

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.

2. CASH AND INVESTMENTS (CONTINUED)

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, 2018, the San Joaquin County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Interest Rate Risk

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

Concentration of Credit Risk

The District's investment policy limits the amount it may invest with certain issuers. At June 30, 2018, 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, 2018 consisted of the following:

Transfer from Measure C Fund to General Fund to cover personnel expenses.	$ 1,364,967
Transfer from General Fund to Facility Fee Fund to cover maintenance expenses	134,683
Total Transfers	$ 1,499,650

At June 30, 2018, 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, 2018 is as follows:

	Balance June 30, 2017	Prior Year Adjustments	Additions	Deletions	Balance June 30, 2018
Governmental Activities					
Capital Assets, not being depreciated:					
Construction in progress	$ 325,953	$ -	$ 24,150	$ -	$ 350,103
Capital assets, Depreciable:					
Land Improvements	195,531	-	-	-	195,531
Buildings	2,957,977	-	-	-	2,957,977
Building Improvements	9,450	-	19,325	-	28,775
Computer Equipment	467,213	-	72,767	38,001	501,979
Vehicles	228,265	105,004	160,745	65,341	428,673
Fire Apparatus	2,442,765	1,176,089	841,224	-	4,460,078
Fire Fighting Equipment	25,442	-	91,242	12,230	104,454
Total Capital Assets, being depreciated	6,326,643	1,281,093	1,185,303	115,572	8,677,467
Accumulated Depreciation					
Land Improvements	49,116	(23,283)	9,777	-	35,610
Buildings	1,076,475	(299,118)	73,949	-	851,306
Building Improvements	2,284	(1,103)	675	-	1,856
Computer Equipment	94,657	117,971	93,119	8,537	297,210
Vehicles	42,016	149,587	48,537	32,154	207,986
Fire Apparatus	1,364,395	1,219,577	164,720	-	2,748,692
Fire Fighting Equipment	6,046	4,058	14,320	3,058	21,366
Total Accumulated Depreciation	2,634,989	1,167,689	405,097	43,749	4,164,026
Net Capital Assets being depreciated	3,691,654	113,404	780,206	71,823	4,513,441
Capital Assets, net	$ 4,017,607	$ 113,404	$ 804,356	71,823	$ 4,863,544

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, 2018 is as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
State Loan - Chapter 1168/85	$ 33,476	$ -	$ -	$ 33,476	$ -
Loan - City of Lathrop	100,855	-	100,855	-	-
Capital Lease Obligations	323,479	841,224	585,446	579,257	188,910
Net OPEB Liability	4,044,005	3,715,296	-	7,759,301	328,486
Net Pension Liability	19,050,054	-	1,263,421	17,786,633	-
Compensated Absences	326,198	288,907	242,589	372,516	-
	$ 23,878,067	$ 4,845,427	$ 2,192,311	$ 26,531,183	$ 517,396

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, 2018 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 was $504,271. The loan is a non-interest bearing loan with 5 annual payments with payments beginning in June 2014. The loan was paid off in the current fiscal year.

Capital Lease Obligations

During the year ended June 30, 2018, 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, 2018:

Asset	Maturity Date	Interest Rate	Purchase Price	Balance June 30, 2017	Payments	Balance June 30, 2018
Engine 32 & 33	12/28/2020	4.60%	$ 630,892	$ 316,705	$ 73,818	$ 242,887
2017 Pierce Fire Truck	3/25/2021	2.47%	841,224	841,224	508,172	333,052
Copiers	5/1/2019	4.84%	13,204	6,774	3,456	3,318
			$ 1,485,320	$ 1,164,703	$ 585,446	$ 579,257

5. LONG-TERM LIABILITIES (CONTINUED)

The annual payments required to amortize the capital leases outstanding as of June 30, 2018, are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2019	$ 188,910	$ 19,726	$ 208,636
2020	191,900	13,336	205,236
2021	198,447	6,792	205,237
Total	$ 579,257	$ 39,854	$ 619,109

Accrued interest of $7,822 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, 2018:

	General Fund	Capital Outlay Fund	Measure C Fund	Developer Account Fund	Facility Fee Fund	Total
Resticted For:						
Captial Projects	$ -	$ -	$ 1,303,877	$ -	$ -	$ 1,303,877
Assigned For:						
Capital Projects	-	441,527	-	1,347	-	442,874
Fire Facilities	-	-	-	-	2,233,289	2,233,289
Health Reserve Fund	4,850	-	-	-	-	4,850
Total Assigned	4,850	441,527	-	1,347	2,233,289	2,681,013
Unassigned:						
Unassigned	1,490,984	-	-	-	-	1,490,984
Total Fund Balances	$ 1,495,834	$ 441,527	$ 1,303,877	$ 1,347	$ 2,233,289	$ 5,475,874

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, 2016. 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, 2018, 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	1.71% - 9.06%	8.53% - 14.79%
Tier 2	8.90% - 14.33%	8.90% - 14.33%
Required employer contribution rates		
Tier 1 Safety Members	77.17%	72.55%
Tier 2 Safety Members	63.58%	63.58%
Tier 1 Miscellaneous Members	41.96%	N/A
Tier 2 Miscellaneous Members	33.15%	33.15%

