

**LAKE COUNTY FIRE
PROTECTION DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2018**

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LAKE COUNTY FIRE PROTECTION DISTRICT
Annual Financial Report
For the Year Ended June 30, 2018

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INTRODUCTORY SECTION

- **List of Officials**

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LAKE COUNTY FIRE PROTECTION DISTRICT
List of Officials
For the Year Ended June 30, 2018

Board of Directors

Mike Dean	Chairperson
Diane Watson	Vice Chairperson
John Spriet	Director
Dennis Raleigh	Director
Thomas Meisenbach	Director
Richard Moore	Director
Jacqueline Snyder	Director

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Basic Financial Statements**
- **Supplementary Information**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lake County Fire Protection District
Clearlake, California

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of Lake County Fire Protection District, California (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 the modified cash basis of accounting described in Note 1C; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

To the Board of Directors
Lake County Fire Protection District
Clearlake, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of the District as of June 30, 2018, and the respective changes in modified cash basis financial position, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1C.

Basis of Accounting

We draw attention to Note 1C of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1O to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Report on Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the District's basic financial statements. The District Pension Plan - Schedule of Proportionate Share of the Net Pension Liability, District Pension Plan - Schedule of Contributions, Notes to District Pension Plan, District OPEB Plan - Schedule of Changes in the Net OPEB Liability and Related Ratios, District OPEB Plan - Schedule of Contributions, Notes to District OPEB Plan and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole, on the basis of accounting described in Note 1C.

The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has 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.

To the Board of Directors
Lake County Fire Protection District
Clearlake, California

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2019, 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 solely 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 the effectiveness of the District's 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.

A handwritten signature in cursive script, appearing to read "Smith & Newell", is written over the printed name of the firm.

Smith & Newell CPAs
Yuba City, California
March 22, 2019

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Basic Financial Statements

- **Government-Wide Financial Statements**

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LAKE COUNTY FIRE PROTECTION DISTRICT
Modified Cash Basis Statement of Net Position
June 30, 2018

	Total Governmental Activities
ASSETS	
Cash and investments	\$ 2,878,204
Capital assets:	
Non-depreciable	275,661
Depreciable, net	1,702,298
Total capital assets	1,977,959
Total Assets	4,856,163
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension adjustments	1,081,773
Deferred OPEB adjustments	49,257
Total Deferred Outflows of Resources	1,131,030
LIABILITIES	
Long-term liabilities:	
Due within one year	173,600
Due in more than one year	578,734
Net pension liability	3,279,001
Net OPEB liability	1,209,758
Total Liabilities	5,241,093
DEFERRED INFLOWS OF RESOURCES	
Deferred pension adjustments	78,959
Deferred OPEB adjustments	45,831
Total Deferred Inflows of Resources	124,790
NET POSITION	
Net investment in capital assets	1,762,928
Restricted for capital projects	79,227
Unrestricted	(1,220,845)
Total Net Position	\$ 621,310

The notes to the basic financial statements are an integral part of this statement.

LAKE COUNTY FIRE PROTECTION DISTRICT
Modified Cash Basis Statement of Activities
For the Year Ended June 30, 2018

<u>Functions/Programs:</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:				
Public protection	\$ 5,171,621	\$ 4,226,584	\$ 574,614	\$ -
Interest on long-term debt	7,027	-	-	-
	5,178,648	4,226,584	574,614	-
Total Governmental Activities	5,178,648	4,226,584	574,614	-
Total	\$ 5,178,648	\$ 4,226,584	\$ 574,614	\$ -
General revenues:				
Taxes:				
Property taxes				1,056,043
Interest and investment earnings				21,020
Miscellaneous				60,251
				1,137,314
				Total General Revenues
				759,864
				Change in Net Position
				266,739
				Net Position - Beginning
				Cumulative effect of a change in accounting principle
				(405,293)
				Net Position - Beginning, Restated
				(138,554)
				Net Position - Ending
				\$ 621,310

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements

- **Fund Financial Statements**

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LAKE COUNTY FIRE PROTECTION DISTRICT
Modified Cash Basis Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	Mitigation Fees	Totals
ASSETS			
Cash and investments	\$ 2,798,977	\$ 79,227	\$ 2,878,204
Total Assets	\$ 2,798,977	\$ 79,227	\$ 2,878,204
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
FUND BALANCES			
Restricted	-	79,227	79,227
Assigned	1,472,683	-	1,472,683
Unassigned	1,326,294	-	1,326,294
Total Fund Balances	2,798,977	79,227	2,878,204
Total Liabilities and Fund Balances	\$ 2,798,977	\$ 79,227	\$ 2,878,204

The notes to the basic financial statements are an integral part of this statement.

