

**WATERLOO MORADA RURAL COUNTY
FIRE PROTECTION DISTRICT**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2020



CROCE, SANGUINETTI, & VANDER VEEN

INC.

CERTIFIED PUBLIC ACCOUNTANTS

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CROCE, SANGUINETTI, & VANDER VEEN^{INC.}

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
**Waterloo Morada Rural County Fire
Protection District**
Stockton, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Waterloo Morada Rural County Fire Protection District** (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of **Waterloo Morada Rural County Fire Protection District**, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and statement of revenues, expenditures and changes in fund balances - budget and actual - governmental funds on pages 3 through 7 and 38 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Croce, Sanguinetti, & Vander Veen, Inc.

CROCE, SANGUINETTI, & VANDER VEEN, INC.
Certified Public Accountants
Stockton, California
March 12, 2021

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2020

As management of the Waterloo Morada Rural County Fire Protection District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial statements of the District for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements and the accompanying notes to the basic financial statements, which begin on page 8.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

The basic financial statements include: (1) government-wide, (2) fund financial statements, and (3) notes to the financial statements. This report includes required supplementary information.

These statements are supported by notes to the financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

Government-wide Financial Statements

The District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the District-wide statement of position presenting information that includes all of the District's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

The second government-wide statement is the *Statement of Activities*, which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Continued) (Unaudited)

June 30, 2020

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. Major funds are separately reported.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financial requirements of governmental programs and the commitment of spendable resources for the near-term.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Highlights

Governmental Fund revenues increased by \$1,574,296 this fiscal year due primarily to an increase in special assessments.

Operating expenditures were \$4,023,858, an increase of \$206,704 or 5.4% from the prior year. The majority of the increase is due to the increase in salaries and wages, employee benefits, and the net pension liability.

Financial Condition

Net position is a measure of an entity's financial position and, over time, a trend of increasing or decreasing net position is an indication of financial health of the organization. The District's total liabilities exceeded assets by \$5,136,169 at June 30, 2020. The District's investment in capital assets at June 30, 2020 represents a major portion of net position. The District's net position increased by \$457,013 during the fiscal year, (see Table 1 on Page 5).

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Management's Discussion and Analysis (Continued)
(Unaudited)**

June 30, 2020

Table 1

	Net Position			
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	Increase (Decrease)	<u>%</u>
Assets				
Current assets	\$ 1,295,435	\$ 1,029,691	\$ 265,744	25.8%
Capital assets	<u>1,467,035</u>	<u>1,478,523</u>	<u>(11,488)</u>	(.8)
Total assets	<u>2,762,470</u>	<u>2,508,214</u>	<u>254,256</u>	10.1
Deferred outflows	<u>1,451,811</u>	<u>2,062,544</u>	<u>(610,733)</u>	(29.6)
Liabilities				
Current liabilities	223,491	574,421	(350,930)	(61.1)
Long-term liabilities	<u>8,560,799</u>	<u>9,098,307</u>	<u>(537,508)</u>	(5.9)
Total liabilities	<u>8,784,290</u>	<u>9,672,728</u>	<u>(888,438)</u>	(9.2)
Deferred inflows	<u>566,160</u>	<u>491,212</u>	<u>74,948</u>	15.3
Net position				
Net investment in capital assets	934,332	822,231	112,101	13.6
Unrestricted	<u>(6,070,501)</u>	<u>(6,415,413)</u>	<u>344,912</u>	(5.4)
Total net position	<u>\$ (5,136,169)</u>	<u>\$ (5,593,182)</u>	<u>\$ 457,013</u>	(8.2)%

Table 2

	Statement of Activities			
	<u>Fiscal 2020</u>	<u>Fiscal 2019</u>	Increase (Decrease)	<u>%</u>
Revenues				
Property taxes and assessments	\$ 4,190,179	\$ 2,592,931	\$ 1,597,248	61.6%
Operating revenues	253,312	324,377	(71,065)	(21.9)
Gain on sale of capital assets	6,000	-	6,000	100.0
Other income	<u>51,141</u>	<u>9,028</u>	<u>42,113</u>	466.5
Total revenues	<u>4,500,632</u>	<u>2,926,336</u>	<u>1,574,296</u>	53.8
Expenditures				
Operating expenses	4,023,858	3,817,154	206,704	5.4
Interest on long-term debt	<u>19,761</u>	<u>21,019</u>	<u>(1,258)</u>	(6.0)
Total expenses	<u>4,043,619</u>	<u>3,838,173</u>	<u>205,446</u>	5.4
Change in net position (deficit)	457,013	(911,837)	1,368,850	(150.1)
Beginning net position (deficit)	<u>(5,593,182)</u>	<u>(4,681,345)</u>	<u>911,837</u>	(19.5)
Ending net position (deficit)	<u>\$ (5,136,169)</u>	<u>\$ (5,593,182)</u>	<u>\$ (457,013)</u>	8.2%

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Continued) (Unaudited)

June 30, 2020

Capital Assets

The District's investment in capital assets, as of June 30, 2020, amounts to \$1,467,035 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles and equipment. The District's investment in capital assets decreased by a total of \$11,488 for the current fiscal year. Major capital asset events during the current fiscal year included the following:

Depreciation of the capital assets	\$	193,221
Purchase of new building and improvements		32,473
Purchase of new station equipment		8,053
Purchase of apparatus equipment		141,207
Disposal of capital assets		94,558

Reserve Funds

The District's reserve fund assets as of June 30, 2020 amounted to \$586,838, which is down \$16,479 (2.73%) from the prior year. This is primarily due to structures and improvement cost, additions and equipment expenditures.

