

**APPLE VALLEY
FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

**APPLE VALLEY FIRE PROTECTION DISTRICT
APPLE VALLEY, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Apple Valley Fire Protection District

We have audited the accompanying financial statements of the governmental activities and each major fund of Apple Valley Fire Protection District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Apple Valley Fire Protection District as of June 30, 2013, the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statements No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and 34*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress for the agent retirement plan and other post-employment benefit plan on pages 3-13 and 38-39 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.

Starbuck Walsh, LLP

Starbuck Walsh, LLP

December 11, 2013

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Introduction

As management of the Apple Valley Fire Protection District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Apple Valley Fire Protection District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements in order to enhance their understanding of the District's financial performance.

Financial Highlights

- The District's governmental revenues of \$7,552,660 decreased \$220,983 or 2.8%, from the prior year.
- The District's governmental expenditures of \$7,524,125 decreased by \$413,124 or 5.2% from the prior year.
- On a budgetary basis, General Fund actual revenues recorded negative variances from the final budget of the year. Actual revenues fell below budgeted revenues by \$76,594. Actual expenditures were \$136,170 less than what was budgeted to be spent.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,950,443, an increase of \$58,585 from the prior year.

Profile of the Government

Government Entity

The Apple Valley Fire Protection District became self-governing on January 15, 1951. It covers approximately 206 square miles in the High Desert of San Bernardino County. The District serves a population of approximately 90,000 in the incorporated and unincorporated areas of Apple Valley.

The District operates seven (7) fire stations and an administrative office. Under the command of 1 Fire Chief and 1 Division Chief, 9 fire-fighting personnel are on duty at all times for immediate response. These personnel staff three (3) Medic Engines, 1 aerial ladder truck, a Medic Squad, an urban search and rescue unit, 2 water tenders, 2 patrols, and 4 brush engines. The District currently employs 42 full and 16 part-time personnel, with additional support of one (1) Reserve Fire Inspector.

Budgetary Control

The development of the budget is guided by the District's Master Plan, the goals established by the Board of Directors, the District's Financial Plan, and the desire to maintain high quality and cost effective fire protection and emergency services.

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Revenue related to property valuations represents approximately 69.3% of the District's overall revenue and comes from direct property tax receipts that are distributed from the County. Special assessment property taxes from specific properties represent 29.0% of overall revenues and are subject to an annual cost of living allowance (COLA) capped at 2.0%. Other revenue consists of fees and reimbursements for services, such as permits, inspection fees, interest and miscellaneous sources.

Expenditures are allocated in four major areas within the budget: Salaries and Benefits; Services and Supplies; Capital Outlay; and Debt Service.

Financial Highlights

- The Statement of Net position presents information on all of the District's assets and liabilities. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the District. At year-end, the assets of the District exceeded liabilities by \$8,839,786.
- Total Governmental Fund Balances increased by \$58,585 to \$1,950,443 at June 30, 2013.
- The Unrestricted Fund Balance at June 30, 2013 was \$1,148,902, representing 15.3% of district-wide expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Apple Valley Fire Protection District's basic financial statements, which consist of the following components:

- Statement of Net Position
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position
- Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities
- Statement of Revenues, Expenditures, and Changes in General Fund Balance – Budget and Actual
- Notes to the Financial Statements

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

These statements help to illustrate the status of the District as a whole through the reporting of the year's activities. The *Statement of Net Position* and *Statement of Activities* report information about the District as a whole, and include all assets and liabilities, using the full accrual basis of accounting. Capital assets and long-term liabilities are included in these two statements. These statements report the District's net position and all of the current year's revenues and expenses.

The Fund Statements, which include the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balance*, are based on the modified accrual basis of accounting. These statements present only current assets and current liabilities and exclude capital assets and long-term liabilities.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two 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 is improving or deteriorating. As of June 30, 2013, the District had total assets of \$10,523,233 and total liabilities of \$1,683,447 resulting in total net position of \$8,839,786. This represents a decrease of \$224,156 in total net position.

Current Assets include cash and investments and receivables. *Non-current Assets* include capital assets, net of related depreciation. The Apple Valley Fire Protection District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Apple Valley Fire Protection District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to pay off these liabilities.

Current Liabilities include accounts payable and accrued payables. Long-term Liabilities include non-current liabilities due with one year and non-current liabilities due in more than one year.

The remaining *Net Position* is divided between restricted and unrestricted net position. Restricted net position is the portion of net position that is restricted to uses specified by third parties. Unrestricted net position can be used to meet the District's ongoing obligations and to provide services to the community.

APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

| <i>Net Position</i> | | <u>2013</u> | <u>2012</u> | <u>Increase (Decrease) 2013/2012</u> |
|---|----|-------------------|---------------------|--|
| Assets | | | | |
| Current Assets | | | | |
| Cash and investments | \$ | 2,062,174 | \$ 1,923,770 | \$ 138,404 |
| Receivables (net of allowance for uncollectibles) | | 216,049 | 292,425 | (76,376) |
| Restricted cash and investments | | 13,404 | 17,316 | (3,912) |
| Total Current Assets | | <u>2,291,627</u> | <u>2,233,511</u> | <u>(58,116)</u> |
| Non-Current Assets | | | | |
| Capital assets, net of accumulated depreciation | | <u>8,231,606</u> | <u>8,506,287</u> | <u>(274,681)</u> |
| Total Non-Current Assets | | <u>8,231,606</u> | <u>8,506,287</u> | <u>(274,681)</u> |
| Total Assets | | <u>10,523,233</u> | <u>10,739,798</u> | <u>(216,565)</u> |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accrued payables | | 340,684 | 341,153 | (469) |
| Deposits | | 500 | 500 | - |
| Total Current Liabilities | | <u>341,184</u> | <u>341,653</u> | <u>(469)</u> |
| Long Term Liabilities | | | | |
| Noncurrent Liabilities, | | | | |
| Due within one year | | 229,222 | 384,165 | (154,943) |
| Due in more than one year | | 1,113,041 | 950,038 | 163,003 |
| Total Long Term Liabilities | | <u>1,342,263</u> | <u>1,334,203</u> | <u>8,060</u> |
| Total Liabilities | | <u>1,683,447</u> | <u>1,675,856</u> | <u>7,591</u> |
| Net Position | | | | |
| Invested in capital assets, net of related debt | | 7,677,480 | 7,921,375 | (243,895) |
| Restricted for capital projects – Jess Ranch | | 246 | 366 | (120) |
| Restricted – Development impact fees | | 13,158 | 16,950 | (3,792) |
| Unrestricted | | 1,148,902 | 1,125,251 | 23,651 |
| Total Net Position | \$ | <u>8,839,786</u> | \$ <u>9,063,942</u> | \$ <u>(224,156)</u> |

APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The following *Statement of Activities* compares key elements in the change in net position during the fiscal years 2013 and 2012, as well as the District's revenues and expenditures for the same two periods:

| | 2013 | 2012 |
|---------------------------------------|----------------------------|----------------------------|
| Net Position at Beginning of the Year | \$ <u>9,063,942</u> | \$ <u>9,327,408</u> |
| General Revenues | | |
| Property taxes | 4,708,252 | 4,704,637 |
| Special assessments | 2,189,090 | 2,147,351 |
| Use of property and money | 194,628 | 149,302 |
| Gain on sale of assets | 6,975 | - |
| PASIS dividends | - | 150,000 |
| Total General Revenues | <u>7,098,945</u> | <u>7,151,290</u> |
| Program Revenues | | |
| Charges for services | 398,653 | 497,622 |
| Operating grants and contributions | 58,131 | 101,413 |
| Capital grants and contributions | 26,982 | 173,318 |
| Total Program Revenues | <u>483,766</u> | <u>772,353</u> |
| Total Revenues | 7,582,711 | 7,923,643 |
| Less: General Expenses | <u>(7,806,867)</u> | <u>(8,187,109)</u> |
| (Decrease) Increase in Net Position | <u>(224,156)</u> | <u>(263,466)</u> |
| Net Position at Year End | \$ <u><u>8,839,786</u></u> | \$ <u><u>9,063,942</u></u> |

- Total revenues decreased \$340,932, or 4.3%, from 2012 levels due primarily to a return of workers compensation premiums coupled with Development Impact Fees from a Super Walmart, both of which were one-time events that occurred in 2012 only.
- General expenses decreased \$380,242, or 4.6%, from 2012 in large part to three employees who left and were not replaced in 2013.

APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The Governmental Funds *Balance Sheet* presents the current assets, liabilities and fund balances of the District as of June 30, 2013. The Balance Sheet assets of \$2,233,511 exclude capital assets, net of accumulated depreciation. The assets presented on the Balance Sheet are as follows:

| | |
|---|---------------------|
| Total Assets from Statement of Net Position | \$ 10,523,233 |
| Less: Capital Assets, net of Accumulated Depreciation | (8,231,606) |
| Assets Reported on Balance Sheet | <u>\$ 2,291,627</u> |

The Balance Sheet liabilities exclude noncurrent liabilities of \$1,342,263. The liabilities presented on the Balance Sheet are as follows:

| | |
|--|-------------------|
| Total Liabilities from Statement of Net Position | \$ 1,683,447 |
| Less: Non-Current Liabilities: Due within One Year | (229,222) |
| Less: Non-Current Liabilities: Due in More than One Year | (1,113,041) |
| Liabilities Reported on Balance Sheet | <u>\$ 341,184</u> |

The assets reported on the Balance Sheet equal liabilities and fund balance:

| | |
|---------------------------------------|---------------------|
| Assets reported on Balance Sheet | <u>\$ 2,291,627</u> |
| Liabilities Reported on Balance Sheet | 341,184 |
| Fund Balance | <u>1,950,443</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,291,627</u> |

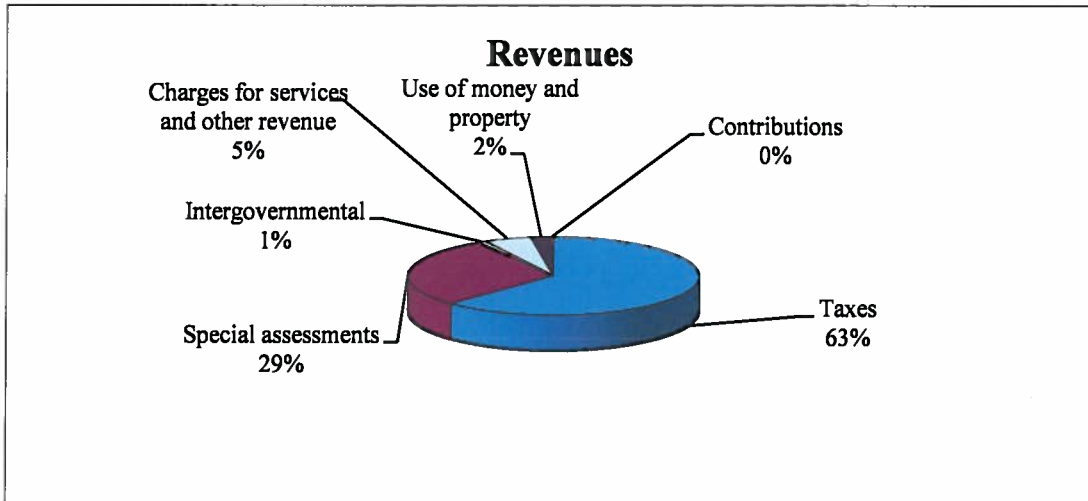
The *Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position* reconciles the difference between the fund balance of governmental funds of \$1,950,443 and the much larger number representing the District's net position of \$8,839,786:

| | |
|---|---------------------|
| End of year fund balance – Governmental Funds | \$ 1,950,443 |
| Capital Assets, Net of Accumulated Depreciation | 8,231,606 |
| Long Term Liabilities | |
| Due within one year | (229,222) |
| Due in more than one year | (1,113,041) |
| Net Position of Governmental Activities | <u>\$ 8,839,786</u> |

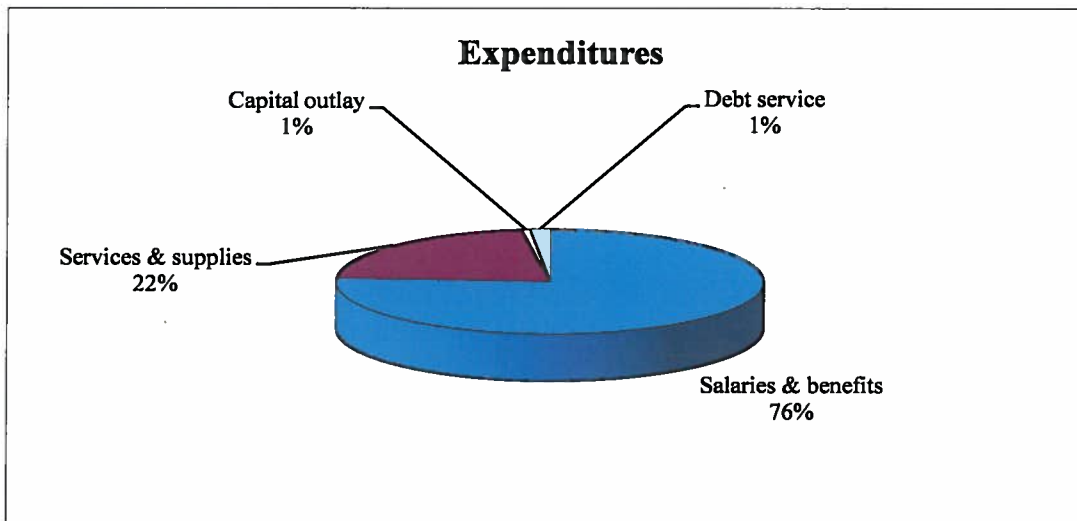
APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The revenues in the *Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds* present the detail of Revenues and Expenditures for the District. Revenues total \$7,552,660 and consist of the following:



The expenditures in the *Statement of Revenues, Expenditures and Changes in Fund Balance* total \$7,524,125 and consist of the following:



APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds – to the Statement of Activities* is necessary because amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balance differ for several reasons to those shown in the Statement of Activities:

| | | |
|---|----|------------------|
| Net Change in Fund Balance | \$ | 58,584 |
| Add principal portion of debt service payment | | 30,788 |
| Add the cost of assets capitalized | | 101,964 |
| Less depreciation expense | | (376,645) |
| Less increase in compensated absences reported in the Government-wide Statement of Activities which did not affect current financial Resources. | | <u>(38,847)</u> |
| Change in Net Position in Governmental Activities | \$ | <u>(224,156)</u> |

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

The *Notes to the Financial Statements* present additional information and disclosures about the amounts reported in the financial statements.

- Note 1: Provides a **Summary of Significant Accounting Policies**, including the following:

The Description of Reporting Entity highlights the District's formation and governing structure of a five-member board.

The Description of Funds outlines the Governmental Fund Type for Apple Valley Fire Protection District, which includes the General Fund where all resources are accounted for in their entirety for reporting purposes and two Special Revenue Funds.

The Basis of Accounting/Measurement Focus outlines the various statements presented in the audit. The government-wide statements are presented on the accrual basis of accounting and are based on the "economic resource" measurement focus, while the fund financial statements are presented on the modified accrual basis and the "flow of resources" measurement focus.

Claims and Judgments outlines the manner in which liability of claims, judgments and litigation will be accounted for. Said liabilities will be accounted for in the year that the liability has incurred, including the probable amount of loss, when it can be reasonably estimated.

Capital Assets, by District policy, maintain the threshold for capitalizing assets of \$5,000 per item. Such assets are recorded at historical cost and are depreciated annually.

Budgetary Practice includes the process in which the annual budget is adopted. The annual budget is adopted by the Board of directors after holding a series of committee meetings, workshops and public hearings;

Deferred Compensation Plan describes the deferred compensation plan utilized by the District.

Investments outline the requirement of GASB 31 and how the investments are classified on the Balance Sheet.

Estimates explain the use of estimates in the report and that actual results could differ from the estimates.

Use of Restricted Resources defines the manner in which the District utilizes assets. Unrestricted assets are those assets that do not have restrictions imposed by third parties.