LAKE COUNTY FIRE PROTECTION DISTRICT
Reconciliation of the Governmental Funds Modified Cash Basis
Balance Sheet to the Government-Wide Modified Cash Basis
Statement of Net Position - Governmental Activities
June 30, 2018

Total Fund Balances - Total Governmental Funds	\$ 2,878,204
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds balance sheet.	1,977,959
Deferred outflows of resources related to pension and OPEB are not reported in the governmental funds.	1,131,030
Deferred inflows of resources related to pension and OPEB are not reported in the governmental funds.	(124,790)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Capital leases	(215,030)
Compensated absences	(537,304)
Net pension liability	(3,279,001)
Net OPEB liability	(1,209,758)
Net Position of Governmental Activities	<u>\$ 621,310</u>

The notes to the basic financial statements are an integral part of this statement.

LAKE COUNTY FIRE PROTECTION DISTRICT
Modified Cash Basis Statement of Revenues,
Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Mitigation Fees	Totals
REVENUES			
Taxes	\$ 1,056,043	\$ -	\$ 1,056,043
Licenses and permits	15,884	-	15,884
Fines and forfeitures	43,267	-	43,267
Use of money and property	20,381	639	21,020
Intergovernmental revenues	574,614	-	574,614
Charges for services	4,100,168	67,265	4,167,433
Other revenues	60,251	-	60,251
Total Revenues	5,870,608	67,904	5,938,512
EXPENDITURES			
Current public protection:			
Salaries and benefits	3,234,621	-	3,234,621
Services and supplies	1,444,463	-	1,444,463
Debt service:			
Principal	42,224	-	42,224
Interest and other charges	7,027	-	7,027
Capital outlay	263,713	-	263,713
Total Expenditures	4,992,048	-	4,992,048
Excess of Revenues Over (Under) Expenditures	878,560	67,904	946,464
OTHER FINANCING SOURCES (USES)			
Transfers in	30,000	-	30,000
Transfers out	-	(30,000)	(30,000)
Total Other Financing Sources (Uses)	30,000	(30,000)	-
Net Change in Fund Balances	908,560	37,904	946,464
Fund Balances - Beginning	1,890,417	41,323	1,931,740
Fund Balances - Ending	\$ 2,798,977	\$ 79,227	\$ 2,878,204

The notes to the basic financial statements are an integral part of this statement.

LAKE COUNTY FIRE PROTECTION DISTRICT
Reconciliation of the Modified Cash Basis Statement of
Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Government-Wide Modified Cash
Basis Statement of Activities - Governmental Activities
For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 946,464
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for capital outlay	263,713
Less current year depreciation	(200,863)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the net cost of the capital assets disposed. There were no significant proceeds from the sale of capital assets.	
	(2,800)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal retirements	42,224
Certain changes in deferred outflows and deferred inflows of resources reported in the statement of activities related to long-term liabilities and are not reported in the governmental funds.	
Change in deferred outflows of resources related to pension	62,029
Change in deferred inflows of resources related to pension	144,085
Change in deferred outflows of resources related to OPEB	42,057
Change in deferred inflows of resources related to OPEB	(45,831)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Change in compensated absences	(13,564)
Change in net pension liability	(399,229)
Change in net OPEB liability	(78,421)
Change in Net Position of Governmental Activities	\$ 759,864

The notes to the basic financial statements are an integral part of this statement.

Basic Financial Statements

- **Notes to Modified Cash Basis Financial Statements**

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LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lakeshore Fire Protection District was formed pursuant to the California Health and Safety Code. On December 14, 1942, after the election of December 8, 1942, the County Board of Supervisors passed the formation resolution. The Lower Lake Fire Protection District was formed pursuant to the California Health and Safety Code. The Board of Supervisors passed the formation resolution following the February 24, 1942, election. The resolution ordering the consolidation of the Lakeshore Fire Protection District and the Lower Lake Fire Protection District to form the Lake County Fire Protection District was adopted, without an election, by the Board of Directors of the Lakeshore Fire Protection District and the Lower Lake Fire Protection District on December 19, 2000. The Local Agency Formation Commission of Lake County certified the completion of the consolidation on July 18, 2001. The new District provides fire protection services to Clearlake and Lower Lake.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

Joint Agencies

The District is a participant in Fire District's Association of California - Fire Agencies Self Insurance System (FDAC-FASIS), the purpose of which is to provide workers' compensation benefits to each member agency including claims administration and program administration. FDAC-FASIS is composed of approximately 200 members and is governed by a board of directors appointed by the members. Complete financial information can be obtained from the Association office at 700 R Street, Suite 200, Sacramento, CA 95811. The District is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all of the activities of the District. These statements include the financial activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. These statements report the governmental activities of the District, which are normally supported by taxes and intergovernmental revenues. The District had no business-type activities at June 30, 2018.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

Fund Financial Statements

Fund financial statements of the District are organized into two funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. The funds of the District are organized into the governmental category. The emphasis is placed on major funds within the governmental category.

