

**MODESTO-CERES FIRE PROTECTION AGENCY**

INDEPENDENT AUDITOR'S REPORTS,  
BASIC FINANCIAL STATEMENTS, AND  
OTHER INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017



Certified  
Public  
Accountants

**MODESTO-CERES FIRE PROTECTION AGENCY  
FOR THE YEAR ENDED JUNE 30, 2017**

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## Independent Auditor's Report

Board of Directors  
Modesto-Ceres Fire Protection Agency  
Modesto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Modesto-Ceres Fire Protection Agency (the Agency) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency'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 governmental activities and the General Fund of the Agency, as of

June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of officers is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of officers 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
October 17, 2017

**MODESTO-CERES FIRE PROTECTION AGENCY**  
**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**  
**AND BALANCE SHEET - GENERAL FUND**  
**JUNE 30, 2017**

<b>ASSETS</b>	
Cash and investments	\$ 220,337
Taxes receivable	15,922
Interest receivable	<u>809</u>
 Total Assets	 237,068
 <b>LIABILITIES</b>	
Accounts payable	<u>237,068</u>
 <b>FUND BALANCE/NET POSITION</b>	
Unassigned/Unrestricted	<u><u>\$ -</u></u>

See accompanying notes to the basic financial statements.

**MODESTO-CERES FIRE PROTECTION AGENCY  
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
AND STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

EXPENDITURES/EXPENSES

Fire and ambulance service:	
Services, professional, and other	\$ 4,941
Liability insurance	1,070
City of Modesto - administrative fee	16,749
Other	<u>2,632</u>
 Total Expenditures/Expenses	 <u>25,392</u>

GENERAL REVENUES AND DISTRIBUTIONS

General Revenues:	
Taxes	557,812
Interest	1,931
Change in fair value of investments	(1,294)
Distributions:	
City of Modesto	(296,113)
City of Ceres	<u>(236,944)</u>
 Total General Revenues and Distributions	 <u>25,392</u>

Change in Fund Balance/Net Position	-
 Fund Balance/Net Position, beginning of year	 <u>-</u>
 Fund Balance/Net Position, end of year	 <u><u>\$ -</u></u>

See accompanying notes to the basic financial statements.

**MODESTO-CERES FIRE PROTECTION AGENCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 533,758	\$ 555,605	\$ 557,812	\$ 2,207
Interest	2,695	4,395	1,931	(2,464)
Change in fair value of investments	-	300	(1,294)	(1,594)
<b>Total Revenue</b>	<b>536,453</b>	<b>560,300</b>	<b>558,449</b>	<b>(1,851)</b>
<b>EXPENDITURES</b>				
Services, professional, and other	4,957	4,957	4,941	16
Liability insurance	1,500	1,500	1,070	430
City of Modesto - administrative fee	16,094	22,094	16,749	5,345
Other	1,966	1,966	2,632	(666)
<b>Total Expenditures</b>	<b>24,517</b>	<b>30,517</b>	<b>25,392</b>	<b>5,125</b>
<b>Excess of Revenues over Expenditures</b>	<b>511,936</b>	<b>529,783</b>	<b>533,057</b>	<b>3,274</b>
<b>OTHER FINANCING USES</b>				
Distributions to Member Agencies:				
City of Modesto	(284,380)	(294,283)	(296,113)	(1,830)
City of Ceres	(227,556)	(235,500)	(236,944)	(1,444)
<b>Total Other Financing Uses</b>	<b>(511,936)</b>	<b>(529,783)</b>	<b>(533,057)</b>	<b>(3,274)</b>
<b>Changes in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>
Fund Balance, beginning of year			-	
Fund Balance, end of year			<b>\$ -</b>	

See accompanying notes to the basic financial statements.

**MODESTO-CERES FIRE PROTECTION AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Organization

The Modesto-Ceres Fire Protection Agency (the Agency) was formed on March 13, 2007 by a joint powers agreement made in accordance with Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (commencing with Section 6500) between the Industrial Fire District (District), the City of Modesto, and the City of Ceres for the cities to provide fire protection and administrative services within the District. The Agency operates under the Fire Protection District Law of 1987 and the Health and Safety Code, Sections 13801-13999.

Revenue to finance the Agency's operation is derived from the County of Stanislaus property tax rolls.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of the Agency relating to the funds included in the accompanying financial statements conform in all material respects to accounting principles generally accepted in the United States of America (GAAP) that are applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

C. Reporting Entity

The Agency's financial statements include the accounts of all Agency operations. The criteria for including organizations as component units within the Agency's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Boards (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Agency holds the corporate powers of the organization
- the Agency appoints a voting majority of the organization's board
- the Agency is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Agency
- there is fiscal dependency by the organization on the Agency

Based on the aforementioned criteria, the Agency has no component units.



**MODESTO-CERES FIRE PROTECTION AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

**D. Government-Wide and Fund Financial Statements**

The Agency's government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental activities for the Agency.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities are included in the accompanying statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Agency's governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and change in fund balance. The General Fund is the only governmental fund.

