

TRACY RURAL COUNTY FIRE

PROTECTION DISTRICT

Financial Statements
and
Independent Auditor's Report

For the Fiscal Year Ended June 30, 2017 and 2016

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Table of Contents
June 30, 2017

FINANCIAL SECTION	<u>PAGE</u>
Independent Auditor's Report	1-2
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position (Deficit)	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	8
Notes to the Basic Financial Statements	9-28
REQUIRED SUPPLEMENTARY INFORMATION SECTION	
Budgetary Comparison Schedule - General Fund	29
Schedule of Required Supplementary Information- Pension Plan	30
SUPPLEMENTARY INFORMATION SECTION	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Special Revenue Funds	31
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Special Revenue Funds	32

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Table of Contents-Continued
June 30, 2017

OTHER INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33-34
---	-------

FINDINGS AND RECOMMENDATIONS SECTION

Summary of Audit Results and Findings	35
---------------------------------------	----



Blomberg & Griffin Accountancy Corporation
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tracy Rural County Fire Protection District
Tracy, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Tracy Rural County Fire Protection District as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, and schedule of required supplementary information- Pension Plan 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. The Tracy Rural County Fire Protection District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tracy Rural County Fire Protection District's, basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section, budgetary comparison and pension plan required disclosure have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2017 on our consideration of the Tracy Rural County Fire Protection 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 Tracy Rural County Fire Protection District's internal control over financial reporting and compliance.

Blomberg & Griffin A.C.

Blomberg & Griffin A.C.

Stockton, CA

August 17, 2017

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Statement of Net Position (Deficit)

June 30, 2017 and 2016

	2017	2016
	Governmental	Governmental
	Activities	Activities
	<hr/>	<hr/>
ASSETS		
Cash on Hand and in County Treasury-Note 2	\$ 4,482,352	\$ 4,493,518
Interest Receivable	16,963	10,257
Land-Note 4	177,107	177,107
Capital Assets, Net of Accumulated Depreciation-Note 4	2,761,242	2,849,827
Deferred Outflows of Resources- Note 10	619,287	272,039
	<hr/>	<hr/>
Total Assets	8,056,951	7,802,748
	<hr/>	<hr/>
LIABILITIES		
Current Liabilities		
Accounts Payable	7,702	15,015
Current Portion of Long-Term Debt-Note 5	893,861	948,085
	<hr/>	<hr/>
Total Current Liabilities	901,563	963,100
	<hr/>	<hr/>
Long-Term Liabilities - Note 5		
Note Payable - City of Tracy	\$ 4,372,897	\$ 5,122,537
Capital Lease -Westamerica Bank	284,861	327,892
City of Tracy - Compensated Absences	602,924	702,924
Net Pension Liability- Note 10	3,662,717	3,099,059
Less: Current Portion	(893,861)	(948,085)
Deferred Inflows of Resources- Note 10	233,891	393,527
	<hr/>	<hr/>
Total-Long Term Liabilities	8,263,429	8,697,854
	<hr/>	<hr/>
Total Liabilities	9,164,992	9,660,955
	<hr/>	<hr/>
NET POSITION (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	2,653,488	2,699,042
Unrestricted (Deficit)	(3,761,529)	(4,557,249)
	<hr/>	<hr/>
Total Net Position	\$ (1,108,041)	\$ (1,858,207)
	<hr/>	<hr/>

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

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Statement of Activities

For the Year Ended June 30, 2017 and 2016

	<u>2017</u> <u>Governmental</u> <u>Activities</u>	<u>2016</u> <u>Governmental</u> <u>Activities</u>
EXPENDITURES/EXPENSES		
Fire Protection		
Operations	\$ 6,335,621	\$ 5,302,245
Depreciation	164,398	212,204
	<hr/>	<hr/>
Total Expenditures/Expenses	6,500,019	5,514,449
	<hr/>	<hr/>
PROGRAM REVENUES		
Charges for Services	53,754	61,355
	<hr/>	<hr/>
Net Program Expenses	6,446,265	5,453,094
	<hr/>	<hr/>
GENERAL REVENUES		
Property Taxes-Note 6	6,348,699	5,658,525
Investment Earnings	52,639	30,424
Rental Income	32,400	-
Miscellaneous Income	760,823	970,560
Sale of Assets Income (Loss)	1,870	(51,169)
	<hr/>	<hr/>
Total General Revenues	7,196,431	6,608,340
	<hr/>	<hr/>
Changes in Net Position	750,166	1,155,246
Net Position - Beginning of Year	(1,858,207)	60,773
Prior Period Adjustment- Note 10	-	(3,074,226)
	<hr/>	<hr/>
Net Position - End of Year	<u>\$ (1,108,041)</u>	<u>\$ (1,858,207)</u>