The District reports the following major governmental funds:

- The General fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District.
- The Mitigation Fees fund is a special revenue fund used to account for revenues and expenditures related to mitigation fees. Funding comes primarily from mitigation fees collected and interest earnings.

C. Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America (GAAP) in that certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Such variances are presumed to be material. However similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of equipment and related depreciation, and long-term debt.

Governmental funds are reported using the current financial resources measurement focus, within the limitations of the modified cash basis of accounting. In the governmental funds general capital asset acquisitions are reported as expenditures and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported in the governmental activities column in the government-wide statement of net position.

E. Cash and Investments

The District pools cash and investments, other than cash on hand, with the County of Lake. The Lake County Treasury is an external investment pool for the District and the District is considered an involuntary participant. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Interest payments, accrued interest, accreted discounts, amortized premiums, and realized capital gains and losses, net of administrative fees, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants.

F. Inventory

Inventories are recorded as expenditures at the time inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

G. Capital Assets

Capital assets, which include property, plant and equipment, are defined by the District as assets with a cost of more than \$5,000. Capital assets are recorded at historical or estimated historical cost if actual historical cost is unavailable. Contributed capital assets are recorded at their acquisition value at the date of donation.

Capital assets used in operations are depreciated or amortized using the straight-line method over the asset's estimated useful life in the government-wide financial statements. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Structures and Improvements	5-50 years
Equipment	3-40 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Tax

Lake County is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County of Lake up to 1 percent of the full cash value of taxable property, plus other increases approved by the voter and distributed in accordance with statutory formulas.

The valuation/lien date for all taxes is January 1. Secured property tax is due in two installments, the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Unsecured property taxes are due on March 1, and become delinquent, if unpaid on August 31.

The County uses the alternative method of property tax apportionment known as the “Teeter Plan”. Under this method of property tax apportionment, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

I. Interfund Transactions

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide presentation.

J. Compensated Absences

The District has adopted the requirements for recording compensated absences as outlined in GASB Statement No. 16. The District’s policy regarding compensated absences is to permit employees to accumulate earned but unused vacation and sick leave. In the government-wide financial statements the accrued compensated absences is recorded as an expense and related liability, with the current portion estimated based on historical trends. In the governmental fund financial statements, the expenditures and liabilities related to those obligations are recognized only when they mature. The District includes its share of medicare taxes payable on behalf of the employees in the accrual for compensated absences.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

L. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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 and so will not be recognized as an outflow of resources (expense) until then. The District has two items that qualify for reporting in this category. These items relate to the outflows from changes in the net pension liability and net OPEB liability and are reportable on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report 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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. These items relate to the inflows from changes in the net pension liability and net OPEB liability and are reportable on the Statement of Net Position.

N. Estimates

The preparation of basic financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Implementation of Governmental Accounting Standards Board Statements (GASB)

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

Statement No. 81, Irrevocable Split-Interest Agreements. This statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Statement No. 85, Omnibus 2017. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

Statement No. 86, Certain Debt Extinguishment Issues. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Restatement of Net Position

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports these changes as restatements of beginning net position. During the current year a prior period adjustment was made to reflect the prior period costs related to implementing the net OPEB liability as required by GASB Statement No. 75.

The impact of the restatement on the net position on the government-wide financial statements as previously reported is presented below:

	Governmental Activities
Net Position, June 30, 2017, as previously reported	\$ 266,739
Adjustment associated with:	
Net OPEB Liability Adjustment	(405,293)
Total Adjustments	(405,293)
Net Position, July 1, 2017, as restated	(\$ 138,554)

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2018, the District's cash and investments consisted of the following:

Cash:		
Cash on hand	\$	200
Total Cash		200
Investments:		
Lake County Treasurer's Pool		2,878,004
Total Investments		2,878,004
Total Cash and Investments	\$	2,878,204

B. Cash

At year end, the District had cash on hand of \$200.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District complies with the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The entire amount of the District's deposits were insured by the Federal Deposit Insurance Corporation (FDIC).

C. Investments

The District does not have a formal investment policy. At June 30, 2018, all investments of the District were in the County of Lake investment pool. Under the provisions of the County's investment policy and the California Government Code, the County may invest or deposit in the following:

- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Mutual Funds
- Medium Term Corporate Notes
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Securities of the Federal Government or its Agencies
- State of California Obligations
- Local Agency Bonds
- U.S. Treasury Obligations
- Obligations of California Local Agencies

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Fair Value of Investments - The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The District's position in external investment pools is in itself regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the District's investment in external investment pools are not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2018, the District had the following recurring fair value measurements:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
None	\$ -	\$ -	\$ -	\$ -
Total Investments Measured at Fair Value	-	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in External Investment Pool				
Lake County Treasurer's Pool	<u>2,878,004</u>			
Total Investments	<u>\$ 2,878,004</u>			

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. To limit exposure to fair value losses from increases in interest rates, the County's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the County to meet all projected obligations.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy sets specific parameters by type of investment to be met at the time of purchase. As of June 30, 2018, the District's investments were all in with the County investment pool which is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect investments in securities through the use of mutual funds or government investment pools.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law and the investment policy of the County contain limitations on the amount that can be invested in any one issuer. All investments of the District were in the County investment pool which contains a diversification of investments.