The District has two types of reserve fund accounts:

San Joaquin County

This fund is held with the San Joaquin County Auditor's office and is pooled with all other county accounts. The District's fund increased \$557,464 and at the end of the fiscal year is valued at \$196,533.

F&M Bank Certificates of Deposits

The District currently holds two certificates of deposits with F&M Bank. The total of the certificates of deposits at June 30, 2020 is \$557,464 compared to \$534,887 at June 30, 2019.

Long-Term Debt

At the end of the current fiscal year, the District had total long-term obligations outstanding of \$532,703. During the current fiscal year, the District's total debt decreased by \$147,469.

The District obligations include the District's estimated share of the San Joaquin County Retirement Sick Leave Bank, of \$120,000 at June 30, 2020. This liability represents the estimated future cost to the District for post-employment healthcare costs.

The District recorded a net pension liability of \$7,909,217 at June 30, 2020 in accordance with the implementation of GASB Statement No. 68.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Management's Discussion and Analysis (Continued) (Unaudited)

June 30, 2020

Budgetary Highlights

The General Fund budget for fiscal year 2020 was approximately \$3,730,219. There were significant variances between budgeted costs and actual costs that include the following:

- ☛ Salaries and wages were over budget due to higher participation in reimbursable OES Strike Team responses.

Economic Factors for Budget Year 2020/2021

In the past year, the Fire District has worked to put the funding realized thru Tax Measure N to work for the community. The District has acquired property and opened Station 2, utilizing a temporary truck room structure. The District is planning for a new Apparatus building at the Station 2 site to meet the expectations of the community into the future. Additionally, a new Fire Engine 2 has been designed and is currently being built. The District has also increased staffing as promised in Measure N to a minimum level to operate two stations 24/7. The global Coronavirus Pandemic has impacted the District financially, and the District has actively pursued reimbursement opportunities.

The District's unfunded pension liability continues to be of concern fiscally into the foreseeable future. For this budget year alone, we will see an increase from 83 cents for every dollar earned by an employee to 89 cents. This will increase the District's obligation under the retirement plan by \$312,785, compared to the District's overall increase in revenue last year of \$1,574,296. The District's unfunded liability in the pension plan of \$7.9 million dollars is a limiting factor on District service expansion. Nevertheless, the unfunded liability in the pension plan was reduced in the actuarial review of the fund this fiscal year by over \$300,000.

Due to the current level of funding and economic conditions taking into account what is stated above, the District does not foresee or anticipate further economic impacts to the District.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Waterloo Morada Fire District, 6925 E. Foppiano Lane, Stockton, CA 95212.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Statement of Net Position (Deficit)

June 30, 2020

	<u>Governmental activities</u>
Assets	
Cash and investments	\$ 1,240,899
Accounts receivable	15,142
Interest receivable	1,805
Prepaid expenses	20,089
Deposits	17,500
Capital assets, net of accumulated depreciation	<u>1,467,035</u>
Total assets	<u>2,762,470</u>
Deferred outflows of resources	
Deferred outflows - pension	<u>1,451,811</u>
Liabilities	
Accounts payable	22,495
Accrued expenses	73,686
Long-term liabilities	
Due within one year	
Capital leases payable	127,310
Due in more than one year	
Compensated absences	126,189
Accrued sick-leave bank	120,000
Capital leases payable	405,393
Net pension liability	<u>7,909,217</u>
Total liabilities	<u>8,784,290</u>
Deferred inflows of resources	
Deferred inflows - pension	<u>566,160</u>
Net Position (Deficit)	
Net investment in capital assets	934,332
Unrestricted	<u>(6,070,501)</u>
Total net position (deficit)	<u>\$ (5,136,169)</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Statement of Activities

For the year ended June 30, 2020

	<u>Program revenues</u>			Net
	<u>Expenses</u>	<u>Charges</u>	<u>Capital</u>	(expenses)
		<u>for services</u>	<u>grants and</u>	revenues and
			<u>contributions</u>	changes in
				net position
				<u>(deficit)</u>
Governmental activities				
Operating	\$ 4,023,858	\$ 138,824	\$ 114,488	\$ (3,770,546)
Interest on long-term debt	19,761	-	-	<u>(19,761)</u>
Net program (expenses) revenues				<u>(3,790,307)</u>
General revenues				
Assessments				2,287,349
Property taxes				1,888,702
Other				27,261
Gain on debt extinguishment				23,880
Property tax relief				14,128
Gain on sale of assets				<u>6,000</u>
Total general revenues				<u>4,247,320</u>
Changes in net position (deficit)				457,013
Net position (deficit), beginning of year				<u>(5,593,182)</u>
Net position (deficit), end of year				<u>\$ (5,136,169)</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Balance Sheet - Governmental Funds

June 30, 2020

	<u>General fund</u>
Assets	
Assets	
Cash and investments	\$ 1,240,899
Accounts receivable	13,290
Interest receivable	1,652
Prepaid expenses	20,089
Deposits	<u>17,500</u>
Total assets	<u>\$ 1,293,430</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 22,495
Accrued expenses	<u>73,686</u>
Total liabilities	<u>96,181</u>
Fund balances	
Nonspendable:	
Prepaid expenses	20,089
Assigned to:	
Capital outlay reserve	586,838
Unassigned	<u>590,322</u>
Total fund balance	<u>1,197,249</u>
Total liabilities and fund balances	<u>\$ 1,293,430</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position (Deficit)**