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

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Balance Sheet

Governmental Funds

June 30, 2017 and 2016

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>2017 Total Governmental Funds</u>	<u>2016 Total Governmental Funds</u>
ASSETS					
Cash on Hand and in Cash Treasury-Note 2	\$ 1,202,036	\$ 3,123,788	\$ 156,528	\$ 4,482,352	\$ 4,493,520
Due from Other Funds-Note 8	-	-	-	\$ -	1,300
Interest Receivable	<u>8,512</u>	<u>8,054</u>	<u>397</u>	<u>16,963</u>	<u>10,257</u>
Total Assets	<u>\$ 1,210,548</u>	<u>\$ 3,131,842</u>	<u>\$ 156,925</u>	<u>\$ 4,499,315</u>	<u>\$ 4,505,077</u>
LIABILITIES and FUND BALANCES					
Liabilities					
Accounts Payable	\$ 7,702	\$ -	\$ -	\$ 7,702	\$ 15,015
Due to Other Funds-Note 8	-	-	-	-	1,300
Due to City of Tracy-Note 13	-	-	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total Liabilities	<u>7,702</u>	<u>-</u>	<u>100,000</u>	<u>107,702</u>	<u>116,315</u>
FUND BALANCES					
Assigned to:					
Acquisition of Capital Assets-Note 3	-	3,131,842	-	3,131,842	3,245,459
Other Purposes-Note 3	-	-	56,925	56,925	42,390
Unassigned-Note 3	<u>1,202,846</u>	<u>-</u>	<u>-</u>	<u>1,202,846</u>	<u>1,100,913</u>
Total Fund Balances	<u>1,202,846</u>	<u>3,131,842</u>	<u>56,925</u>	<u>4,391,613</u>	<u>4,388,762</u>
Total Liabilities and Fund Balances	<u>\$ 1,210,548</u>	<u>\$ 3,131,842</u>	<u>\$ 156,925</u>	<u>\$ 4,499,315</u>	<u>\$ 4,505,077</u>

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

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Position
 June 30, 2017 and 2016

	2017	2016
Total Fund Balances-Governmental Funds	\$ 4,391,613	\$ 4,388,762
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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</p>		
	2017	2016
Capital Assets at historical cost:	4,969,194	9,537,327
Sale of Capital Asset	-	(4,643,947)
Accumulated Depreciation	(2,030,845)	(1,866,446)
Net:	2,938,349	3,026,934
Pension Deferred Changes	619,287	272,039
Net Pension Liability	(3,662,717)	(3,099,059)
Pension Deferred Credits	(233,891)	(393,527)
CalPERS Safety Plan (Side Fund)	-	238,378
<p>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.</p>	(5,160,682)	(6,291,733)
Net Position of Governmental Activities	\$ (1,108,041)	\$ (1,858,206)

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

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017 and 2016

	General Fund	Capital Outlay Fund	Nonmajor Governmental Funds	2017 Total Governmental Funds	2016 Total Governmental Funds
REVENUES					
Property Taxes-Note 6	\$ 5,191,294	\$ -	\$ -	\$ 5,191,294	\$ 4,497,779
Property Assessments-Note 6	1,109,525	-	-	1,109,525	1,117,078
State Property Taxes-Note 6	47,879	-	-	47,879	43,768
Licenses, Permits and Franchise Fees	25,700	-	-	25,700	23,925
Rent Income	-	32,400	-	32,400	31,200
Fee for Services	28,054	1,643	-	29,697	37,330
Miscellaneous Income	2,739	749,640	8,670	761,049	939,360
Sale of Capital Asset	-	-	-	-	2,980,190
Interest	25,271	26,447	921	52,639	30,424
Total Revenues	6,430,462	810,130	9,591	7,250,183	9,701,054
EXPENDITURES					
Fire Protection					
Fire Services-Note 13	5,727,376	1,038	25,930	5,754,344	4,869,500
Insurance	21,871	-	-	21,871	22,500
Tax Administration Service Charge	102,562	-	-	102,562	98,710
Miscellaneous	137,832	-	-	137,832	239,583
Employee Benefits (PERS)	252,957	-	-	252,957	217,226
Capital Outlay-Note 4	-	75,814	-	75,814	177,217
Debt Service:					
Principal-Note 5	-	792,671	100,000	892,671	1,050,265
Interest	-	9,281	-	9,281	21,395
Total Expenditures	6,242,598	878,804	125,930	7,247,332	6,696,396
Excess of Revenues Over Expenditures	187,864	(68,674)	(116,339)	2,851	3,004,658
OTHER FINANCIAL SOURCES (USES)					
Operating Transfers In-Note 8	-	-	130,874	130,874	324,970
Operating Transfers Out-Note 8	(85,931)	(44,943)	-	(130,874)	(324,970)
Total Other Financing Sources (Uses)	(85,931)	(44,943)	130,874	-	-
Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses	101,933	(113,617)	14,535	2,851	3,004,658
Fund Balances, July 1, 2016	1,100,913	3,245,459	42,390	4,388,762	1,384,104
Fund Balance, June 30, 2017	<u>\$ 1,202,846</u>	<u>\$ 3,131,842</u>	<u>\$ 56,925</u>	<u>\$ 4,391,613</u>	<u>\$ 4,388,762</u>

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

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
 And Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended June 30, 2017 and 2016

	2017	2016
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	\$ 2,851	\$ 3,004,658

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital Outlay: In governmental funds, the costs of capital outlay are reported as expenditures in the period when the assets are required. 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:

	2017	2016		
Proceeds from Sell of Station	-	(2,980,190)		
Expenditures for Capital Outlay	75,814	177,217		
Depreciation Expense	(164,398)	(212,204)		
Net:			(88,584)	(3,015,177)

Debt Service: In governmental funds, proceeds from long-term debt are reported as other sources and repayments are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.