Restricted Assets provides a definition of what constitutes restrictions on assets and which of the District's assets are restricted.

Compensated Absences policies are described here. These are the District's policies governing sick and vacation time.

Accounts Receivable and Allowance for Bad Debt describes the District's policies for receivables and uncollectible amounts.

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Fund Balance describes the District's policies for establishing and rescinding restricted, committed and assigned fund balances, including stabilization funds.

The District considers restricted amounts (see Note #7) to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Excluding amounts held for economic uncertainties, assigned and unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Regarding reserve levels for funds held for economic uncertainty, the District's Board of Directors through resolution, has a specific reserve policy goal of maintaining funds held in reserve for economic uncertainty to be ten percent (10%) of the total current fiscal year budgeted expenditures less planned capital expenditures for the same fiscal year, with a minimum amount not less than seven percent (7%) for the same fiscal year.

Net Position is the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

- Note 2: **Cash and Investments** at June 30, 2013 include cash demand deposits of \$649,271 and investments in the Local Agency Investment Fund (LAIF) of \$1,426,307.
- Note 3: **Property Taxes** are received by the District in two installments, December and April, and are recognized when levied to the extent that they result in current receivables.
- Note 4: **Capital Assets and Depreciation** includes the reportable capital assets and calculated depreciation. The District does not depreciate land or investments. Buildings, improvements and equipment are depreciated annually. Major items purchased during the year include an SCBA compressor and computer equipment. The two fire engines that were being modified in 2012 were completed and placed in service in 2013.
- Note 5: **Risk Management** identifies the providers for Workers' Compensation Insurance and General Liability Insurance. The District is self-insured for Workers' Compensation. General Liability Insurance is covered through the Special Districts Risk Management Authority (SDRMA), which is a JPA.
- Note 6: **Long-Term Debt** includes compensated absences of \$788,138 consisting of \$257,064 in accrued vacation and \$531,074 in accrued sick leave, and installment debt of \$554,125.
- Note 7: **Classifications of Net Position and Fund Balance** provides an explanation of how net position are classified for the purposes of reporting, in three categories: Invested in Capital Assets, Restricted Net position, Unrestricted Net Position.
- Note 8: **Retirement Plan** includes a Plan Description and Funding Policy. The District provides retirement through the California Public Employees Retirement System (CalPERS). The Safety employees' plan provides for 3% @ 55 retirement and the Miscellaneous (Non-Safety) employees are provided 2.7% @ 55. Effective August 25, 2012, the District adopted a second tier for new members into

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

CalPERS. The Safety employees' plan will now provide 2% @ 55 and the Miscellaneous employees' plan will now provide 2% @ 60.

- Note 9: **Other Postemployment Benefits** includes the District's policies and plans for providing health insurance for its retirees.
- Note 10: **Interfund Activities** describes the amount and nature of transfers between funds.
- Note 11: **Short-Term Financing** reports the borrowing activity for debt with a maturity of twelve months or less, including debt that the District borrowed and repaid in entirety during the year.
- Note 12: **Contingencies** are inherent to financial statements. Redevelopment Agencies (RDAs) were mandated by the State of California to be dissolved in 2012. Due to the pass-through nature of its participation in local RDAs, coupled with no litigation with the State of California, District management estimates any lost property tax revenues would be immaterial.

Currently Known Facts, Decisions, and Conditions

- In an effort to achieve long-term cost savings, the District adopted a lower second tier for new members into CalPERS. New members of the Safety plan will receive 2% @ 55 instead of 3% at 55, and new members of the Miscellaneous plan will receive 2% @ 60 instead of 2.7% at 55.
- Concurrent with the process of issuing \$1,465,000 in tax and revenue anticipation bonds, the District received Moody's highest rating given for issuances of short-term debt (debt one year or less in maturity).
- Manufacturing specifications were completed on the District's two new fire engines, allowing the District to place both engines into service during the first quarter of the 2012-2013 fiscal year.
- Management remains committed to increasing the funded status of its Other Post-Employment Benefits (OPEB) liability. By engaging actuaries to calculate needed contributions levels, the district has gone from 0% to 46.6% funded in 5 short years.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the Apple Valley Fire Protection District for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, 22400 Headquarters Drive, Apple Valley, California 92307.

APPLE VALLEY FIRE PROTECTION DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2013**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 2,062,174 |
| Taxes receivable | 170,873 |
| Accrued interest receivable | 1,168 |
| Other receivables | 10,632 |
| Grants receivable | 33,376 |
| Restricted cash and cash equivalents | 13,404 |
| Capital assets, net of accumulated depreciation | <u>8,231,606</u> |
| Total Assets | <u>10,523,233</u> |
| LIABILITIES | |
| Accrued payables | 340,684 |
| Deposits | 500 |
| Noncurrent liabilities | |
| Due within one year | 229,222 |
| Due in more than one year | <u>1,113,041</u> |
| Total Liabilities | <u>1,683,447</u> |
| NET POSITION | |
| Invested in capital assets, net of related debt | 7,677,480 |
| Restricted for capital projects | 246 |
| Restricted - Development impact fees | 13,158 |
| Unrestricted | <u>1,148,902</u> |
| Total Net Position | <u>\$ 8,839,786</u> |