June 30, 2020

Total fund balances - governmental funds	\$ 1,197,249
Amounts reported for governmental activities in the statement of net position are different because:	
Accounts receivable are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds balance sheet.	1,852
Interest receivable is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds balance sheet.	153
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,467,035
Deferred outflows are not available to pay for current period expenditures and, therefore, are not reported in the funds.	1,451,811
Deferred inflows are not due and payable in the current period and, therefore, are not reported in the funds.	(566,160)
Net pension liability is not due and payable in the current period and, therefore, are not reported in the funds.	(7,909,217)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(126,189)
Accrued sick-leave bank costs are not due and payable in the current period and therefore, are not reported in the funds.	(120,000)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Capital leases payable	<u>(532,703)</u>
Net position (deficit) of governmental activities	<u>\$ (5,136,169)</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds**

For the year ended June 30, 2020

Revenues

Special tax	\$ 2,287,349
Property taxes	1,888,702
Grant revenue	110,001
Service fees	99,142
Fire permits and inspections	41,566
Insurance proceeds and reimbursements	23,305
Property tax relief	14,128
Impact fees	4,487
Other	<u>3,956</u>
Total revenues	<u>4,472,636</u>

Expenditures

Salaries and wages	1,699,542
Retirement	984,749
Employee benefits	368,006
Professional fees	106,060
Repairs and maintenance	56,685
Dispatching	51,960
Utilities	32,407
Building repairs and maintenance	28,938
Small tools and equipment	28,444
Fuel	26,926
Safety equipment	23,673
Payroll taxes	23,579
Supplies	22,768
Office supplies	22,428
Training	20,326
Insurance	18,991
Dues and subscriptions	6,366
Licenses and permits	5,926
Directors fees	3,500
Capital outlay	181,733
Debt service	
Principal	123,589
Interest	<u>19,761</u>
Total expenditures	<u>3,856,357</u>

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds (Continued)**

For the year ended June 30, 2020

Excess of revenues over expenditures	<u>616,278</u>
Other financing sources (uses)	
Proceeds from sale of capital assets	<u>6,000</u>
Total other financing sources (uses)	<u>6,000</u>
Net change in fund balance	622,279
Fund balance, beginning of year	<u>574,970</u>
Fund balance, end of year	<u>\$ 1,197,249</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities**

For the year ended June 30, 2020

Net change in fund balances - governmental funds	\$ 622,279
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	21,995
Governmental funds report capital outlay as expenditures while government activities record depreciation expense to allocate those expenditures over the life of the assets.	181,733
Depreciation expense related to capital assets is recognized in the statement of activities, but is not reported in the funds.	(193,221)
Changes in compensated absences are recorded as an expense in the statement of activities, but are not reported in the funds.	(6,466)
Changes in accrued sick-leave bank is recorded as an expense in the statement of activities, but is not reported in the funds.	80,000
Changes in net pension liability and deferred inflows and outflows associated with pensions are recognized in the statement of activities, but are not reported in the funds.	(372,896)
The repayment of principal related to long-term liabilities is recognized as an expenditure in the governmental funds, and reduces long-term liabilities in the statement of net position (deficit).	<u>123,589</u>
Change in net position (deficit) of governmental activities	<u>\$ 457,013</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies

This summary of significant accounting policies of Waterloo Morada Rural County Fire Protection District (the District) is presented to assist in understanding the District's financial statements.

Description of the reporting entity

The District was organized for the purpose of offering fire protection to the residents and landowners in the Waterloo Morada area of San Joaquin County and operates under the authority of Division 12, Part 2, Section 13801 of the California Health and Safety Code. At June 30, 2020 the District has one fire station at 6925 East Foppiano Lane, Stockton. Station Number Two which was located at 9373 North Highway 99 in Stockton was closed.

District management considered all potential component units for inclusion in the reporting entity by applying the criteria set forth in accounting principles generally accepted in the United States of America. The District concluded that there are no potential component units which should be included in the reporting entity.

Government-wide financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not classified as program revenues are presented as general revenues.

Fund financial statements

The fund financial statements provide information about the District's funds. The District has one type of fund (governmental), which is comprised of one major fund as follows:

General fund - This fund is established to account for resources devoted to financing the general services that the District performs. Property taxes, special taxes and other sources of revenue used to finance the fundamental operations of the District are included in this fund. This fund is charged with all costs of operating the District for which a separate fund has not been established.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies (Continued)

Measurement focus, basis of accounting, and financial statement presentation

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, special taxes and property tax relief are recognized as revenues in the year for which they are intended to finance.

Governmental fund financial statements 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. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period and apply to the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and long-term liabilities are recorded only when payment is due.

Property taxes, proceeds from sales of capital assets, special taxes, strike teams, interest, federal awards, impact fees, fire permits and inspection fees, property tax relief, state assistance and insurance proceeds and reimbursements associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Budget procedures

The District adopts a budget annually which is approved by the Board of Directors and filed with the San Joaquin County Auditor-Controller in accordance with California Government Code Section 53901. The budget is prepared on the modified accrual basis of accounting. The minutes record a resolution adopting the budget which is prepared within the spending limit as regulated by Proposition 4. The appropriations lapse at year-end.

Cash and investments

For the purpose of financial reporting “cash and investments” includes all demand and savings accounts and short-term investments with an original maturity of three months or less and the District’s investment in the County of San Joaquin’s pooled cash and investments.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies (Continued)

Accounts receivable

District management considers all accounts receivable to be fully collectible. Accordingly, an allowance of doubtful accounts has not been recorded in these financial statements.

Capital assets

All capital assets are valued at historical cost. The District's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Depreciation has been provided on capital assets and is charged as an expense against operations each year. The total amount of depreciation taken over the years is reported on the balance sheet as a reduction in the book value of capital assets.

Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets.

Buildings and improvements	10-40 years
Station equipment	3-10 years
Apparatus and vehicles	10-20 years
Apparatus equipment	5 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Long-lived assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Accrued sick-leave bank

The District offers certain benefits to retirees of the District that were paid through the San Joaquin County Employees' Retirement Association (the Association) in accordance with a prior agreement. Currently, the District has accrued a liability due to a change in policy by the Association, although the District is not in agreement with the Association's change in policy.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies (Continued)

Deferred outflow/inflows of resources

In addition to assets, liabilities and net position, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resource (revenue) until that time.

Contributions made to the District's pension plan(s) after the measurement date but before the fiscal year end are recorded as a deferred outflow of resources and will reduce the net pension liability in the next fiscal year.

Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods.

Pensions

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

Net position

Equity in the government-wide financial statements is classified as net position and displayed in three components as follows:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies (Continued)

- b. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to these assets.
- c. Unrestricted - Amounts not required to be reported in other components of net position.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable - Amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted - Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the District's highest level of decision-making authority.

Assigned - Amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Directors, District manager or their designee.

Unassigned - Amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the District's policy to use committed resources first, then assigned, and then unassigned as they are needed.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies (Continued)

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Property taxes

Property taxes were levied January 1, 2019 and were payable in two installments on December 10, 2019 and April 10, 2020. The County of San Joaquin bills and collects property taxes on behalf of the District.

Special tax

There are two special taxes levied annually by the Board of Directors in accordance with California Government Code Section 53978, as approved by District voters in 1986 and 2019. The special tax passed in 2019 has a nine-year sunset clause. The Board has determined that the special tax is reasonably related to the District's costs for providing fire prevention, suppression and emergency medical service for each non-exempt taxable parcel, and the charge is levied without regard to property valuation, but rather parcel usage. The County of San Joaquin bills and collects the special tax on behalf of the District.

Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note A - Summary of Significant Accounting Policies (Continued)

New accounting pronouncements

Standards adopted

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The District implemented the provisions of this Statement for the year ended June 30, 2020. The adoption of this Statement had no impact on the District's financial statements.

Standards not yet adopted

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' 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. The District will be required to implement the provisions of this Statement for the year ended June 30, 2022. The District has not determined the effect on the financial statements.

In January 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The District will be required to implement the provisions of this Statement for the year ended June 30, 2021. The District has not determined the effect on the financial statements.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note B - Cash and Investments

Cash and investments of the District as of June 30, 2020, consist of the following:

	<u>Carrying amount</u>	<u>Bank balance</u>	<u>Fair value</u>
<u>Deposits in commercial accounts</u>			
Public checking	\$ 508,601	\$ 520,710	
Certificates of Deposit	<u>535,765</u>	<u>535,765</u>	
	<u>1,044,366</u>	<u>\$ 1,056,475</u>	
<u>Investment in external investment pool</u>			
San Joaquin County Treasurer	<u>196,533</u>		<u>\$ 196,533</u>
Total cash and investments	<u>\$ 1,240,899</u>		

Deposit and Investment Policy

California statutes authorize special districts to invest idle, surplus, or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600. As specified in Government Code 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the District's funds, the primary objectives, in priority order, of the District's investment activities and of the District's investment policy shall be (1) safety, (2) liquidity, and (3) yield. It is the policy of the District to invest public funds in a manner to obtain the highest return obtainable with the maximum security while meeting the daily cash flow demands of the District as long as investments meet the criteria established by this policy for safety and liquidity and conform to all laws governing the investment of District funds.

The District is provided a broad spectrum of eligible investments under California Government Code Sections 53600-53609 (authorized investments), 53630-53686 (deposits and collateral), and 16429.1 (Local Agency Investment Fund). The District may choose to restrict its permitted investments to a smaller list of securities that more closely fits the District's cash flow needs and requirements for liquidity.

The table below identifies the investment types that are authorized for the District by the California Government Code, Section 53600 (or District's investment policy, where more restrictive) that address interest rate risk, credit risk and concentration of credit risk.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note B - Cash and Investments (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills, Notes, and Bonds	5 years	None	None
U.S. Government Agency Obligations	5 years	None	None
Repurchase Agreements	1 year	None	None
State Registered Warrants, Notes or Bonds	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	30%	10%
Negotiable Certificates of Deposit	1 year	30%	None
Medium Term Corporate Notes	3 years	30%	None
Mutual Funds	N/A	20%	10%
Bank Deposits	N/A	10%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Local Government Investment Pools	N/A	None	None

The District complied with the provisions of California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments. The District does not maintain a formal investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note B - Cash and Investments (Continued)

<u>Investment type</u>	<u>Total</u>	<u>Remaining maturity (in months)</u>					<u>More than 60 months</u>
		<u>12 months or less</u>	<u>13 - 24 months</u>	<u>25 - 36 months</u>	<u>37-48 months</u>	<u>49-60 months</u>	
San Joaquin County							
Treasurer	\$ 196,533	\$ 196,533	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	<u>535,765</u>	<u>535,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 732,298</u>	<u>\$ 732,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, 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. Presented below is the minimum rating required by (where applicable) the California Government Code or the District’s investment policy, and the actual rating as of fiscal year end for each investment type.