Proceeds from Long-Term Debt	-	-		
Principle Payment of Long-Term Debt	892,671	1,112,879		
Net:			892,671	1,112,879

Unmatured interest on long-term debt: In governmental funds, interest on long-term 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:

Accrued Interest on Loans	-	43,515		
Interest Expense Paid	-	(21,912)		
			-	21,603

Changes in Employee Benefits expense did not require the use of current financial resources or meet revenue recognition criteria in the Governmental Funds Financial Statements and therefore are not reported in governmental funds.

	(56,772)	31,283		
--	----------	--------	--	--

Changes in Net Position-Governmental Activities	\$ 750,166	\$ 1,155,246		
---	------------	--------------	--	--

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

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 SUMMARY OF SIGNIFACANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The Tracy Rural County Fire Protection District was established in 1945 to protect the greater Tracy Region that encompassed over 200 square miles. The rural fire department was comprised of volunteers who manned four fire stations.

During 1999 the Tracy Rural County Fire Protection District ("District") and City of Tracy ("City") agreed to consolidate fire protection services into one Fire Department. On September 7, 1999, the District and the City entered into a joint exercise of powers agreement ("JPA Agreement") that created the South County Fire Authority ("Authority"), a public entity separate and apart from the District and the City. The operational date of this agreement is September 16, 1999.

The District's governing authority consists of five elected officials who, together, constitute the Board of Directors. The Government Accounting Standards Board established criteria for determining which organizations should be included in a governmental reporting entity. The focal point for preparing financial statements of a financial reporting entity is the *primary government*. The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. Thus, the *financial reporting entity* consists of the *primary government* and its *component units*. *Primary government* is defined as a state, general purpose local or special purpose local government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. *Component units* are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria and definitions, the District is the primary government and there are no material potential component units which should be included with the accompanying financial statements of the District. The District's basic financial statements do not include operations of the associated governmental agencies involved in the JPA Agreement, namely the Authority or the City.

B. Accounting Policies

The District accounts for its financial transactions in accordance with policies and procedures of the California State Controller's Minimum Audit Requirements and Reporting Guidelines for Special Districts. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

B. Accounting Policies (Continued)

Basis of Presentation:

Government – Wide Financial Statements:

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District does not have business-type or fiduciary funds.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories; governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of the category or type.
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

Major Governmental Funds:

General Fund: is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another funds.

Capital Outlay Fund: accounts for all resources for the acquisition of capital assets and facilities by the District. Recorded income sources include resources received from developer impact fees assessed under provisions of the California Environmental Quality Activity (CEQA), sublease rental income, and interest income.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 SUMMARY OF SIGNIFACANT ACCOUNTING POLICIES Continued):

Nonmajor Governmental Funds:

Special Revenue Funds: are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three nonmajor special reserve funds.

Special Reserve Fund: is funded upon the direction of the District's governing board. It was established to pay for vacation and sick pay benefits accrued to District employees' upon their transfer of employment to the City of Tracy. This is discussed further in Note 5.

Contingency Fund: is funded upon the direction of the District's governing board. It was established to set aside funds to pay the construction retention funds until payment is authorized by the State of California Department of Industrial Relations Division of Labor Standards Enforcement. See Note 9.

C. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus:

On the statement of net position and the statement of activities, governmental activities are presented using the economic resources measurement focus as defined in item b. below.

In the governmental fund balance sheet and the statement of governmental fund revenues, expenditures, and changes in fund balances, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. The "current financial resources" measurement focus is used when accounting for all governmental funds. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. The accounting objectives of the “economic resources” measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported.

Basis of Accounting:

In the statement of net position and statement of activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place.

In the governmental funds balance sheet and the statement of governmental fund revenues, expenditures, and changes in fund balances, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

D. Budgetary Data:

Under GASB 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The District is not legally required to adopt a budget for special revenue funds; therefore, budget comparison information is not included for major special revenue funds.

Annual budgets are adopted for the general fund on a basis consistent with generally accepted accounting principles. In accordance with the by-laws established by the JPA Agreement, the District’s governing board must adopt a final budget within the first 90 days of the fiscal year. The District’s governing board satisfied this requirement. The Board of Directors is not required to revise the budget for amounts exceeding the original budgetary amounts. There was no budget revisions for the District during the year ended June 30, 2017.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 SUMMARY OF SIGNIFACANT ACCOUNTING POLICIES (Continued):

E. Assets, Liabilities, and Equity/Net Position:

Cash:

The District's cash consists of cash on hand and cash in the San Joaquin County Treasury. The County pools these funds with those of other Districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value and are displayed on the financial statements as cash in county treasury.