D. Investments in External Pools

Lake County Pooled Investment Fund - The Lake County Pooled Investment Fund is a pooled investment fund program governed by the County which monitors and reviews the management of public funds maintained in the investment pool in accordance with the County investment policy and the California Government Code. The Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the Board of Supervisors every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value. Investments in the Lake County Pooled Investment fund are regarded as highly liquid as deposits and withdrawals can be made at any time without penalty. The Pool does not impose a maximum investment limit. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Lake's financial statements may be obtained by contacting the County of Lake Auditor-Controller's office at 255 North Forbes Street, Lakeport, CA 95453.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital Assets, Not Being Depreciated:				
Land	\$ 162,557	\$ -	\$ -	\$ 162,557
Construction in progress	<u>81,085</u>	<u>32,019</u>	<u>-</u>	<u>113,104</u>
Total Capital Assets, Not Being Depreciated	<u>243,642</u>	<u>32,019</u>	<u>-</u>	<u>275,661</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	1,403,331	-	-	1,403,331
Equipment	<u>2,726,747</u>	<u>231,694</u>	<u>(22,048)</u>	<u>2,936,393</u>
Total Capital Assets, Being Depreciated	<u>4,130,078</u>	<u>231,694</u>	<u>(22,048)</u>	<u>4,339,724</u>
Less Accumulated Depreciation For:				
Buildings and improvements	(576,816)	(31,561)	-	(608,377)
Equipment	<u>(1,878,995)</u>	<u>(169,302)</u>	<u>19,248</u>	<u>(2,029,049)</u>
Total Accumulated Depreciation	<u>(2,455,811)</u>	<u>(200,863)</u>	<u>19,248</u>	<u>(2,637,426)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,674,267</u>	<u>30,831</u>	<u>(2,800)</u>	<u>1,702,298</u>
Total Capital Assets, Net	<u>\$ 1,917,909</u>	<u>\$ 62,850</u>	<u>(\$ 2,800)</u>	<u>\$ 1,977,959</u>

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 4: CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation was charged to governmental activities as follows:

Public Protection	\$ 200,863
Total Depreciation Expense	<u>\$ 200,863</u>

NOTE 5: INTERFUND TRANSACTIONS

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, and re-allocations of special revenues. The following are the interfund transfer balances as of June 30, 2018.

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 30,000	\$ -
Mitigation Fees	<u>-</u>	<u>30,000</u>
Total	<u>\$ 30,000</u>	<u>\$ 30,000</u>

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

<u>Type of Indebtedness</u>	<u>Balance</u> July 1, 2017	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> June 30, 2018	<u>Amounts</u> Due Within One Year
Capital Leases	\$ 257,254	\$ -	(\$ 42,224)	\$ 215,030	\$ 43,293
Compensated Absences	<u>523,740</u>	<u>378,405</u>	<u>(364,841)</u>	<u>537,304</u>	<u>130,307</u>
Total	<u>\$ 780,994</u>	<u>\$ 378,405</u>	<u>(\$ 407,065)</u>	<u>\$ 752,334</u>	<u>\$ 173,600</u>

NOTE 7: LEASES

Operating Leases

Rental expenses incurred under operating leases are not considered material.

Capital Leases

The District has entered into certain capital lease agreements under which the related equipment will become the property of the District when all terms of the lease agreements are met.

	<u>Stated</u> <u>Interest Rate</u>	<u>Present Value</u> <u>of Remaining</u> <u>Payments at</u> <u>June 30, 2018</u>
Governmental activities	1.85 - 2.69%	\$ 215,030
Total		<u>\$ 215,030</u>

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 7: LEASES (CONTINUED)

Capital Leases (Continued)

Equipment and related accumulated depreciation under capital leases are as follows:

	Governmental Activities
Equipment	\$ 429,568
Less: accumulated depreciation	(146,619)
Net Value	\$ 282,949

As of June 30, 2018, capital lease annual amortization is as follows:

Year Ended June 30	Governmental Activities
2019	\$ 49,005
2020	37,168
2021	37,168
2022	37,168
2023	37,168
2024	37,172
Total Requirements	234,849
Less Interest	(19,819)
Present Value of Remaining Payments	\$ 215,030