<u>Investment type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
San Joaquin County							
Treasurer	\$ 196,533	N/A	\$ -	\$ -	\$ -	\$ -	\$ 196,533
Certificates of Deposit	<u>535,765</u>	<u>N/A</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>535,765</u>
	<u>\$ 732,298</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 732,298</u>

Concentration of Credit Risk

The District had no investment policy limiting the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District’s investments are concentrated in certificates of deposit and external investment pools which are not subject to investment limits.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District’s investment policy do not contain legal or policy requirements that

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note B - Cash and Investments (Continued)

would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2020, the District's bank balance was \$1,056,475 and \$250,000 of that amount was insured by the Federal Deposit Insurance Corporation and collateralized as required by state law and the remaining amount of \$806,475 was secured by a pledge of securities by the financial institution.

Investment in External Investment Pool

The District's investment in the San Joaquin County investment pool is managed by the San Joaquin County Treasurer and is stated at fair value or amortized cost, which approximates fair value. Cash held by the San Joaquin County Treasury is pooled with other County deposits for investment purposes by the County Treasurer in accordance with the investment policy of the County Treasurer (see County Treasurer's investment policy at <http://www.sjgov.org/treasurer/>). The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained by the Pool. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances. In accordance with applicable State laws, the San Joaquin County Treasurer may invest in derivative securities. However, at June 30, 2020, the San Joaquin County Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Fair value hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investment in the County of San Joaquin Treasury Pool is classified as Level 2 and its value is based on the fair value factor provided by the Treasurer of the County of San Joaquin, which is calculated as the fair value divided by the amortized cost of the investment pool. The District's investment in certificates of deposit are classified as Level 1.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u>
	<u>June 30, 2019</u>				<u>June 30, 2020</u>
Nondepreciable capital assets					
Land	\$ 214,315	\$ -	\$ -	\$ -	\$ 214,315
Total nondepreciable capital assets	<u>214,315</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,315</u>
Depreciable capital assets					
Buildings and improvements	531,361	32,473	(45)	-	563,789
Station equipment	207,703	8,053	(20,082)	-	195,674
Apparatus and vehicles	1,747,376	-	-	-	1,747,376
Apparatus equipment	<u>279,054</u>	<u>141,207</u>	<u>(74,431)</u>	<u>-</u>	<u>345,830</u>
Total depreciable capital assets	2,765,494	181,733	(94,558)	-	2,852,669
Less accumulated depreciation	<u>(1,501,286)</u>	<u>(193,221)</u>	<u>94,558</u>	<u>-</u>	<u>(1,599,949)</u>
Total depreciable capital assets, net	<u>1,264,208</u>	<u>(11,488)</u>	<u>-</u>	<u>-</u>	<u>1,252,720</u>
Total capital assets, net	<u>\$ 1,478,523</u>	<u>\$ (11,488)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,467,035</u>

Note D - Compensated Absences

Employees accrue vacation and sick leave benefits based on bargaining unit, length of service and current compensation. Accumulated vacation leave is subject to maximum accruals for employees who are part of the Firefighters of San Joaquin County Local 1243 International Association of Firefighters Unit 15 bargaining unit. Accumulated vacation leave is not subject to maximum accruals for the Fire Chief or Administrative Secretary bargaining units. As of June 30, 2020, the District's accrued liability for accumulated unused vacation leave and compensation time is \$126,189. Employees are paid for their accumulated unused vacation leave upon separation from service. The liability is expected to be liquidated with future resources and not with expendable available financial resources.

Accumulated sick leave is subject to maximum accruals for employees hired on or before August 27, 2001. Upon separation from service, an employee's accumulated unused sick leave is converted to a sick leave bank or a service credit for all employees hired on or before August 27, 2001. District employees hired after August 27, 2001 receive no sick leave bank or service credit for accumulated unused sick leave. Sick leave banks are used to pay post-retirement medical, dental and vision insurance premiums. Once a retiree's sick leave bank is depleted, the retiree is responsible for his/her medical, dental and vision insurance premiums. The District has estimated and recorded a liability of \$120,000 as of June 30, 2020, although the District believes the San Joaquin County Employees' Retirement Association is liable for these benefits.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note E - Long-Term Liabilities

Long-term liabilities outstanding as of June 30, 2020 consist of the following:

	<u>Interest rate</u>	<u>Maturity date</u>	Amounts authorized and issued	<u>Outstanding</u>	Due within <u>one year</u>
State Loan - Chapter 1168/85	-	Not assigned	\$ 27,038	\$ -	\$ -
Capital lease - BME firetruck	3.24%	March 1, 2024	332,742	199,162	47,438
Capital lease - Spartan Type 1	2.88%	November 15, 2023	<u>560,000</u>	<u>333,541</u>	<u>79,872</u>
			<u>\$ 919,780</u>	<u>\$ 532,703</u>	<u>\$ 127,310</u>

The following is a summary of long-term liability issuances and transactions during the year ended June 30, 2020:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>
State Loan - Chapter 1168/85	\$ 23,880	\$ -	\$ (23,880)	\$ -
Capital lease - BME firetruck	245,113	-	(45,951)	199,162
Capital lease - Spartan Type 1	<u>411,179</u>	<u>-</u>	<u>(77,638)</u>	<u>333,541</u>
	<u>\$ 680,172</u>	<u>\$ -</u>	<u>\$ (147,469)</u>	<u>\$ 532,703</u>

State Loan - Chapter 1168/85

The District applied for and received a state loan in the amount of the shortfall in funding received through supplemental roll tax revenue during the 1984-85 fiscal year. The loan is interest free and was to be repaid from the 1984-85 fiscal year supplemental roll tax revenue received by the District after January 15, 1986. No due date has been assigned to the loan.