Capital Assets and Depreciation:

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are reported at historical cost or estimated historical cost, including net interest cost during the construction period of capital assets. Donated assets are reported at their estimated fair value as of the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Assets</u>	<u>Estimated Useful Life in Years</u>
Land		N/A
Buildings	Fire Station, Garage	50
Equipment	Pumpers, Firefighting Equipment Automobiles, Pickups Defibrillator System, Gas Monitors	3-10

The District currently operates Station 98 under a grant deed from the Mountain House Community Services District. The grant was made on the condition that the property is used solely for the purpose of a fire station and related uses. The District is responsible for all maintenance and normal upkeep of the station during the time they use the facilities. At such time the District discontinues using the property as a fire station and related uses, the District shall immediately forfeit all rights and title to Station 98. The property shall then revert to the Mountain House Community Services District or its assigns or successors. Accordingly, Station 98 has not been included as a fixed asset of the District.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

E. Assets, Liabilities, and Equity/Net Position (Continued):

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net Position:

Net position represent the difference between assets and liabilities and are displayed in the three components: 1) Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. 2) Restricted net position constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation. 3) Unrestricted net position consists of all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS:

The District maintains all of its cash in the San Joaquin County Treasury as part of the common investment pool, which total \$4,482,352, in accordance with GASB Statement No. 31. The fair market value of the investment pool as of June 30, 2017 was \$4,482,352.

The District is considered to be an involuntary participant in the external investment pool. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County is restricted by Government Code Section 53635 et seq. pursuant to Section 53601 et seq. to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The investment policy for the San Joaquin County Treasury prohibits reverse repurchase securities and foreign investments. Due to constraint and standards imposed by GASB and the top rating agencies, the target weighted average maturity of the portfolio will be approximately one and one-half years. As per the Government Code Section 53601, investments cannot exceed a five year maturity. A weighted average maturity as of June 30, 2017 was 270 days.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 2 CASH AND INVESTMENTS (Continued):

Investments by the District in investment pools are considered unclassified as to credit risk, because they are not evidenced by securities that exist in physical or book entry form. Investment in external investment pools and other pooled investments are excluded from the concentration of credit risk disclosure under GASB Statement No. 40.

Interest rate risk is the risk that changes in market interest rates will adversely affect the firm 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 rate.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The County of San Joaquin issues a financial report that includes custodial credit risk disclosures for the Cash in County Treasury. The report may be obtained by writing to the San Joaquin County Treasurer, 44 North San Joaquin Street, Stockton, CA 95202.

NOTE 3 FUND BALANCES:

The governmental fund financial present fund balances based on classification that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District Governing Board, the highest level of decision making authority for the District. These amounts cannot be used for any other purpose unless the District Governing Board removes or changes the specific use by taking the type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 3 **FUND BALANCES (Continued):**

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Governing Board or through the Governing Board delegating this responsibility to the Clerk through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned: This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, assigned, and then unassigned.

NOTE 4 **CAPITAL ASSETS:**

The following table provides a summary of changes in capital assets:

	<u>Balance July 1</u>	<u>Additions and Transfers</u>	<u>Disposals and Transfers</u>	<u>Balance June 30</u>
Capital Assets, Not Depreciated:				
Land - Durham Ferry Rd	\$ 177,107	\$ -	\$ -	\$ 177,107
Total Capital Assets, Not Depreciated	<u>177,107</u>	<u>-</u>	<u>-</u>	<u>177,107</u>
Capital Assets Depreciated:				
Buildings and Improvements:				
Station - 7th St.	82,128	-	-	82,128
Station - Linne Rd.	97,437	-	-	97,437
Station - Schulte Rd	918,771	-	-	918,771
Station - Durham Ferry Rd.	1,437,707	-	-	1,437,707
Station- Grant Line Rd	732,217	-	-	732,217
Equipment	<u>1,448,013</u>	<u>75,814</u>	<u>-</u>	<u>1,523,827</u>
Total Capital Assets Depreciated, Net	<u>4,716,273</u>	<u>75,814</u>	<u>-</u>	<u>4,792,087</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	871,258	84,145	-	955,403
Equipment	<u>995,189</u>	<u>80,253</u>	<u>-</u>	<u>1,075,442</u>
Total Accumulated Depreciation	<u>1,866,447</u>	<u>164,398</u>	<u>-</u>	<u>2,030,845</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,026,934</u>	<u>\$ (88,584)</u>	<u>\$ -</u>	<u>\$ 2,938,350</u>

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 LONG-TERM DEBT:

Changes in Long-Term Debt:

The following summarized long-term debt activity for the year ended June 30, 2017:

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Note payable- City of Tracy	\$ 5,122,537	\$ -	\$ 749,640	\$ 4,372,897	\$ 749,640
Capital lease-First Memorial Leasing	327,892	-	43,031	284,861	44,221
City of Tracy- Compensated Absences	702,924	-	100,000	602,924	100,000
Total	<u>\$ 6,153,353</u>	<u>\$ -</u>	<u>\$ 892,671</u>	<u>\$ 5,260,682</u>	<u>\$ 893,861</u>

Loans Payable:

The following is a summary of loans payable outstanding as of June 30, 2017:

Loan payable to the City of Tracy for accumulated annual shortfall payments under the terms of the JPA Agreement, as discussed in Note 8. Repayment began on July 1, 2016. As of June 30, 2017, Station 92 has been completed. Accordingly, the balance due to City has been included in long term debt; however, refer to note 13-Related Party Transaction for additional information. The balance is amortized over 94 months beginning 7/1/15 at \$62,470 per month.