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

APPLE VALLEY FIRE PROTECTION DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>Program Revenues</u> | | | Net Governmental Activities | |
|-------------------------------|-------------------------|---------------------------------|---|-----------------------------------|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | | <u>Capital Grants and Contributions</u> |
| Governmental Activities | | | | | |
| Public safety | \$ 7,806,867 | \$ 398,653 | \$ 58,131 | \$ 26,982 | \$ (7,323,101) |
| Total Governmental Activities | <u>\$ 7,806,867</u> | <u>\$ 398,653</u> | <u>\$ 58,131</u> | <u>\$ 26,982</u> | <u>(7,323,101)</u> |
| General Revenues | | | | | |
| | | | | | 6,897,342 |
| | | | | | 194,628 |
| | | | | | <u>6,975</u> |
| | | | | | <u>7,098,945</u> |
| | | | | | (224,156) |
| | | | | | <u>9,063,942</u> |
| | | | | | <u>\$ 8,839,786</u> |

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

APPLE VALLEY FIRE PROTECTION DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

| ASSETS | General Fund | Special Revenue Funds | | Totals |
|--|---------------------|-------------------------|----------------------------|---------------------|
| | | Jess Ranch Equipment | Development Impact Fees | |
| Cash and investments | \$ 2,062,174 | \$ - | \$ - | \$ 2,062,174 |
| Receivables | | | | |
| Taxes receivable | 170,873 | - | - | 170,873 |
| Accrued permits and fees | 7,580 | - | - | 7,580 |
| Accrued interest receivable | 1,168 | - | - | 1,168 |
| Other receivables | 3,051 | - | - | 3,051 |
| Due from other governments | 33,377 | - | - | 33,377 |
| Restricted cash and investments | - | 246 | 13,158 | 13,404 |
| Total Assets | <u>\$ 2,278,223</u> | <u>\$ 246</u> | <u>\$ 13,158</u> | <u>\$ 2,291,627</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 340,684 | \$ - | \$ - | \$ 340,684 |
| Deposits | 500 | - | - | 500 |
| Total Liabilities | <u>341,184</u> | <u>-</u> | <u>-</u> | <u>341,184</u> |
| FUND BALANCES | | | | |
| Restricted for: | | | | |
| Debt service | 32,188 | - | - | 32,188 |
| Facilities | - | 246 | 13,158 | 13,404 |
| Committed to: | | | | |
| Reserve for economic uncertainties | 747,794 | - | - | 747,794 |
| Petty cash and revolving cash | 2,250 | - | - | 2,250 |
| Assigned to: | | | | |
| Facilities and equipment | 688,532 | - | - | 688,532 |
| Unpaid sick and vacation benefits | 283,830 | - | - | 283,830 |
| Unassigned: | <u>182,445</u> | <u>-</u> | <u>-</u> | <u>182,445</u> |
| Total Fund Balances | <u>1,937,039</u> | <u>246</u> | <u>13,158</u> | <u>1,950,443</u> |
| Total Liabilities and and Fund Balances | <u>\$ 2,278,223</u> | <u>\$ 246</u> | <u>\$ 13,158</u> | <u>\$ 2,291,627</u> |

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

APPLE VALLEY FIRE PROTECTION DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET POSITION

JUNE 30, 2013

| | |
|---|----------------------------|
| Fund Balance of the Governmental funds | \$ 1,950,443 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds. | 8,231,606 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(1,342,263)</u> |
| Net Position of Governmental Activities | <u><u>\$ 8,839,786</u></u> |

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

APPLE VALLEY FIRE PROTECTION DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

| | General Fund | Special Revenue Funds | | Total |
|---|---------------------|-------------------------|----------------------------|---------------------|
| | | Jess Ranch Equipment | Development Impact Fees | |
| REVENUES | | | | |
| Property taxes | \$ 4,708,252 | \$ - | \$ - | \$ 4,708,252 |
| Special assessments | 2,189,090 | - | - | 2,189,090 |
| Intergovernmental | 49,866 | - | 15,032 | 64,898 |
| Charges for current services | 398,652 | - | - | 398,652 |
| Use of money and property | 171,426 | - | 127 | 171,553 |
| Contributions | 20,215 | - | - | 20,215 |
| Total Revenues | 7,537,501 | - | 15,159 | 7,552,660 |
| EXPENDITURES | | | | |
| Salaries and benefits | 5,710,946 | - | - | 5,710,946 |
| Services and supplies | 1,652,637 | 120 | - | 1,652,757 |
| Capital outlay | 46,068 | - | - | 46,068 |
| Debt service | | | | |
| Principal | 30,788 | - | - | 30,788 |
| Interest and fiscal charges | 83,566 | - | - | 83,566 |
| Total Expenditures | 7,524,005 | 120 | - | 7,524,125 |
| Excess of Revenues Over (Under) Expenditures | 13,496 | (120) | 15,159 | 28,535 |
| Other Sources (Uses) | | | | |
| Sale of fixed assets | 6,975 | - | - | 6,975 |
| Financing sources | 23,074 | - | - | 23,074 |
| Operating transfers in | 28,383 | - | - | 28,383 |
| Operating transfers out | - | - | (28,383) | (28,383) |
| Total Other Financing Sources | 58,432 | - | (28,383) | 30,049 |
| Net Change in Fund Balance | 71,928 | (120) | (13,224) | 58,584 |
| FUND BALANCE, Beginning of Year | 1,865,111 | 366 | 26,382 | 1,891,859 |
| FUND BALANCE, End of Year | \$ 1,937,039 | \$ 246 | \$ 13,158 | \$ 1,950,443 |

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

APPLE VALLEY FIRE PROTECTION DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balance - Governmental Funds \$ 58,584

Amounts reported for governmental activities in the Statement of Activities differ from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance because:

Governmental funds report principal payments on debt as debt service expenditures. Only the interest portion of debt service payments is expensed in the Statement of Activities.