Capital lease - 2017 BME Model Fire Truck

The District has entered into a lease agreement with Leasing 2, Inc. to finance the purchase of a fire truck. The capitalized cost of the fire truck, included in apparatus and vehicles, is \$337,742. Accumulated depreciation recorded relative to the fire truck is \$112,581 as of June 30, 2020. The lease is collateralized by the fire truck.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note E - Long-Term Liabilities (Continued)

The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2020.

<u>Year ending June 30,</u>	
2021	\$ 53,881
2022	53,881
2023	53,882
2024	<u>53,882</u>
Total minimum lease payments	215,526
Less amount representing interest	<u>(16,364)</u>
Present value of net minimum lease payments	<u>\$ 199,162</u>
Current capital lease obligation	\$ 47,438
Noncurrent capital lease obligation	<u>151,724</u>
	<u>\$ 199,162</u>

Capital lease - 2016 Spartan Type 1 Pumper

The District has entered into a lease agreement with Leasing 2, Inc. to finance the purchase of a fire truck. The capitalized cost of the fire truck, included in apparatus and vehicles, is \$560,000. Accumulated depreciation recorded relative to the fire truck is \$205,333 as of June 30, 2020. The lease is collateralized by the fire truck.

The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2020.

<u>Year ending June 30,</u>	
2021	\$ 89,469
2022	89,469
2023	89,468
2024	<u>89,468</u>
Total minimum lease payments	357,874
Less amount representing interest	<u>(24,333)</u>
Present value of net minimum lease payments	<u>\$ 333,541</u>
Current capital lease obligation	\$ 79,872
Noncurrent capital lease obligation	<u>253,669</u>
	<u>\$ 333,541</u>

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note E - Long-Term Liabilities (Continued)

Summary of long-term liabilities service requirements

Long-term liabilities service requirements to maturity are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 127,310	\$ 16,040	\$ 143,350
2022	131,143	12,207	143,350
2023	135,091	8,259	143,350
2024	<u>139,159</u>	<u>4,191</u>	<u>143,350</u>
Total requirements	<u>\$ 532,703</u>	<u>\$ 40,697</u>	<u>\$ 573,400</u>

Note F - Defined Benefit Pension Plans

General Information about the Pension Plans

Plan Descriptions - The District contributes to the San Joaquin County Employees' Retirement Association (SJCERA), a cost-sharing multiple-employer defined benefit pension plan. SJCERA is administered by the Board of Retirement of the San Joaquin County Employees' Retirement Association (SJCERA) and is governed by the County Employee's Retirement Law (CERL) of 1937 (California Government Code Section 31450 et Seq.), and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Board of Retirement has the authority to establish and amend benefit terms, which are set by the CERL and PEPRA, and may be amended by the California state legislature. SJCERA issues a publicly available financial report that includes financial statements and required supplementary information for the participants in the plan. A copy of the financial report may be obtained by writing to the Board of Retirement, San Joaquin County Employees' Retirement Association, 6 South El Dorado, Suite 400, Stockton, California, 95202 or is available on SJCERA's website, www.sjcera.org.

Benefits Provided - SJCERA provides retirement, disability, 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. The CERL and PEPRA establish benefit terms. Retirement benefits are calculated on the basis of age, average final compensation, and service credit. Members hired prior to January 1, 2013 (Tier 1) are eligible to retire once they attain the age of 50 and have acquired five or more years of retirement service credit and have passed the tenth anniversary of their membership in SJCERA. A member with twenty years of service is eligible to retire regardless of age. Members who are first hired on or after January 1, 2013 (Tier 2) are eligible to retire once they have attained the age of 50 and have acquired five years of retirement service credit or after attaining age 70, regardless of service.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note F - Defined Benefit Pension Plans (Continued)

Member benefits for Tier 1 are calculated pursuant to the provisions of California Government Code Section 31664.1. The service retirement benefit payable is equal to the final compensation multiplied by the percentage from Section 31664.1. Member benefits for those who are not first hired on or after January 1, 2013, are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by the years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Safety	
	<u>Tier 1</u>	<u>Tier 2</u>
	Prior to	On or after
Hire date	<u>January 1, 2013</u>	<u>January 1, 2013</u>
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	2.0% to 2.7%
Required employer contribution rates	82.77%	70.50%
Required employee contribution rates	8.65% to 12.61%	14.67%

The Tier 1 plan is closed to new members that are not already SJCERA eligible participants or a member in a California reciprocal public retirement system.

Contributions - The District is required by statute to contribute to the retirement plan based upon actuarially determined contribution rates (percentage of covered salary) adopted by the Board of Retirement. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers and Government Code sections 31621.6, 31639.25, and 7522.30 for active members. The contribution requirements are established and may be amended by the SJCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted annually based upon recommendations received from SJCERAs' independent actuary after the completion of the annual actuarial valuation. The combined active member and employer contribution rates are expected to finance any unfunded accrued liability.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note F - Defined Benefit Pension Plans (Continued)

For the year ended June 30, 2020, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$ 941,341
Contributions - employee (paid by employer)	<u>30,314</u>
	<u>\$ 971,655</u>

All District employees are classified as safety plan members. The contribution requirements of plan members and the District are established and may be amended by the Board of Retirement. The District's contribution to the SJCERA for the years ended June 30, 2020, 2019, and 2018 were \$869,045, \$967,513, and \$763,082, respectively, equal to the required contributions for each year.