Compensated absences payable to City of Tracy:

The agreement between the City of Tracy and the District regarding employment of personnel for provision of fire services specifies that the District is responsible for the value of the accumulated leave on the books of former District employees at the time they became City employees in September 1999. The accumulated leave liability includes increases in value as a result of subsequent salary increases. On March 9, 2010, the District Board of Directors adopted a resolution whereby the District will make annual payments of \$100,000 to the City towards the accumulated leave liability commencing the fiscal year ended June 30, 2010. There is no interest charged on this debt. The liability and expense have been recognized in the government-wide financial statements.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 LONG-TERM DEBT (Continued):

The annual debt service requirements to maturity for compensated absences payable as of June 30, 2017 are as follows.

<u>Year Ending June 30,</u>	<u>Maturity, Net</u>
2018	100,000
2019-2022	400,000
2023	<u>102,924</u>
Total	<u>\$ 602,924</u>

Capital Leases:

The following is a summary of capital leases outstanding as of June 30, 2017:

Capital lease payable in favor of America West Bank, to purchase 2014 Hi-Tech/Spartan Metro Star type 1 Pumper in amount of \$459,724, payable in annual installments of \$52,312, including interest at 2.840 percent per annum.

Equipment financed in part under capital lease is reported in capital assets at June 30, 2017, and include the following:

	<u>2008 Pierce Custom</u>	<u>2014 Hi-Tech</u>
Equipment	\$ 342,813	\$ 459,724
Less: Accumulated Depreciation	<u>(301,387)</u>	<u>(137,917)</u>
Total- Net	<u>\$ 41,426</u>	<u>\$ 321,807</u>

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 5 LONG-TERM DEBT (Continued):

The annual debt service requirement to maturity for capital lease's payable as of June 30, 2017 is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>2014 Hi-Tech</u>		<u>Minimum</u> <u>Payments</u>
	<u>Principal</u>	<u>Interest</u>	
2018	44,221	8,091	52,312
2019	45,477	6,835	52,312
2020	46,768	5,544	52,312
2021	48,097	4,215	52,312
2022	49,463	2,849	52,312
2023	50,835	4,395	52,311
Total	<u>\$ 284,861</u>	<u>\$ 31,929</u>	<u>\$ 313,871</u>

NOTE 6 PROPERTY TAX REVENUE:

The District's assessed property records are maintained by the San Joaquin County Auditor/Controller's office. The County has entered into an agreement with the special Districts within its borders, commonly known as the Teeter Plan. Under this plan, the District is apportioned and paid the total property taxes to which it is entitled each year. Any delinquent taxes are the responsibility of the County. The County collects and retains all delinquencies, including penalties and interest. Substantially all taxes are paid to the Districts in the year to which they accrue, therefore no receivables accrual or provision for uncollectible are being made. Property taxes are levied on both real and personal property. The property tax levy to support general operations of the District is limited to 1% of full cash value and is distributed in accordance with statutory formulas.

Amounts needed to finance the annual requirements of voter-approved debt are excluded from this limitation and are separately calculated and levied each fiscal year. District special assessments are collected and paid by the County under the Teeter Plan as explained above.

The rates adopted by the approval of the governing board of the District for the current fiscal year were as follows:

Residential dwellings, commercial residential, agricultural, commercial industrial, and the San Joaquin County River Club	\$ 0.03	Per sq. ft.
Vacant residential lots, vacant commercial lots, and mobile home lots	\$ 12.00	Per parcel
Waste lands, berms and SBE property	\$ 10.00	Per parcel
Gas wells, hay barns, and loafing barns	\$ 25.00	Per parcel
Vacant industrial lots	\$ 250.00	Per parcel
Poultry containment buildings	\$ 0.01	Per parcel
Tire storage facilities and/or wood chip storage	\$ 1,500.00	Per parcel

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 SUMMARY OF JPA AGREEMENT:

Under the terms of the JPA Agreement, the South County Fire Authority (“Authority”) is empowered to manage the fire prevention services for the City and District, also known as the Fire Department. The Authority is contracting for such services with the City of Tracy. Under the contract, the City is to administer and direct the Fire Department and provide the necessary administrative support for its programs and operations. This includes providing personnel, fiscal, procurement, maintenance, and clerical support for all department activities on behalf of the Authority.

Among other items, the Authority leases real and personal property belonging to the City and District. The Authority is responsible for operation and maintenance of this property, while the City and District are responsible for replacing or purchasing new property. The City and District are also responsible for providing whatever insurance they deem appropriate for the property owned by each or jointly.

Under the JPA Agreement, the City and District shall meet prior to the commencement of each fiscal year and jointly prepare a recommended budget for the Authority for the following fiscal year for Fire Protection Services and Fire Dispatch Services.