30,788

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized

101,964

Depreciation expense

(376,645)

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the net change in the compensated absences liability.

(38,847)

Change in Net Position of Governmental Activities

\$ (224,156)

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

APPLE VALLEY FIRE PROTECTION DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN GENERAL FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Increase (Decrease) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 4,635,154 | \$ 4,646,217 | \$ 4,708,252 | \$ 62,035 |
| Special assessments | 2,145,337 | 2,190,056 | 2,189,090 | (966) |
| Grants | 50,736 | 50,736 | 49,866 | (870) |
| Charges for current services | 547,713 | 500,148 | 398,652 | (101,496) |
| Use of money and property | 175,150 | 176,724 | 171,426 | (5,298) |
| Contributions | - | 27,500 | 20,215 | (7,285) |
| Total Revenues | 7,554,090 | 7,591,381 | 7,537,501 | (53,880) |
| EXPENDITURES | | | | |
| Salaries and benefits | 5,892,433 | 5,869,813 | 5,710,946 | 158,867 |
| Services and supplies | 1,617,354 | 1,617,232 | 1,652,637 | (35,405) |
| Capital assets | 24,000 | 48,500 | 46,068 | 2,432 |
| Debt service | | | | |
| Principal | 30,788 | 30,788 | 30,788 | - |
| Interest and fiscal charges | 55,379 | 83,842 | 83,566 | 276 |
| Contingencies | 10,000 | 10,000 | - | 10,000 |
| Total Expenditures | 7,629,954 | 7,660,175 | 7,524,005 | 136,170 |
| Excess (Deficiency) of Revenues Over Expenditures | (75,864) | (68,794) | 13,496 | 82,290 |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from sale of capital assets | 20,460 | 20,460 | 6,975 | (13,485) |
| Proceeds from financing | - | 23,074 | 23,074 | - |
| Transfers (net) | 56,766 | 26,766 | 28,383 | 1,617 |
| Total Other Financing Sources | 77,226 | 70,300 | 58,432 | (11,868) |
| Net Change in Fund Balance | 1,362 | 1,506 | 71,928 | 70,422 |
| FUND BALANCE, Beginning of Year | 1,865,111 | 1,865,111 | 1,865,111 | - |
| FUND BALANCE, End of Year | \$ 1,866,473 | \$ 1,866,617 | \$ 1,937,039 | \$ 70,422 |

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

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Apple Valley Fire Protection District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The District has implemented GASB Statement No. 34 and these statements are presented according to those requirements. The following is a summary of the significant policies.

A. Description of the Reporting Entity

The Apple Valley Fire Protection District (the District) was formed on January 15, 1951, pursuant to the provisions of Section 13800 of the California Health and Safety Code. The purpose of the District is to provide fire protection services to the Town of Apple Valley and surrounding area. The District is a self-governed fire protection District organized entirely within the County of San Bernardino. The District, covering 206 square miles within its boundaries, is governed by a five-member Board of Directors elected by the citizens of the Town of Apple Valley.

The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

B. Description of Funds

The accounts of the District are organized in two funds, which are considered separate accounting entities. The operations of the funds are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The following types of funds are used:

Governmental Fund Type

- *General Fund* – Because the District provides only fire protection services all resources are accounted for in this fund.
- *Special Revenue Fund* – The Special Revenue Fund is used to account for the proceeds of a specific revenue source that is legally restricted to expenditures for a specified purpose. Revenues in the Jess Ranch Equipment fund came from developer fees for a new housing project. Development Impact Fees revenues are allocated to the District from fees collected from new development within the Town of Apple Valley's boundaries.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting/Measurement Focus

Government – Wide Financial Statements

The District's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the District.

These statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as long-term debt, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. 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. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Operating grants and contributions include revenues restricted to meeting the requirements of a particular operating function and may include state shared revenues and grants. Capital grants and contributions include revenues restricted to meeting the requirements of a particular capital function and may include grants or other contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance for the General Fund. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the Government-Wide Financial Statements.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. "Measurable" means that the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Accrued revenues include property taxes received within 60 days after year-end and earnings on investments. Grant funds earned but not received are recorded as a receivable, and grant funds received before the revenue recognition criteria have been met are reported as deferred revenues. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Claims and Judgments

In accordance with Governmental Accounting Standards Board (GASB) Code Section C50.110, the District records a liability for claims, judgments, and litigation when it is probable that a liability has been incurred at year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

E. Capital Assets

Capital assets, which include land, buildings, improvements, and equipment, are reported in the Governmental Activities column of the Government-Wide Financial Statements. Capital assets are defined by the District as all land, buildings, vehicles, computers, equipment, and improvements, with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated market value at the date of donation or annexation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the useful life of the assets as follows:

| | |
|-----------------------------------|------------|
| Buildings | 40 years |
| Improvements other than buildings | 5-50 years |
| Machinery and Equipment | 3-20 years |

F. Budgetary Practice

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) The annual budget is adopted by the Board of Directors after the holding of a hearing and provides for the general operation of the District. The operating budget includes proposed expenditures and the means of financing them.
- 2) The Board of Directors approves total budgeted appropriations and any amendments to appropriations throughout the year. This "appropriated budget" (as defined by GASB Code Sec. 2400.109) covers District expenditures in the General Funds. Budget figures used in the accompanying financial statements are the final adjusted amounts.
- 3) Formal budgetary integration is employed as a management control device during the year. Commitments for materials and services, such as purchase orders and contracts, are recorded as encumbrances to assist in controlling expenditures. Also, unencumbered appropriations lapse at year-end.
- 4) The annual budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures have been adjusted for comparison with related budgeted amounts in the financial statements.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Practice (Continued)

- 5) The District is not required to adopt a budget for its Special Revenue Fund; therefore, budgetary comparison information is not presented for that fund.

G. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The District has adopted the provisions of GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans". Management believes that the District has no fiduciary role under the revised plan, and plan funds are not available to the District's general creditors. Accordingly, the District has not reported plan assets in the accompanying financial statements.

H. Investments

The foremost objective of the District's investment policy is safety of capital. The following are authorized and suitable investments of District funds: Local Agency Investment Fund (LAIF), a State of California managed investment pool; time deposits with maturities not exceeding two years; repurchase agreements not exceeding 90 days in maturities; and Money Market Funds having a weighted average maturity of 90 days and meeting the criteria contained in Government Codes Sections 53601(k).

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Pools", which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the District has adjusted certain investments to fair value (when material).

Investments are included within the financial statement classifications of "Cash and investments" and are stated at fair value, unless fair value reasonably approximates cost, in which case cost is used.

I. 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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Use of Restricted Resources

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

K. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted cash and cash equivalents represents developer fees restricted for construction of a fire station for the Jess Ranch project and Development Impact Fees collected by the Town of Apple Valley and remitted to the District for capital expenditures.

L. Compensated Absences

The District's policy is to pay for a variable scale of 60% to 100% of sick time accrued upon retirement, death or resignation of an employee after five years continuous service with the District. The accrual rate is 96 hours per year for 40-hour employees, and 144 hours per year for 24-hour and shift employees based on longevity with the District.

M. Accounts Receivable and Allowance for Bad Debts

The District considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

N. Fund Balance – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District had no nonspendable funds as of June 30, 2013.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board, which is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

O. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

P. New Accounting Pronouncements

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*

For the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." The objective of the Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in the Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.*

For the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34." The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of the Statement did not have an effect on these financial statements.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

For the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Pronouncements.” The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. The implementation of the Statement did not have an effect on these financial statements.

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

For the fiscal year ended June 30, 2013, the District implemented GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” This Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. The Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the District’s financial statements are explained in Note 1-O. Net Position.

NOTE #2 – CASH AND INVESTMENTS

Authorized Investments

In accordance with Section 53601 of the California Government Code, the District’s Board of Directors has directed the District to invest in the following:

- Local Agency Investment Fund (State Pool)
- Other investments which are expressly permitted by the District’s Board of Directors

The California Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with the LAIF are secured by the full faith and credit of the state of California.

Pooled Deposits/Credit Risk

The District may waive collateral requirements for deposits which are fully insured by Federal depository insurance.

Category 1: Insured or collateralized with securities held by the District or by its agent in the District’s name.

Category 2: Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.

Category 3: Uncollateralized. This includes any bank balance that is collateralized with security held by the pledging financial institution or by its trust department or agent but not in the District’s name.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #2 – CASH AND INVESTMENTS (Continued)

Credit Risk, Carrying Amount, and Market Value of Investments

The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follow:

Category 1: Insured or registered, with securities held by the District or by its agent in the District’s name.

Category 2: Uninsured and unregistered, with securities held by the pledging financial institution’s or counterparty’s trust department or agent in the District’s name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the District’s name.

| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Total</u> | <u>Carrying Amount</u> |
|----------------------------------|------------|----------|------------|---------------------|----------------------------|
| Cash in banks | \$ 250,246 | \$ - | \$ 461,858 | \$ 712,104 | \$ 649,271 |
| Pooled investments: | | | | | |
| *Local Agency Investment Fund | | | | <u>1,426,307</u> | <u>1,426,307</u> |
| | | | | <u>\$ 2,138,161</u> | <u>\$ 2,075,578</u> |

* Not subject to categorization.

** The management of the State of California Pooled Money Investment Account has indicated to the District that as of June 30, 2013, the carrying amount of the pool was \$58,803,312,428 and the estimated market value of the pool (including accrued interest) was \$58,852,094,221. The District’s proportionate share of that value is \$1,426,307. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

Fair Value of Investments

GASB Statement No. 31 generally applies to investments in external investment pools (State of California LAIF and County Treasury investment pools); investments purchased with maturities greater than one year, mutual funds, and certain investment agreements. Generally, governmental entities need to report the “fair value” changes for these investments at year-end and record these gains or losses on their income statements.

The State Treasurer’s Local Agency Investment Fund is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee, comprised of California State officials and various participants, provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer’s

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Office. It is the District's understanding that the values of shares in the LAIF pool reflect "fair value." The District is a voluntary participant in the investment pool.

NOTE #3 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Bernardino bills and collects the property taxes and distributes them to the District in installments during the year. District property tax revenues are recognized when levied to the extent that they result in current receivables.

NOTE #4 – CAPITAL ASSETS AND DEPRECIATION

The District has reported all capital assets in the Government-Wide Statement of Net position. The following table presents the capital assets activity for the year ended June 30, 2013.