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

As of June 30, 2020, the District reported a net pension liability for its proportionate share of the net pension liability in the amount of \$7,909,217. The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of December 31, 2019, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to December 31, 2019, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, as actuarially determined. The District's proportionate share of the net pension liability for each Plan as of December 31, 2018 and 2019 was as follows:

	<u>Safety</u>
Proportion - December 31, 2018	0.4421%
Proportion - December 31, 2019	<u>0.4683%</u>
Change - increase (decrease)	0.0262%

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note F - Defined Benefit Pension Plans (Continued)

For the year ended June 30, 2020, the District recognized pension expense of \$1,355,471. At June 30, 2020, 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	\$ 518,735	\$ -
Differences between actual and expected experience	88,261	(148,278)
Changes in assumptions	372,030	-
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	472,785	(332,559)
Net differences between projected and actual earnings on plan investments	<u>-</u>	<u>(85,323)</u>
Total	<u>\$ 1,451,811</u>	<u>\$ (566,160)</u>

The \$518,735 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ended June 30,</u>	
2021	\$ 190,335
2022	117,599
2023	156,922
2024	<u>(97,940)</u>
Total	<u>\$ 366,916</u>

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note F - Defined Benefit Pension Plans (Continued)

Actuarial Assumptions - The total pension liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions:

	<u>Safety</u>
Valuation Date	January 1, 2019
Measurement Date	December 31, 2019
Actuarial Cost Method	Entry age normal cost level
Actuarial Assumptions:	
Inflation	2.90%
Amortization Growth Rate	3.15%
Projected Salary Increase	3.15% plus merit component (1)
Cost of living adjustments (COLA)	2.60%
Investment Rate of Return	7.25% (2)
Mortality	Sex distinct Public Safety 2010 Mortality Table, with generational mortality improvements projected from 2010 using Projection Scale MP-2018.

- (1) Depending on employee classification and years of service
- (2) Net of pension plan investment expenses, including inflation

Discount rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note F - Defined Benefit Pension Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table was the Retirement Board’s Adopted asset allocation policy and the long-term expected real rates of return as of June 30, 2020:

<u>Asset Class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Global Public Equities	30.00%	9.53%
Stable Fixed Income	10.00%	5.10%
Credit	14.00%	8.22%
Risk Parity	14.00%	7.20%
Private Appreciation	12.00%	12.15%
Crisis Risk Offset	20.00%	6.15%
Short-term Investments/Cash/Cash Equivalents	00.00%	3.15%
Total	100.00%	

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 each Plan, calculated using the discount rate for each 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:

	<u>Safety</u>
1% Decrease	6.25%
Net pension liability	\$ 11,010,936
Current discount rate	7.25%
Net pension liability	\$ 7,909,217
1% Increase	8.25%
Net pension liability	\$ 5,359,165

Pension Plan Fiduciary Net Position - Detailed information about each pension plan’s fiduciary net position is available in the separately issued SJCERA financial reports.

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note G - Deferred Compensation Plan

Employees of the District may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all full-time employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Total employee contributions to the plan during the year ended June 30, 2020 were \$60,570.

Note H - 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 for which the District obtains insurance coverage.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the District's responsibility.

Fire Agencies Insurance Risk Authority

The District is insured for comprehensive liability, automotive, and property damage coverage as a member of the Fire Agencies Insurance Risk Authority (the Authority). The Authority is a public agency risk pool created pursuant to a joint powers' agreement between the numerous member fire agencies. The Authority manages one pool for all member agencies. Each member pays an annual premium to the system based on numerous factors including the number of personnel, types and values of assets held. The following coverage limits and deductibles are listed as follows:

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note H - Risk Management (Continued)

<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
General liability	\$ 1,000,000	\$ -
Personal & advertising injury	1,000,000	-
Fire damage legal liability	1,000,000	-
Medical expense (each accident)	10,000	-
General aggregate	10,000,000	-
Products/completed operations annual aggregate	10,000,000	-
Management	1,000,000	5,000
Cyber	1,000,000	-
Automobile	1,000,000	5,000
Garage keepers legal liability	500,000	250-500
Umbrella liability	10,000,000	5,000
Crime	1,000,000	1,000

The Authority is not a component entity of the District for purposes of GASB Statement No. 14.

Fire Districts Association of California - Fire Association Self-Insurance System

The District is self-insured for workers' compensation coverage as a member of the Fire Districts Association of California - Fire Association Self-Insurance System (the System). The System is a public agency risk pool created pursuant to a joint powers agreement between the numerous member fire agencies. The System manages one pool for all member agencies. Each member pays an annual premium to the System based on the number of personnel, an estimated dollar amount of payroll and an experience factor. At fiscal year-end, when actual payroll expenditures are available, an adjustment to the year's annual premium is made. The System reinsures through the Local Agency Excess Workers' Compensation Authority (LAWCX), a joint powers authority, for claims in excess of \$750,000 for each insured event. The District's claims did not exceed coverage over the last 3 fiscal years.

Note I - Governing Board

As of June 30, 2020, the five members of the District's Board of Directors were as follows:

<u>Director</u>	<u>Term expires</u>
Clayton A. Titus, President	December 2020
Ralph P. Lucchetti, Vice President	December 2022
John D. Baker, Treasurer	December 2020
Ryan Haggerty	December 2022
Marc Youngblood	December 2022*

* Resigned June 30, 2020

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Financial Statements

June 30, 2020

Note J - Net Position (Deficit)

The governmental activities has a net position (deficit) of \$(5,136,169) as of June 30, 2020. The deficit is due to the District incurring expenses in excess of revenue and is expected to be offset in the future from the receipt of general revenues.

Note K - Subsequent Event

The District acquired a building in Stockton, California on July 10, 2020 for \$715,000. The District acquired the building by obtaining a loan from Farmers & Merchants Bank of Central California in the amount of \$536,250 secured by a deed of trust on real property.