On or before July 1 of each fiscal year, the Board of Directors shall adopt an annual budget for maintenance and operation costs each year, which budget shall be based on the budget recommended by the City and District. Except as specifically provided in any separate supplemental services agreements, the City and District shall split the annual costs of maintenance and operations for Fire Protection Services, Fire Dispatch Services, expenses of the City pursuant to Articles IV and VII and any insurance premiums paid by City to insure itself against liability arising out of the Agreement between the City and Authority for Provision of Fire Services, and any amendments thereto. This cost split is based on a ratio derived from minimum staffing differences between City stations and District stations and roughly equates to be 64% City responsibilities and 36% District responsibility. The District pays the City an amount equal to District’s obligations for costs of maintenance and operations for each fiscal year.

The JPA Agreement was further revised effective August 8, 2008 and September 11, 2012. Previously, the City paid to the Authority any shortfall between the District’s share of costs and net revenue each year. Annual shortfall payments were accumulated including interest. As of June 30, 2017, the District shortfall totaled \$4,372,897. Through Amendments No. 4 and 5 to the JPA, the City and District revised the District shortfall repayment obligation as follows:

- a) City and District agreed to freeze the balance of the District shortfall at \$5,122,537. No interest shall accrue to City and District shall fiscally manage itself so no additional debt for operational expenses shall be incurred by District.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 7 SUMMARY OF JPA AGREEMENT (Continued):

- b) The City has determined that it will benefit by the relocation of Station 92 within the City limits, and that benefit is determined to be approximately 33% of the costs of operations and maintenance of Station 92. In consideration for the District contributing 100% of the Station 92 operation and maintenance costs (including supplemental services costs) over a 7.5 year period, City shall deem the District's shortfall obligation satisfied subject to (c) below.
- c) The 7.5 year period shall begin upon the later of Certificate of Occupancy for Station 92 or July 1, 2017. Amendment No.6 increased the period to seven years and ten months.
- d) In the event that District defaults or otherwise fails to contribute 100% of the costs of operations and maintenance of Station 92, the District shall pay an amount determined by calculating the number of years (with a 13% of the principal balance reduction each year the 100% contribution was made) divided by \$5,622,177, plus interest on that amount at the LAIF rate since June 30, 2008. No interest will be paid on the \$250,000 principal added during the fiscal year ended June 30, 2015.
- e) If at some future time the Authority is consolidated, merged or dissolved, the District shall pay to the City an amount as set forth in subsection (d) above in full at the time of consolidation, merger, or dissolution.
- f) District's obligation to reimburse City shall survive termination of the JPA.

As of June 30, 2017, Station 92 construction was complete. Accordingly, the balance due to City has been included in long term debt; Principal payments for fiscal year ended June 30, 2017 were \$749,640.

Negotiations are in process which may change the interpretations of the JPA agreement terms. The effects of change, if any, are unknown and cannot be estimated as of this financial statement date.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 8 **INTERFUND TRANSACTIONS:**

Interfund transactions are reported as loans, services provided reimbursements, or transfers. Loans are reported as Interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur 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 among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Transfers:

Interfund transfers for the 2016-2017 fiscal years were as follows:

<u>Tranfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Other Nonmajor Governmental Funds	\$ 85,931	General Fund	\$ 100,000
Capital Outlay Fund	<u>44,943</u>	General Fund	<u>\$ 30,933</u>
	<u>\$ 130,874</u>		<u>\$ 130,933</u>

The specific transfer of \$85,931 from General Fund to Special Reserve Fund for payment of accrued employee leave; the Interfund transfer of \$44,943 from the Capital Outlay Fund to the Other Nonmajor Governmental Fund for consulting services.

NOTE 9 **CONTINGENCIES:**

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; and natural disasters. The District purchases commercial insurance for general liability and management liability with coverage up to a maximum of \$3,000,000, subject to various policy limited generally ranging from \$5,000 to \$1,000,000 per occurrence.

The District entered into a written contract with Explore General, Inc. for construction of Station 93, which was completed as of June 8, 2007. After completion of the station, a controversy arose between the District and Explore General, Inc. On May 26, 2009 the parties reached a settlement agreement whereby the District would pay the remaining \$39,940 due to Explore General, Inc. This amount continues to be held in the construction retention funds until payment is authorized by the State of California Department of Industrial Relations Division of Labor Standards Enforcements.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 9 **CONTINGENCIES (Continues):**

The District has removed the New Jerusalem station (located at the common address of West Durham Ferry Road and South Koster Road) and the Linne Road station from service and placed them on the market for sale or lease. Proceeds from the property sales will be used to replenish the District's capital fund and will be available for future capital needs. Rent income from the lease of the Linne Road Stations totaled \$32,400 during the fiscal year ended June 30, 2017. The carrying value of the station as of June 30, 2017 is \$0.00.

NOTE 10 **EMPLOYEE RETIREMENT SYSTEMS:**

The District is still responsible for retirement benefit cost for retirement benefits earned by the District's employees who became employees of the State of California during their employment period with the District; however the State of California is responsible for the retirement benefit cost for any subsequent retirement benefits earned by those employees. As of June 30, 2017, the District did not have any active employees.