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, 2018, 2017 and 2016 were $1,962,065, $1,715,421 and $1,551,709, 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, 2018, the District reported a liability of $17,786,633, for its proportional share of the net pension liability. The net pension liability was measured as of December 31, 2017, 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, 2016 and 2017 was as follows:

Proportion - December 31, 2016	1.14240%
Proportion - December 31, 2017	1.24400%
Change - Increase (Decrease)	0.10160%

As of June 30, 2018, 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	$ 895,830	
Changes in assumptions	590,996	
Difference between proportionate share of aggregate employer contributions and actual contributions for 2016-17.		$ (307,777)
Change in employer's proportion and differences between proportionate share of contributions	953,103	(206,486)
Net differences between projected and actual earnings on plan investments	384,341	
Net differences between expected and actual experience	334,798	(184,445)
Total	$ 3,159,068	$ (698,708)

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, 2018.

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	
2019	$ 899,651
2020	$ 747,693
2021	$ 189,971
2022	$ (272,785)

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	January 1, 2017
Measurement Date	December 31, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions	
Discount Rate	7.40%
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 7.40%. 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
Stable Fixed Income	10.0%	4.20%
Credit	14.0%	6.75%
Private Appreciation	12.0%	10.55%
Global Public Equities	30.0%	8.90%
Crisis Risk Offest (CRO)	20.0%	6.75%
Risk Parity	14.0%	6.90%
Short Term Investments/Cash/Cash Equivalents	0.0%	2.90%
Total	100.0%	

<u>Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate</u>

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.40%, 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 (6.40%) or 1-percentage-point higher (8.40%) than the current rate:

	Discount Rate - 1% (6.40%)	Current Discount Rate (7.40%)	Discount Rate + 1% (8.40%)
Plan's Net Pension Liability	$ 24,534,458	$ 17,786,633	$ 12,240,542

<u>Pension Plan Fiduciary Net Position</u>

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

<u>Payable to the Pension Plan</u>

As of June 30, 2018, 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 $128 per month in 2017 and $133 per month in 2018.

- 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, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	15
Inactive employees entitles to but not yet receiving benefit payments	-
Active employees	35
	50

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016.

Actuarial assumptions. The total OPEB liability in the June 30, 2016 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, 2016
Funding Method	Entry Age Normal Cost, level percent of pay
Discount Rate	2.85% as of June 30, 2016
	3.53% as of June 30, 2017
Salary Increases	3.25%
Inflation rate	2.75%
Healthcare cost trend rates	8.00 % for 2019 and decreasing 0.50% per year until 2025 when it reaches 5.00%

Demographic actuarial assumptions were based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements. Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale BB to central year 2008.

Discount rate. The discount rate used to measure the total OPEB liability was 3.53 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, 2017	$ 8,047,308	$ -	$ 8,047,308
Changes for the year:			
Service cost	452,515	-	452,515
Interest	238,226	-	238,226
Differences between expected and actual experience	-	-	-
Contributions - employer	-	282,056	(282,056)
Net investment income	-	-	-
Changes of Assumptions	(696,692)	-	(696,692)
Benefit payments	(282,056)	(282,056)	-
Administrative expense	-	-	-
Net changes	(288,007)	-	(288,007)
Balances at June 30, 2018	$ 7,759,301	$ -	$ 7,759,301

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 (2.53%)	Discount Rate (3.53%)	1% Increase (4.53%)
Net OPEB liability (asset)	$ 8,817,392	$ 7,759,301	$ 6,882,817

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 (7%)	Healthcare Cost Trend Rates (8%)	+1% Increase (9%)
Net OPEB liability (asset)	$ 6,612,507	$ 7,759,301	$ 9,213,895

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, 2018, the District recognized OPEB expense of $618,017. At June 30, 2018, 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	$ 267,914	$ -
Changes of assumptions	-	623,968
Total	$ 267,914	$ 623,968

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
2019	$ (72,724)
2020	(72,724)
2021	(72,724)
2022	(72,724)
2023	(72,724)
Thereafter	(260,348)
Total	$ (623,968)

Payable to the OPEB Plan

The District had no outstanding amount of contributions to the Plan required for the year ended June 30, 2018.

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, 2018 was $252,472. The following is a summary of the audited financial information of FASIS as of June 30, 2018:

		2018
Total Assets	$	53,650,885
Total Liabilities		39,107,348
Net Position		14,543,537
Total Liabilities and Net Position	$	53,650,885
Total Revenues	$	15,671,950
Total Expenditures		17,514,225
Change in Net Position	$	(1,842,275)

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, 2018 were as follows:

	Excess Expenditures
General Fund	
Salaries and wages	$ 1,161,400
Employee benefits	618,034
Insurance	18,647
Maintenance	20,111
Administration charges	9,772
Communications	19,499
Public relations and training	10,242
Utilities	15,122

11. 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, 2018 financial statements for subsequent events through February 21, 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, 2018

