

**MODESTO-CERES FIRE PROTECTION AGENCY**

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**ANNUAL FINANCIAL REPORT  
WITH  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

## TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Position.....	3
Statement of Activities.....	4
Fund Financial Statements:	
Balance Sheet - General Fund.....	5
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund .....	6
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget to Actual - General Fund .....	7
Notes to Financial Statements.....	8
<b>Other Information:</b>	
Schedule of Officers.....	14
<b>Other Report:</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	15



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Modesto-Ceres Fire Protection Agency

### **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, 2018, the related notes to the financial statements, and the budgetary comparison for the general fund, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Agency, as of June 30, 2018, and the respective changes in financial position and the budgetary comparison 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 the 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 19, 2018, 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.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
October 19, 2018

**MODESTO-CERES FIRE PROTECTION AGENCY  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Governmental Activities
<b>ASSETS</b>	
Current Assets	
Cash and investments	\$ 230,674
Interest receivable	1,215
Prepaid expenses	1,133
Taxes receivable	22,772
Total Assets	255,794
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	255,794
Total Liabilities	255,794
<b>NET POSITION</b>	
Restricted	-
Total Net Position	\$ -

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

**MODESTO-CERES FIRE PROTECTION AGENCY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues	Charges for Services
			Governmental Activities
			Net (Expense) and Revenue and Changes in Net Position
Governmental Activities:			
Fire and ambulance services	\$ 590,732	\$ -	\$ (590,732)
Totals	\$ 590,732	\$ -	(590,732)
General Revenues:			
Taxes			589,543
Interest			2,844
Change in fair value of investments			(1,655)
Total General Revenues			590,732
Change in Net Position			-
Net Position, Beginning of Year			-
Net Position, End of Year			\$ -

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

**MODESTO-CERES FIRE PROTECTION AGENCY  
BALANCE SHEET – GENERAL FUND  
JUNE 30, 2018**

**ASSETS**

Current Assets	
Cash and Investments	\$ 230,674
Interest Receivable	1,215
Prepaid Expenses	1,133
Taxes Receivable	<u>22,772</u>
Total Assets	<u>\$ 255,794</u>

**LIABILITIES AND FUND BALANCE**

Liabilities	
Accounts Payable	<u>\$ 255,794</u>
Total Liabilities	<u>255,794</u>
Fund Balance	
Restricted	<u>-</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 255,794</u>

Reconciliation of the Balance Sheet of the General Fund  
to the Statement of Net Position:

Total Fund Balance - General Fund	\$ -
Adjustments to the Balance Sheet of the General Fund to reconcile with the Statement of Net Position:	<u>-</u>
Total Net Position - Governmental Activities	<u>\$ -</u>

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

**MODESTO-CERES FIRE PROTECTION AGENCY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

**REVENUES**

Taxes	\$ 589,543
Interest	2,844
Change in fair value of investments	<u>(1,655)</u>
 Total Revenues	 <u>590,732</u>

**EXPENDITURES**

Professional services	5,856
Liability insurance	1,101
City of Modesto - administrative fee	4,918
Other	<u>4,542</u>
 Total Expenditures	 <u>16,417</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>574,315</u>
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**OTHER FINANCING SOURCES (USES)**

Distributions to Member Agencies:	
City of Modesto	(319,032)
City of Ceres	<u>(255,283)</u>

Total Other Financing Sources (Uses)	<u>(574,315)</u>
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Net Change in Fund Balance	-
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Fund Balance, Beginning of Year	<u>-</u>
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Fund Balance, End of Year	<u><u>\$ -</u></u>
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Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of the General Fund to the Statement of Activities:

Net change in Fund Balance - General Fund	\$ -
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Adjustments to the Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund to reconcile with the Statement of Activities:	 <u>-</u>
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Change in Net Position - Governmental Activities	<u><u>\$ -</u></u>
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The accompanying notes are an integral part of the financial statements.



**MODESTO-CERES FIRE PROTECTION AGENCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET TO ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance With Final
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 529,842	\$ 589,842	\$ 589,543	\$ (299)
Interest	2,094	5,694	2,844	(2,850)
Change in fair value of investments	-	2,000	(1,655)	(3,655)
<b>Total Revenue</b>	<b>531,936</b>	<b>597,536</b>	<b>590,732</b>	<b>(6,804)</b>
<b>EXPENDITURES</b>				
Professional services	5,528	5,528	5,856	(328)
Liability insurance	1,500	1,500	1,101	399
City of Modesto - administrative fee	5,649	5,649	4,918	731
Other	3,823	3,823	4,542	(719)
<b>Total Expenditures</b>	<b>16,500</b>	<b>16,500</b>	<b>16,417</b>	<b>83</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>515,436</b>	<b>581,036</b>	<b>574,315</b>	<b>(6,721)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Distributions to Member Agencies:				
City of Modesto	(286,325)	(322,766)	(319,032)	3,734
City of Ceres	(229,111)	(258,270)	(255,283)	2,987
<b>Total Other Financing Sources (Uses)</b>	<b>(515,436)</b>	<b>(581,036)</b>	<b>(574,315)</b>	<b>6,721</b>
Changes in Fund Balance	<b>\$ -</b>	<b>\$ -</b>	-	<b>\$ -</b>
Fund Balance, beginning of year			-	
Fund Balance, end of year			<b>\$ -</b>	

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

**MODESTO – CERES FIRE PROTECTION AGENCY  
NOTES TO FINANCIAL STATEMENTS**

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

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.