Plan Description, Benefits Provided and Employees Covered

The plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees; Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2015 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2015 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. Both the June 30, 2015 total pension liability and the June 30, 2016 total pension liability were based on the following actuarial methods and assumptions.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 10: DEFINED BENEFITS PENSION PLANS (Continues):

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Delivered using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely results in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11 +</u>
Global Equity	47.0%	5.25	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.5	5.13
Infrastructure and Forestland	3.0	4.5	5.09
Liquidity	2.0	(0.55)	(1.05)

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 10: DEFINED BENEFITS PENSION PLANS (Continues):

The following table shows the Plan's proportionate share of the risk pool collective net pension liability over the measurement period.

	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at : 6/30/2016 (MD)	\$ 13,537,962	\$ 10,438,903	\$ 3,099,059
Balance at : 6/30/2015 (MD)	\$ 13,634,133	\$ 9,971,416	\$ 3,662,717
Net Changes during 2015-16	\$ (96,171)	\$ 467,487	\$ (563,658)

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

The following presents the net pension liability/(assets) of the Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1 % (6.50 %)	Current Discount Rate (7.50 %)	Discount Rate + 1 % (8.50 %)
Plan's Net Pension Liability/(Asset)	\$ 5,452,431	\$ 3,662,717	\$ 2,190,112

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 10: DEFINED BENEFITS PENSION PLANS (Continues)

PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS

For the fiscal year ended June 30, 2017 and 2016, Pension Expense recognized is as follows:

	<u>2017</u>	<u>2016</u>
Total Service Costs	\$ 180,097	\$ 185,091
Interest on TPL	665,055	672,672
Changes of Benefit Terms	198	-
Recognize Changes of Assumptions	(41,801)	(44,232)
Recognize Differences between Expected and Actual Earnings	(9,421)	(9,617)
Net Plan to Plan Resource Movement	591	317
Plans Share of Employee Contribution	(67,845)	(67,096)
Projected Earnings on PPI	(515,097)	(543,941)
Recognized Differences Between Projected and Actual Plan Earnings	52,188	(46,607)
Administration Expenses	<u>4,145</u>	<u>8,105</u>
 Total Pension Expense (Income)	 <u>\$ 268,110</u>	 <u>\$ 154,692</u>

For the measurement period ended June 30, 2017 (the measurement date), the Tracy Rural Fire Protection District incurred a pension expense/ (income) of \$268,110 for the Plan (the pension expense for risk pool for the measurement period is \$550,873,982.

As of June 30, 2017, the Tracy Rural Fire Protection District reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience	\$ -	\$ 17,257
Changes of Assumptions		
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	75,241
Pension Contributions made Subsequent to Measurement Date	369,657	87,470
Changes in Employees Proportion	249,630	-
	<u>-</u>	<u>53,923</u>
 Total	 <u>\$ 619,287</u>	 <u>\$ 233,891</u>

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 10: DEFINED BENEFITS PENSION PLANS (Continues)

Amounts reported as deferred outflows and deferred outflows and inflows of resources related to pensions, will be recognized in future pension expense as follows:

<u>Measurement Period</u> <u>Ended June 30,</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2018	(51,401)
2019	(41,224)
2020	132,159
2021	96,232
Thereafter	-

NOTE 11 POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:

In addition to the pension benefits described in note 10, the District's pay –as-you-go policy with PERS provides post-retirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 20 years of service. On June 30, 2017 one retiree met these eligibility requirements. The District pays medical premiums for this eligible retiree. During the fiscal year ended June 30, 2017, expenditures of \$1,300 were recognized for post-retirement health care.

NOTE 12 BOARD OF DIRECTORS:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Timothy Smith	Chairman	December, 2016
John Muniz	Vice-Chairman	December, 2018
Tiffany Watrous	Director	December, 2016
Pete Reese	Director	December, 2016
John Vierra	Director	December, 2018
Ginger Root	Clerk of the Board	Not applicable

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2017

NOTE 13 **RELATED PARTY TRANSACTIONS:**

Under the JPA Agreement the District reimburses the City for its share of costs for these services which totaled \$5,727,376 for the current fiscal year. District is also obligated to pay the City \$4,372,897 for accumulated shortfall of annual payments and \$702,924 for accumulated leave balances earned by District employees prior to the formation of the JPA. Also, refer to note 7 regarding ongoing negotiations with City over amounts owed.

The District has incurred business services in the amount of \$32,880 with Data Consulting Services, owned and operated by Ginger Root, a non-voting officer on the Board of Directors. An additional \$2,004 was paid for services provided outside of the existing contract and for reimbursement of expenses.

NOTE 14 **SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through October 09, 2017, the date these financial statements were available for release.