NOTE 8: NET POSITION

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These principally include restrictions for capital projects, debt service requirements and other special revenue fund purposes.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 9: FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2018, fund balance for governmental funds is made up of the following:

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** - amounts that can only be used for the specific purposes determined by formal action of the District’s highest level of decision-making authority. The Board of Directors is the highest level of decision making authority for the District that can, by adoption of an ordinance commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** - amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** - the residual classification for the District’s General fund that includes all amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The fund balances for all governmental funds as of June 30, 2018, were distributed as follows:

	<u>General</u>	<u>Mitigation Fees</u>	<u>Total</u>
Restricted for:			
Capital projects	\$ -	\$ 79,227	\$ 79,227
Subtotal	<u>-</u>	<u>79,227</u>	<u>79,227</u>
Assigned to:			
General	3,926	-	3,926
Equipment	209,250	-	209,250
Building	333,525	-	333,525
Medical services and equipment	925,982	-	925,982
Subtotal	<u>1,472,683</u>	<u>-</u>	<u>1,472,683</u>
Unassigned	<u>1,326,294</u>	<u>-</u>	<u>1,326,294</u>
Total	<u>\$ 2,798,977</u>	<u>\$ 79,227</u>	<u>\$ 2,878,204</u>

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 9: FUND BALANCES (CONTINUED)

Fund Balance Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance), a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted fund balance are available, it is considered that restricted fund balance is depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The Board of Directors adopted the Lake County Fire Protection District's Fund Balance Policy for Financial Statement Reporting in 2012. The policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures.

NOTE 10: PENSION PLAN

A. General Information about the Pension Plan

All qualified permanent and probationary employees are eligible to participate in the District's Safety and Miscellaneous (all other) Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Effective January 1, 2013, the District added retirement tiers for both the Miscellaneous and Safety Benefit Tiers for new employees as required under the Public Employee Pension Reform Act (PEPRA). Classic employees are generally defined as employees who have been a member of any public retirement system who have had less than a six month break in service. Applicable new hires to the District defined as classic employees as determined by PERS will be subject to the appropriate non-PEPRA benefit tier (i.e. Safety or Miscellaneous). New non-classic employees hired on or after January 1, 2013 will be subject to new, lower pension formulas, caps on pensionable income levels and new definitions of pensionable income. In addition, new non-classic employees will be required to contribute half of the total normal cost of the pension benefit unless impaired by an existing Memorandum of Understanding. The cumulative effect of these PEPRA changes will ultimately reduce the District's retirement costs. As of the valuation date there were no Miscellaneous PEPRA employees.

Summary of Rate Tiers and Eligible Participants

Open for New Enrollment

Miscellaneous PEPRA	Miscellaneous members hired on or after January 1, 2013
Safety PEPRA	Safety members hired on or after January 1, 2013

Closed to New Enrollment

Miscellaneous	Miscellaneous members hired before January 1, 2013
Safety	Safety members hired before January 1, 2013

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 10: PENSION PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Retirement benefits are paid monthly for life. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

Each Rate Tier's specific provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous	3.0% @ 60	60	3.0%
Safety	3.0% @ 55	55	3.0%
Safety PEPRA	2.7% @ 57	57	2.7%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous	14.003%	8.000%	8.000%
Safety	19.792%	9.000%	9.000%
Safety PEPRA	12.951%	12.951%	0.000%

For the year ended June 30, 2018, the contributions recognized as part of pension expense were as follows:

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 20,122	\$ 5,832
Safety	368,942	101,702

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 10: PENSION PLAN (CONTINUED)

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

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. 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 employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	Proportion <u>June 30, 2016</u>	Proportion <u>June 30, 2017</u>	Change - <u>Increase (Decrease)</u>
Miscellaneous	.00159%	.00161%	.00002%
Safety	.03169%	.03145%	(.00023%)

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 159,532
Safety	<u>3,119,469</u>
Total Net Pension Liability	<u><u>\$ 3,279,001</u></u>

For the year ended June 30, 2018, the District recognized pension expense of \$648,952. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 455,837	\$ -
Changes of assumptions	364,112	(62,743)
Difference between expected and actual experience	32,942	(16,216)
Differences between projected and actual earnings on pension plan investments	107,946	-
Difference between District contributions and proportionate share of contributions	67,005	-
Adjustment due to differences in proportions	<u>53,931</u>	<u>-</u>
Total	<u><u>\$ 1,081,773</u></u>	<u><u>(\$ 78,959)</u></u>

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 10: PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

\$455,837 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended <u>June 30</u>	
2019	\$ 107,070
2020	321,138
2021	215,587
2022	(96,818)
Thereafter	<u>-</u>
Total	<u>\$ 546,977</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by entry-age and service
Mortality Rate Table ¹	Derived 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

Other significant actuarial assumptions used in the June 30, 2016, valuations were based on the results of the actuarial experiences study for the period from 1997 to 2011.