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 3,741,026	$ 3,913,164	$ 172,138
Special assessments	1,980,171	1,952,267	(27,904)
Federal grant		235,316	235,316
Impact mitigation fee	23,534	134,240	110,706
Licenses/permits	99,163	127,510	28,347
Plan check & service fees	86,505	168,623	82,118
Other services	203,790	847,248	643,458
Interest income	99	10,863	10,764
Miscellaneous income	11,057	36,859	25,802
Total revenues	6,145,345	7,426,090	1,280,745
EXPENDITURES			
Salaries and wages	2,826,509	3,987,909	(1,161,400)
Employee benefits	2,684,528	3,302,562	(618,034)
Insurance	280,334	298,981	(18,647)
Maintenance	131,080	151,191	(20,111)
Administration charges	61,557	71,329	(9,772)
Fuel, lube and tires	85,345	70,233	15,112
Communications	30,379	49,878	(19,499)
Director's expense	8,000	6,100	1,900
Dispatching	143,000	131,538	11,462
Firefighter supplies	133,265	77,181	56,084
Legal and professional services	81,227	50,453	30,774
Office expense	23,500	19,318	4,182
Public relations and training	45,000	55,242	(10,242)
Utilities	46,213	61,335	(15,122)
Debt service - principal	100,875	100,854	21
Miscellaneous expense	76,941	61,314	15,627
Total expenditures	6,757,753	8,495,418	(1,737,665)
Excess(deficiency) of revenues over expenditures	(612,408)	(1,069,328)	(456,920)
OTHER FINANCING SOURCES (USES)			
Operating transfers in		1,364,967	1,364,967.000
Operating transfers out	(138,672)	(134,683)	3,989
Rental income	50,561	73,193	22,632
Total other financing sources (uses)	(88,111)	1,303,477	1,391,588
Net change in fund balances	(700,519)	234,149	934,668
Fund balances, July 1, 2017	1,261,685	1,261,685	-
Fund balances, June 30, 2018	$ 561,166	$ 1,495,834	$ 934,668

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

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

JUNE 30, 2018

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

See accompanying notes to required supplementary information.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

JUNE 30, 2018

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

(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, 2018

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

(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 initial year of implementation, only one year is currently available.

Schedule of Proportionate Share of the Net Pension Liability

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

Changes in assumptions

In 2018, 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, 2017
Measurement Date	December 31, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions	
Discount Rate	7.40%
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, 2018, 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 21, 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.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of Findings and Recommendations as item 2018-01.

Lathrop-Manteca Fire Protection District's Response to Findings

Lathrop-Manteca Fire Protection District's response to the finding identified in our audit is 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 21, 2020

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>Section I – Summary of Audit Results</u>

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 2017-18 and was not subject to a Single Audit.

Section II – Findings and Recommendations

2018-01 Annual Audit – Non-compliance

Finding:

Per California government code section 26909(a)(2)(B): A report of the audit required pursuant to subparagraph (A) shall be filed within 12 months of the end of the fiscal year or years under examination as follows:

(i) For a special district defined in paragraph (2) of subdivision (d) of Section 12463 , with the Controller.

(ii) For a special district defined in Section 56036 ,with the Controller and with the local agency formation commission of the county in which the special district is located, unless the special district is located in two or more counties, then with each local agency formation commission within each county in which the district is located.

The June 30, 2018 audit was not completed and submitted until February 2020.

The incomplete filings were the result of delays in reconciling the financial information.

Recommendation:

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.

Corrective Action Plan:

The District has established and implemented policies, procedures and internal controls that allow the District to reconcile and compile accurate financial information on a timely basis. Management and the Board will monitor processes monthly during the Board Meetings.

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2018

Recommendation	Current Status	Explanation If Not Implemented
2016-01 Accrual Accounting – Material Weakness		
Management needs to develop a monthly and annual closing process to identify any potential accruals at year end.	Implemented	Implemented
2016-02 Long-Term Liabilities – Material Weakness	Implemented	Implemented
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.		
2016-03 Financial Systems – Significant Deficiency	Implemented	Implemented.
The District should have an accounting software program and utilize its features to post all transactions and mirror the activity posted by the county. The in-house accounting should be reconciled with the county each month. In addition, the District will need to record all accrual and other entries noted in observations 2016-01 and 2016-02 above. The appropriate in-house accounting system will allow the District to produce custom reports for both management and the board.		
2016-05 Policies and Procedures - Deficiency	Implemented	Implemented
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.		

LATHROP-MANTECA FIRE PROTECTION DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2018

Recommendation	Current Status	Explanation If Not Implemented
2017-01 Cash Receipts: Making Timely Deposits - Deficiency To strengthen internal controls in this area, we suggest that during times of heavy inflow, deposits to the County be made on a daily basis. During periods of less inflow, we recommend that checks be deposited at the County no less than once a week. This practice will strengthen the District's internal control process over receipts and lessen the likelihood that checks could be lost or stolen before being deposited with the County.	Implemented	Implemented
2017-02 Financial Systems – County Reconciliation - Deficiency 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.	Partially implemented	Reconciliation processes have been put in place, however there are still unreconciled balances. See management letter comment 2018-02.