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 can 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 criteria, the Agency has no component units.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the Agency's activities. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental Fund Financial Statements: Governmental fund financial statements (i.e., Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are property taxes, interest on investments, and intergovernmental revenues.

**MODESTO – CERES FIRE PROTECTION AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Governmental Fund Financial Statements (continued): Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. A one-year availability period is used for all other revenues. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures are recorded only when payment is due.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency reports one major governmental fund:

The **General Fund** is the primary operating fund and accounts for all financial resources of the Agency.

The Agency adopts annual appropriated budgets for its general revenue fund which is a major fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budgets. The budgetary comparison statement is presented on a budgetary basis which differs from generally accepted accounting principles in the method of accounting for accruals and encumbrances.

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.

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.

Proposition 4: The Proposition 4 Appropriations Limitation for the year ended June 30, 2018, was \$1,096,346.

**MODESTO – CERES FIRE PROTECTION AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Cash and Investments: The Agency maintains its cash account with the City of Modesto as part of the cash and investment pool. The City of Modesto is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

In accordance with GASB Statement No. 43, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held by the City of Modesto are stated at fair value. The fair value of pooled investments is determined monthly and is based on current market prices received from the securities custodian. The balance available for withdrawal is based on the accounting records maintained by the City of Modesto.

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 collected all property taxes and remits to the Agency its share of the 1% property tax allocation.

Employees’ Retirement Plan: The Agency no longer participates in the County of Stanislaus retirement plan since firefighters are paid by the City of Modesto and Ceres.

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

Net Position: Net position represents the residual interest in the Agency’s assets after liabilities are deducted. In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- *Net investment in capital assets* – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- *Unrestricted* – Amount consists of all net position that does not meet the definition “net investment in capital assets” or “restricted” net position.

When both restricted and unrestricted net position are available, restricted resources are depleted first before unrestricted resources are used.

**MODESTO – CERES FIRE PROTECTION AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Fund Balance: In the fund financial statements, in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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 to be maintained intact. The Agency did not have any nonspendable resources as of June 30, 2018.
- *Restricted* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The Agency did not have any restricted resources as of June 30, 2018.
- *Committed* – Amounts constrained to specific purposes by the Agency itself, using its highest level of decision-making authority (Agency Board). To be reported as committed, amounts cannot be used for any other purpose unless the Agency Board takes the same highest level action to remove or change the constraint. The Agency did not have any committed resources as of June 30, 2018.
- *Assigned* – Amounts the Agency intends to use for a specific purpose. Intent can be expressed by the Agency or by an official or body to which the Board of Directors delegates the authority. The Agency did not have any assigned resources as of June 30, 2018.
- *Unassigned* – Amounts that are available for any purpose. The Agency did not have any unassigned resources as of June 30, 2018.

In circumstances when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Governmental Accounting Standards Update: During the year ending June 30, 2018, the Agency implemented the following standards:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 85 – *Omnibus 2017*. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 82 – *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

**MODESTO – CERES FIRE PROTECTION AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Governmental Accounting Standards Update (continued): Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88 – *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through October 19, 2018, which is the date the financial statements were available to be issued.

**MODESTO – CERES FIRE PROTECTION AGENCY  
NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments of the Agency are pooled with other City of Modesto funds. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant’s average monthly cash balance. Credit quality ratings are not available for the Park’s investments as all cash is invested as part of the common cash an investment pool of the City of Modesto. Cash in the City pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form. The Agency does not have any deposits with financial institutions as of June 30, 2018.

Cash and investments as of June 30, 2018 are classified in the accompany financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 230,674
Total cash and investments	\$ 230,674

Summary of Deposits:

Cash and investments as of June 30, 2018 consist of the following:

Deposits with City of Modesto	
Cash and investments Pool	\$ 230,674
Total cash and investments	\$ 230,674

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, 2018, the fair value of the Agency’s position in the pool is the same as the value of its pool shares.

**NOTE 3 – EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2018, expenditures exceeded appropriations as follows:

Expenditures	Amount
General Fund	
Professional services	\$ 328
Other	719

**MODESTO-CERES FIRE PROTECTION AGENCY**

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**OTHER INFORMATION**



**MODESTO-CERES FIRE PROTECTION AGENCY  
SCHEDULE OF OFFICERS  
JUNE 30, 2018**

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



**INDEPENDENT AUDITORS' 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  
Modesto-Ceres Fire Protection Agency

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 (the Agency), as of and for the year ended June 30, 2018, the related notes to the financial statements, and the budgetary comparison for the general fund, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 19, 2018.

**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 the 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 Agency'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.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California  
October 19, 2018