Change of Assumptions

In fiscal year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption charge.

¹The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB, for more details on this table, please refer to the 2014 experience study report.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 10: PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 result in a discount rate that would be different from the actuarially assumed discount rate. The test revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 10: PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

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

The following presents the District's proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate for the Plan, 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-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Miscellaneous	\$ 241,264	\$ 159,532	\$ 91,840
Safety	4,670,029	3,119,469	1,851,964

Pension Plan Fiduciary Net Position

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

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information about the OPEB Plan

Plan Description

The District provides retiree medical, dental, and vision plan coverage for eligible, qualifying retirees until eligibility for coverage under Medicare.

Safety employees hired prior to July 1, 2016 who retire with the District at age 55 or older with 20 years of service are eligible for medical, dental and vision plan coverage until age 65. Coverage is available (at the retiree's expense) for his or her spouse up to the retiree's age 65.

Safety employees hired prior to July 1, 2016 who do not meet the eligibility requirements above, Miscellaneous employees, employees hired after June 30, 2016 and surviving spouses of deceased retirees are not eligible for continuation of healthcare coverage or any subsidy toward healthcare coverage from the District in retirement, other than as required by COBRA.

For qualifying retirees eligible for continuation of health coverage, the District pays 100 percent of the medical, dental and vision premiums for the retiree only (single coverage) until the retiree reaches age 65.

**LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018**

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

A. General Information about the OPEB Plan (Continued)

Employees Covered By Benefit Terms

At June 30, 2018, the following employees were covered by the benefits terms:

Inactive employees or beneficiaries currently receiving benefits	2
Active employees	<u>22</u>
Total employees	<u><u>24</u></u>

B. Net OPEB Liability

The District's net OPEB liability of \$1,209,758, was measured as of June 30, 2017 and was determined by the actuarial valuation as of June 30, 2016.

Actuarial Assumptions

The net OPEB liability in the June 30, 2016 actuarial was determined using the following actuarial assumptions and other inputs, 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
Asset Valuation Method	Market value of assets (\$0 as of measurement date)
Discount Rates	3.13 percent as of June 30, 2017 2.68 percent as of June 30, 2016
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary Increase	3.25 percent per year, since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years.
Assumed Wage Inflation	3.0 percent per year; a component of assumed salary increases
General Inflation Rate	2.75 percent per year
Mortality Improvement	MacLeod Watts Scale 2014 applied generationally from 2008.
Healthcare cost trend rates	7.5 percent for 2018, decreasing .5 percent per year to an ultimate rate of 4.5 percent for 2024 and later years.

Demographic actuarial assumptions used in this valuation are 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, then projected as described below.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

C. Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position (i.e. Fair value of the Plan assets), and the net OPEB liability during the measurement period ending on June 30, 2017 for the District's proportionate share.

	Increases (Decreases)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 1,131,337	\$ -	\$ 1,131,337
Changes for the year:			
Service cost	101,721	-	101,721
Interest cost	32,949	-	32,949
Change in assumptions	(49,049)	-	(49,049)
Contributions - employer	-	7,200	(7,200)
Benefit payments	(7,200)	(7,200)	-
Net Changes	78,421	-	78,421
Balances at June 30, 2018	<u>\$ 1,209,758</u>	<u>\$ -</u>	<u>\$ 1,209,758</u>

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 or 1-percentage point higher than the current discount rate:

	1% Decrease 2.13%	Discount Rate 3.13%	1% Increase 4.13%
Net OPEB liability	\$ 1,320,931	\$ 1,209,758	\$ 1,106,585

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 or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease 7.0%	Current Healthcare Cost Rate 8.0%	1% Increase 9.0%
Net OPEB liability	\$ 1,001,199	\$ 1,209,758	\$ 1,469,765

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

D. 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 \$131,452. 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
Changes of assumptions	\$ -	(\$ 45,831)
Contributions made subsequent to the measurement date	49,257	-
Total	\$ 49,257	(\$ 45,831)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2019	(\$ 3,218)
2020	(3,218)
2021	(3,218)
2022	(3,218)
2023	(3,218)
Thereafter	(29,741)

NOTE 12: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined together with other fire districts in the state to participate in Fire District's Association of California - Fire Association Self Insurance System. This joint venture is a public entity risk pool which serves as a common risk management and insurance program for workers compensation coverage for member districts. The District pays an annual premium to the joint venture for its insurance coverage. The agreement with the joint venture provides that they will be self-sustaining through member premiums and will reinsure through commercial companies for excess coverage.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13: OTHER INFORMATION

A. Commitments and Contingencies

There are potential claims and legal actions pending against the District for which no provisions have been made in the financial statements. In the opinion of the District management and legal counsel, liabilities arising from these claims and legal actions, if any, either will not be material or cannot be estimated at this time.