The General Fund is accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and change in fund balance presents increases (revenues) and decreases (expenditures) in fund balance.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for revenues susceptible to accrual (generally received 60 days after year-end). The primary revenue source, which have been treated as susceptible to accrual by the Agency, is property taxes.

Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Since the amounts presented in the Agency's balance sheet and statement of net position are the same, they are presented as one financial statement. Similarly, since the amounts presented in the Agency's statement of revenues, expenditures, and change in fund balance and the statement of activities are the same, they are presented as one financial statement. There were no encumbrances outstanding as of June 30, 2017, so the actual budgetary-basis expenditures are the same as the actual GAAP-basis expenditures.

**E. Budget**

The budget for the General Fund is prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; expenditures, which include encumbrances, are budgeted in the year that the applicable warrant requisitions are expected to be issued.

**MODESTO-CERES FIRE PROTECTION AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Annual budget requests are submitted by the Agency staff to the Agency’s Board of Directors for review. After public hearing, a budget is approved by the Agency’s Board of Directors, with a resolution adopting said budget. Copies of the approved budget are sent to all required agencies.

The General Fund budget is prepared within the limit on spending as regulated by Proposition 4 Appropriations Limitation. Unencumbered appropriations for annually budgeted funds lapse at year-end.

F. Proposition 4

The Proposition 4 Appropriations Limitation for the year ended June 30, 2017, was \$1,043,543.

G. Property Tax

Secured property taxes attach as an enforceable lien on real property as of the 1<sup>st</sup> day of January. Taxes are payable in two installments on November 1 and February 1, and become delinquent if not paid before December 10<sup>th</sup> and April 10<sup>th</sup>. Unsecured property taxes are billed in one installment, are due March 15<sup>th</sup>, and become delinquent if not paid on or before August 31<sup>st</sup>. The County of Stanislaus bills and collects all property taxes and remits to the Agency its share of the 1% property tax allocation.

H. Employees’ Retirement Plan

The Agency no longer participates in the County of Stanislaus retirement plan since firefighters are paid by the Cities of Modesto and Ceres.

I. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable** – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- **Restricted** – 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 or enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Agency itself, using the Agency’s highest level of decision-making authority (the Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** – Amounts the Agency *intends* to use for a specific purpose. Intent can be expressed by the Agency at either the highest level of decision-making authority or by an official or body to which the Agency delegates the authority.

**MODESTO-CERES FIRE PROTECTION AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

- **Unassigned** – The residual classification for the Agency’s General Fund that includes 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 Agency establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption or amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the Agency through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, followed by the committed, assigned and unassigned resources as they are needed.

**J. Accounting Standards Update**

During the year ended June 30, 2017, the Agency implemented the following GASB standards:

GASB Statement No. 77, *Tax Abatement Disclosures*, is intended to improve financial reporting relating to disclosures of tax abatement transactions. Statement No. 77 requires governments that enter into tax abatement agreements to disclose (1) descriptive information about the agreements, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; (2) the gross dollar amount of taxes abated during the period; (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement did not have a significant impact to the Agency’s financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The statement establishes an additional blending requirement for the financial statement presentation of component units. This statement did not have a significant impact to the Agency’s financial statements.

The Agency is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the Agency’s fiscal year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

**MODESTO-CERES FIRE PROTECTION AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the Agency's fiscal year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the Agency's fiscal year ending June 30, 2019.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017, addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. This Statement is effective for the Agency's fiscal year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues, 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. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the Agency's fiscal year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, Leases, increases the usefulness of government' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the Agency's fiscal year ending June 30, 2021.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments of the Agency are pooled with other City of Modesto funds. The Agency's portion of this pooled amount was \$220,337 at June 30, 2017. At June 30, 2017, the City of Modesto's investment pool is unrated and the weighted average maturity is 483 days. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant's average monthly cash balance. Detailed information concerning the City of Modesto's pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Modesto's Comprehensive Annual Financial Report. As of June 30, 2017, the fair value of the Agency's position in the pool is the same as the value of its pool shares. The Agency's investments in the City of Modesto's investment pool are exempt from fair value hierarchy disclosure.

**MODESTO-CERES FIRE PROTECTION AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 3 – EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2017, expenditures exceeded appropriations as follows:

General Fund	
Other	\$666

**OTHER INFORMATION**

**MODESTO-CERES FIRE PROTECTION AGENCY  
SCHEDULE OF OFFICERS  
JUNE 30, 2017**

President	Bryan Nicholes – City of Ceres Deputy Fire Chief
Vice President	Vacant
Secretary	Jena Duke – City of Modesto Executive Assistant
City of Modesto	Joseph P. Lopez – City of Modesto Interim City Manager
City of Ceres	Toby Wells – City of Ceres City Manager
City of Modesto	Alan Ernst – City of Modesto Interim Fire Chief



**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***

Board of Directors  
Modesto-Ceres Fire Protection Agency  
Modesto, 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 financial statements of the governmental activities and General Fund of the Modesto-Ceres Fire Protection Agency (Agency) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 17, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Agency'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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency'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.

Macias Gini & O'Connell LLP

Walnut Creek, California  
October 17, 2017