Note L - Contingencies

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged in jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. The duration and intensity of the impact of the coronavirus and resulting impact to the District is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balances - Budget and Actual -
Governmental Funds**

For the year ended June 30, 2020

	General fund		
	<u>Actual amounts</u>	<u>Budgeted amounts original/final</u>	<u>Variance with final budget positive/ (negative)</u>
Revenues			
Special tax	\$ 2,287,349	\$ 2,290,279	\$ (2,930)
Property taxes	1,888,702	1,871,227	17,475
Grant revenue	110,001	-	110,001
Service fees	99,142	-	99,142
Fire permits and inspections	41,566	-	41,566
Insurance proceeds and reimbursements	23,305	16,382	6,923
Property tax relief	14,128	12,500	1,628
Proceeds from sale capital assets	6,000	-	6,000
Impact fees	4,487	-	4,487
Other	<u>3,956</u>	<u>-</u>	<u>3,956</u>
Total revenues	<u>4,478,636</u>	<u>4,190,388</u>	<u>288,248</u>
Expenditures			
Salaries and wages	1,699,542	1,529,760	(169,782)
Retirement	984,749	990,140	5,391
Employee benefits	368,006	474,932	106,926
Professional fees	106,060	113,500	7,440
Repairs and maintenance	56,685	31,000	(25,685)
Dispatching	51,960	52,000	40
Utilities	32,407	26,225	(6,182)
Building repairs and maintenance	28,938	67,000	38,062
Small tools and equipment	28,444	37,175	8,731
Fuel	26,926	35,000	8,074
Safety equipment	23,673	24,150	477
Payroll taxes	23,579	23,700	121
Supplies	22,768	40,374	17,606
Office supplies	22,428	33,310	10,882
Training	20,326	20,975	649
Insurance	18,991	21,000	2,009
Dues and subscriptions	6,366	9,210	2,844

(Continued)

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balances - Budget and Actual -
Governmental Funds (Continued)**

For the year ended June 30, 2020

	General fund		
	<u>Actual amounts</u>	<u>Budgeted amounts original/final</u>	<u>Variance with final budget positive/ negative</u>
Licenses and permits	5,926	-	(5,926)
Directors fees	3,500	4,500	1,000
Elections	-	18,000	18,000
Capital outlay	181,733	35,000	(146,733)
Debt services			
Principal	123,589	123,589	-
Interest	19,761	19,679	(82)
Total expenditures	<u>3,856,357</u>	<u>3,730,219</u>	<u>(126,138)</u>
Net change in fund balance	622,279	460,169	162,110
Fund balance, beginning of year	<u>574,970</u>	<u>574,970</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,197,249</u>	<u>\$ 1,035,139</u>	<u>\$ 162,110</u>

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Required Supplementary Information
For the year ended June 30, 2020**

**Schedule of the District's Proportionate Share
of the Net Pension Liability**

Last 10 years*

	Measurement Date					
	December 31,					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability	0.4683%	0.4421%	0.4534%	0.4333%	0.4405%	0.4405%
Proportionate share of the net pension liability	\$ 7,909,217	\$ 8,222,002	\$ 7,172,233	\$ 7,225,480	\$ 6,776,387	\$ 5,803,567
Covered - employee payroll	1,187,062	1,090,298	1,094,499	995,408	1,054,884	1,001,044
Proportionate share of the net pension liability as percentage of covered - employee payroll	666.29%	754.10%	655.30%	725.88%	642.38%	579.75%
Plan's fiduciary net position	3,244,361,827	2,841,042,076	2,879,288,631	2,554,802,124	2,413,242,547	2,466,349,529
Plan fiduciary net position as a percentage of the total pension liability	65.76%	60.44%	64.54%	60.50%	61.10%	187.20%

Notes to schedule:

Benefit changes - There have been no changes in benefits since the prior valuation.

Changes in assumptions: In 2016, amounts reported as changes in assumptions resulted primarily from adjustments on expected retirement ages of employees.

*Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

**Required Supplementary Information
For the year ended June 30, 2020**

Schedule of Contributions

Last 10 years*

	Measurement Date					
	December 31,					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution (actuarially determined)	\$ 869,045	\$ 967,513	\$ 763,082	\$ 659,624	\$ 634,840	\$ 549,362
Contributions in relation to the actuarially determined contributions	<u>869,045</u>	<u>967,513</u>	<u>763,082</u>	<u>659,624</u>	<u>634,840</u>	<u>549,362</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,187,062	\$ 1,090,298	\$ 1,094,499	\$ 995,408	\$ 1,054,884	\$ 1,001,044
Contributions as a percentage of covered - employee payroll	73.21%	88.70%	69.70%	66.27%	60.18%	54.88%

Notes to schedule:

Valuation Date:	1/1/19
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll
Remaining amortization period	15 years
Asset valuation method	Actuarial value
Inflation	2.90%
Salary increases	3.15%
Discount rate	7.25%
Mortality	RP-2010 Combined Mortality Table

* Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

The accompanying notes are an integral part of this financial statement.

WATERLOO MORADA RURAL COUNTY FIRE PROTECTION DISTRICT

Notes to Required Supplementary Information

June 30, 2020

The manager of the District prepares an expenditure budget annually which is approved by the Board of Directors setting forth the contemplated fiscal requirements. The District's budgets are maintained on the modified accrual basis of accounting. The results of operations are presented in the budget to actual schedule in accordance with the budgetary basis.

Reported budget amounts reflect the annual budget as originally adopted. There were no amendments to the budget during the year ended June 30, 2020. The budget amounts are based on estimates of the District's expenditures and the proposed means of financing them. Actual expenditures for capital outlay, debt service and contingencies may vary significantly from budget due to timing of such expenditures.