LAKE COUNTY FIRE PROTECTION DISTRICT
Notes to Modified Cash Basis Financial Statements
For the Year Ended June 30, 2018

NOTE 13: OTHER INFORMATION (CONTINUED)

B. Subsequent Events

Management has evaluated events subsequent to June 30, 2018 through March 22, 2019, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**Supplementary Information
(Unaudited)**

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LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
District Pension Plan
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2018
Last 10 Years*

Measurement Date	2013/14	2014/15	2015/16	2016/17
Miscellaneous				
Proportion of the net pension liability	0.00192%	0.00170%	0.00159%	0.00184%
Proportionate share of the net pension liability	\$ 119,169	\$ 119,215	\$ 137,728	\$ 159,532
Covered payroll	86,637	113,997	65,120	73,500
Proportionate share of the net pension liability as a percentage of covered payroll	137.55%	104.58%	211.50%	217.05%
Plan fiduciary net position as a percentage of the total pension liability	70.76%	72.18%	70.20%	73.15%
Safety				
Proportion of the net pension liability	0.03570%	0.03190%	0.03169%	0.03605%
Proportionate share of the net pension liability	\$ 2,221,349	\$ 2,189,438	\$ 2,742,044	\$ 3,119,469
Covered payroll	1,172,873	1,196,639	1,222,413	1,260,711
Proportionate share of the net pension liability as a percentage of covered payroll	189.39%	182.97%	224.31%	247.44%
Plan fiduciary net position as a percentage of the total pension liability	75.66%	76.70%	72.66%	71.85%

* The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only four years are shown.

LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
District Pension Plan
Schedule of Contributions
For the Year Ended June 30, 2018
Last 10 Years*

Fiscal Year	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
Miscellaneous				
Contractually required contribution (actuarially determined)	\$ 31,495	\$ 8,432	\$ 10,262	\$ 21,047
Contributions in relation to the actuarially determined contributions	<u>(31,495)</u>	<u>(17,612)</u>	<u>(20,122)</u>	<u>(21,047)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (9,180)</u>	<u>\$ (9,860)</u>	<u>\$ -</u>
Covered payroll	\$ 113,997	\$ 65,120	\$ 73,500	\$ 72,900
Contributions as a percentage of covered payroll	27.63%	27.05%	27.38%	28.87%
Safety				
Contractually required contribution (actuarially determined)	\$ 333,401	\$ 212,110	\$ 228,019	\$ 434,790
Contributions in relation to the actuarially determined contributions	<u>(333,401)</u>	<u>(336,753)</u>	<u>(368,942)</u>	<u>(434,790)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (124,643)</u>	<u>\$ (140,923)</u>	<u>\$ -</u>
Covered payroll	\$ 1,196,639	\$ 1,222,413	\$ 1,260,711	\$ 1,453,933
Contributions as a percentage of covered payroll	27.86%	27.55%	29.26%	29.90%

* The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only four years are shown.

LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
District Pension Plan
Notes to District Pension Plan
For the Year Ended June 30, 2018

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Change of assumptions: In 2017-18, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016-17, there were no changes. In 2015-16, amounts reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense).

NOTE 2: SCHEDULE OF CONTRIBUTIONS

Methods and assumptions used to determine the contribution rates were as follows:

Valuation Date	June 30, 2015
Actuarial cost method	Entry-Age Normal
Amortization method/period	For details, see June 30, 2015 Funding Valuation Report
Asset valuation method	Market value of assets
Inflation	2.75 percent compounded annually
Salary increases	Varies by entry-age and service
Payroll growth	3.00 percent compounded annually
Investment rate of return	7.50 percent, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

LAKE COUNTY FIRE PROTECTION DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2018
Last 10 Years*

Measurement Date	2016/17
Total OPEB Liability	
Service Cost	\$ 101,721
Interest	32,949
Changes of assumption	(49,049)
Benefit payments	<u>(7,200)</u>
Net Change in Total OPEB Liability	78,421
Total OPEB Liability - Beginning	<u>1,131,337</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 1,209,758</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 7,200
Benefit payments	<u>(7,200)</u>
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>
Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 1,209,758</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered payroll	\$ 1,319,307
Net OPEB liability as a percentage of covered payroll	91.70%

* The District implemented GASB 75 for the fiscal year June 30, 2018, therefore only one year is shown.

LAKE COUNTY FIRE PROTECTION DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Contributions
For the Year Ended June 30, 2018
Last 10 Years*

Fiscal Year	<u>2017/18</u>
Actuarially determined contributions	\$ 143,274
Contributions in relation to the actuarially determined contribution	<u>49,257</u>
Contribution deficiency (excess)	<u><u>\$ 94,017</u></u>
Covered payroll	\$ 1,524,566
Contributions as a percentage of covered payroll	3.23%

* The District implemented GASB 75 for the fiscal year June 30, 2018, therefore only one year is shown.

LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
District OPEB Plan
Notes to District OPEB Plan
For the Year Ended June 30, 2018

NOTE 1: SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Changes of Assumptions

The discount rate was changed from 2.68 percent as of June 30, 2016 to 3.13 percent as of June 30, 2017, based on the published change in return for the applicable municipal bond index.

NOTE 2: SCHEDULE OF CONTRIBUTIONS

The Actuarially Determined Contribution (ADC) for the District's fiscal year end June 30, 2018, was determined from the results of the June 30, 2016 valuation using a 4.0 percent discount rate.

LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 973,500	\$ 973,500	\$ 1,056,043	\$ 82,543
Licenses and permits	9,000	9,000	15,884	6,884
Fines and forfeitures	30,000	30,000	43,267	13,267
Use of money and property	5,000	5,000	20,381	15,381
Intergovernmental revenues	212,000	212,000	574,614	362,614
Charges for services	2,400,000	3,229,282	4,100,168	870,886
Other revenues	30,000	30,000	60,251	30,251
Total Revenues	3,659,500	4,488,782	5,870,608	1,381,826
EXPENDITURES				
Current public protection:				
Salaries and benefits	3,539,541	3,855,598	3,234,621	620,977
Services and supplies	880,400	1,681,768	1,444,463	237,305
Debt service	49,500	49,500	49,251	249
Capital outlay	111,903	307,531	263,713	43,818
Total Expenditures	4,581,344	5,894,397	4,992,048	902,349
Excess of Revenues Over (Under) Expenditures	(921,844)	(1,405,615)	878,560	2,284,175
OTHER FINANCING SOURCES (USES)				
Transfers in	30,000	30,000	30,000	-
Total Other Financing Sources (Uses)	30,000	30,000	30,000	-
Net Change in Fund Balances	(891,844)	(1,375,615)	908,560	2,284,175
Fund Balances - Beginning	1,890,417	1,890,417	1,890,417	-
Fund Balances - Ending	\$ 998,573	\$ 514,802	\$ 2,798,977	\$ 2,284,175

The Lake County Fire Protection District budgets for debt service principal and interest expenditures as one item. For purposes of the budgetary comparison schedule, the debt service principal and interest expenditures have been combined.

LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
Budgetary Comparison Schedule
Mitigation Fees - Major Special Revenue Fund
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ 200	\$ 200	\$ 639	\$ 439
Charges for services	29,800	29,800	67,265	37,465
Total Revenues	<u>30,000</u>	<u>30,000</u>	<u>67,904</u>	<u>37,904</u>
EXPENDITURES				
Current public protection	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>30,000</u>	<u>30,000</u>	<u>67,904</u>	<u>37,904</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(30,000)	(30,000)	(30,000)	-
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Net Change in Fund Balances	-	-	37,904	37,904
Fund Balances - Beginning	<u>41,323</u>	<u>41,323</u>	<u>41,323</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 41,323</u>	<u>\$ 41,323</u>	<u>\$ 79,227</u>	<u>\$ 37,904</u>

LAKE COUNTY FIRE PROTECTION DISTRICT
Supplementary Information
Note to Budgetary Comparison Schedules
For the Year Ended June 30, 2018

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

Formal budgetary integration is employed as a management control device during the year. The District presents a comparison of annual budgets to actual results for the General fund and major special revenue fund. The amounts reported on the budgetary basis are generally on the basis of accounting described in Note 1C.

The following procedures are performed by the District in establishing the budgetary data reflected in the financial statements:

- (1) The Fire Chief submits to the Board of Directors a recommended budget for the fiscal year commencing the following July 1. The budget includes recommended expenditures and the means of financing them.
- (2) The Board of Directors reviews the recommended budget at regularly scheduled meetings, which are open to the public. The Board also conducts a public hearing on the recommended budget to obtain comments from interested persons.
- (3) Prior to July 1, the budget is adopted through the passage of a resolution.
- (4) From the effective date of the budget, the amounts stated therein, as recommended expenditures become appropriations to the District. The Board may amend the budget by motion during the fiscal year.

The District does not use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

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OTHER REPORT

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**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Lake County Fire Protection District
Clearlake, 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 Government Auditing Standards issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and each major fund of the Lake County Fire Protection District, California (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 March 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

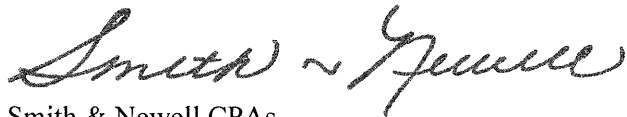
To the Board of Directors
Lake County Fire Protection District
Clearlake, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Smith & Newell CPAs
Yuba City, California
March 22, 2019