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2017

	<u>Original & Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 4,690,294	\$ 5,191,294	\$ 501,000
Property Assessments	1,112,149	1,109,525	(2,624)
State Property Taxes	35,000	47,879	12,879
Licenses, Permits and Franchise Fees	30,000	25,700	(4,300)
Fee for Service	-	28,054	28,054
Miscellaneous Income	10,000	2,739	(7,261)
Interest	12,000	25,271	13,271
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 5,889,443	\$ 6,430,462	\$ 541,019
EXPENDITURES			
Fire Services	\$ 5,400,000	\$ 5,727,376	\$ (327,376)
Special Services	6,699	5,396	1,303
Attorney	50,000	40,627	9,373
Auditor	4,950	4,950	-
County Tax Administration Charges	85,000	90,556	(5,556)
County Direct Assessment and AP Charges	12,000	12,006	(6)
Business Services	32,800	32,880	(80)
Miscellaneous	3,000	18,515	(15,515)
Director's Fees	15,000	10,900	4,100
Insurance - General Liability	22,000	21,871	129
Retirement (PERS)	250,780	252,957	(2,177)
Election	33,907	20,595	13,312
Capital Outlay (Transfer)	52,312	55,057	(2,745)
Debt Service (Transfer)	100,000	30,874	69,126
Consulting Fees	35,000	3,969	31,031
	<hr/>	<hr/>	<hr/>
Total Expenditures	6,103,448	6,328,529	(225,081)
Excess (Deficiency) of Revenues over (under) Expenditures	(214,005)	101,933	315,938
Fund Balance - July 1, 2016		<hr/>	1,100,913
Fund Balance - June 30, 2017		<hr/>	<u>\$ 1,202,846</u>

TRACY RURAL FIRE PROTECTION DISTRICT
Schedules of Required Supplementary Information - Pension Plan
June 30, 2017 and 2016

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date in Relation to PERF C

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Plan's Proportion of the Net Pension Liability/(Asset)	0.73700%	0.00765%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,662,717	\$ 3,099,059
Plan's Covered-Employee Payroll	\$ -	\$ -
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	0.00%	0.00%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	0.00%	0.00%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ -	\$ -

Schedule of Plan Contributions

	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 218,980	\$ 204,694
Contributions in Relation to the Actuarially Determined Contribution	(218,980)	(204,694)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ -	\$ -
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015 as they have minimal cost impact.

Change in Assumptions: None

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Combining Balance Sheet

NonMajor Special Revenue Funds

June 30, 2017

ASSETS	Special Reserve Fund	Contingency Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash in Treasury	\$ 103,370	\$ 53,158	\$ 156,528
Interest Receivable	265	132	397
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>103,635</u>	<u>53,290</u>	<u>156,925</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Due to Other Funds	-	-	-
Compensated Absences due to City of Tracy	100,000	-	100,000
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>100,000</u>	<u>-</u>	<u>100,000</u>
 FUND BALANCES			
Assigned	3,635	53,290	56,925
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 103,635</u>	<u>\$ 53,290</u>	<u>\$ 156,925</u>

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Special Revenue Funds
For the Year Ended June 30, 2017

REVENUES	Special Reserve Fund	Contingency Fund	Total
Miscellaneous Income	\$ -	\$ 8,670	\$ 8,670
Interest	552	369	921
Total Revenues	<u>552</u>	<u>9,039</u>	<u>9,591</u>
EXPENDITURES			
Fire Protection:			
Fire Services	-	25,930	25,930
Employee Benefits	100,000	-	100,000
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(99,448)</u>	<u>(16,891)</u>	<u>(116,339)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	101,459	29,415	130,874
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>101,459</u>	<u>29,415</u>	<u>130,874</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	2,011	12,524	14,535
Fund Balances, July 1, 2016	<u>1,624</u>	<u>40,766</u>	<u>42,390</u>
Fund Balances, June 30, 2017	<u>\$ 3,635</u>	<u>\$ 53,290</u>	<u>\$ 56,925</u>



Blomberg & Griffin Accountancy Corporation
Certified Public Accountant

**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**

Members of the Board of Directors
Tracy Rural County Fire Protection District
Tracy, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Tracy Rural County Fire Protection District ("the District"), as of and for the year ended June 30, 2017, which collectively comprise Tracy Rural County Fire Protection District's basic financial statements and have issued our report thereon dated August 14, 2017. We conducted our audit in accordance with auditing standards generally accepted standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 material misstatement of the District's financial statements will not be prevented, or detected and corrected on timely basis.

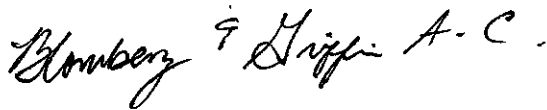
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Board of the Tracy Rural County Fire Protection District-Page 2

Compliance and other matters

As part of obtaining reasonable assurance whether the District's financial statements are free of 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*.

This report is intended for the information of the Board of Directors, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Blomberg & Griffin A.C." with a period at the end.

Blomberg & Griffin A.C.
Stockton, CA
August 14, 2017

TRACY RURAL COUNTY FIRE PROTECTION DISTRICT

Summary of Audit Results and Findings

For the Year Ended June 30, 2017

SECTION I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | | |
|---|-----|-----------------------------|
| 1) Material weakness (es) identified? | Yes | <input type="checkbox"/> No |
| 2) Significant deficiency (ies) identified that are not considered to be material weakness? | Yes | <input type="checkbox"/> No |
| 3) Non-compliance material to financial statements noted? | Yes | <input type="checkbox"/> No |

SECTION II - Financial Statement Findings

There are no current year findings.