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-------------------|-------------------|---------------------------|
| Governmental Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Construction in progress on equipment | \$ 864,360 | \$ - | \$ 864,360 | \$ - |
| Land | 2,571,933 | - | - | 2,571,933 |
| Total Capital Assets Not Being Depreciated | 3,436,293 | - | 864,360 | 2,571,933 |
| Capital Assets Being Depreciated | | | | |
| Buildings and other improvements | 6,241,967 | - | - | 6,241,967 |
| Equipment and vehicles | 3,625,988 | 966,324 | 152,635 | 4,439,677 |
| Total Capital Assets Being Depreciated | 9,867,955 | 966,324 | 152,635 | 10,681,644 |
| Less Accumulated Depreciation For | | | | |
| Buildings and other improvements | 1,681,325 | 152,932 | - | 1,834,257 |
| Equipment and vehicles | 3,116,636 | 223,713 | 152,635 | 3,187,714 |
| Total Accumulated Depreciation | 4,797,961 | 376,645 | 152,635 | 5,021,971 |
| Total Capital Assets Being Depreciated, Net | 5,069,994 | 589,679 | - | 5,659,673 |
| Governmental Activities Capital Assets, Net | \$ 8,506,287 | \$ 589,679 | \$ 864,360 | \$ 8,231,606 |

Depreciation expense in the amount of \$376,645 was charged to the public safety function on the Statement of Activities for the year ended June 30, 2013.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #5 – 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.

Workers' Compensation

The District is a member of the Public Agency Self Insurance System of San Bernardino County (PASIS). PASIS provides workers' compensation insurance services. PASIS is set up as a banking system where the members share the expenses, and each member is responsible for its own losses up to a \$300,000 per occurrence self-insured retention. Losses above the self-insured retention are covered by reinsurance, purchased by PASIS. The District makes an annual contribution based on past and projected future claims. Projections of future ultimate losses are inherently uncertain because of the random nature of claims occurrences. Therefore, future loss rates are projected judgmentally based on the historical rates.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses do not include an estimate of claims that have been incurred but not reported. At June 30, 2013, the amount of potential outstanding claims liability is estimated to be \$2,174,291. The District is able to access its accumulated balance with PASIS. Funds available as of June 30, 2013 in excess of the \$75,000 minimum required deposit were \$1,033,771.

Three Year Trend Information of Funding for PASIS

| Year Ending June 30, | Cash Balance Beginning of Year | Premiums and Interest Earned | Claims and Payments | Cash Balance End of Year | Potential Outstanding Claims Liability at End of Year |
|----------------------------|---|------------------------------------|------------------------|-----------------------------------|--|
| 2011 | \$ 1,238,130 | \$ 256,984 | \$ 230,334 | \$1,264,780 | \$ 2,045,884 |
| 2012 | \$ 1,264,780 | \$ 290,900 | \$ 494,924 | \$1,060,756 | \$ 2,313,710 |
| 2013 | \$ 1,060,756 | \$ 298,021 | \$ 250,006 | \$1,108,771 | \$ 2,174,291 |

NOTE #6 – LONG-TERM DEBT

Change in long-term debt activity is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Amount Due In 2012-2013 |
|----------------------|---------------------------------|-------------------|-------------------|---------------------------|----------------------------|
| Installment loan | \$ 584,913 | \$ - | \$ 30,788 | \$ 554,125 | \$ 32,188 |
| Compensated absences | 749,290 | 387,800 | 348,952 | 788,138 | 197,034 |
| | <u>\$ 1,334,203</u> | <u>\$ 387,800</u> | <u>\$ 379,740</u> | <u>\$ 1,342,263</u> | <u>\$ 229,222</u> |

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #6 – LONG-TERM DEBT (Continued)

Installment Loan

In June 2011 the District secured a loan from Municipal Finance Corporation in the amount of \$614,360 to finance the purchase of two new fire engines. Terms of the loan require semi-annual payments of principal and interest of \$28,383 through December 2020 and one payment of \$280,033 in June 2021. The loan bears interest at 4.5% per annum.

Future maturities are as follows:

| Public Safety: Year(s) ended June 30, | Principal | Interest | Total |
|--|--------------------------|--------------------------|--------------------------|
| 2014 | \$ 32,188 | \$ 24,578 | \$ 56,766 |
| 2015 | 33,653 | 23,113 | 56,766 |
| 2016 | 35,185 | 21,581 | 56,766 |
| 2017 | 36,786 | 19,980 | 56,766 |
| 2018 | 38,460 | 18,306 | 56,766 |
| 2019-2021 | <u>377,853</u> | <u>44,095</u> | <u>421,948</u> |
| Total | \$ <u>554,125</u> | \$ <u>151,653</u> | \$ <u>705,778</u> |

Compensated Absences

For governmental funds, accumulated vacation and sick leave benefits payable in future years when used by the District employees amounted to \$788,138 (\$257,064 vacation and \$531,074 sick leave) at June 30, 2013. Vacation benefits will be recorded as an expenditure in the governmental funds when the related current liability is incurred. The long term portion of this liability, along with sick leave will be recorded as an expenditure upon retirement.

Workers Compensation

An actuarial study performed as of June 30, 2013 for PASIS estimated potential future outstanding claims liability for the District as of June 30, 2013 to be \$2,174,291.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #7 - CLASSIFICATIONS OF NET POSITION AND FUND BALANCE

In the Government-Wide financial statements net position is classified as follows:

Invested in Capital Assets Net of Related Debt

This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted Net Position

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This category represents the net position of the District that are not externally restricted for any project or other purpose.

In the Fund Financial Statements the District has established “reserves” to segregate portions of fund balance which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund “designations” also are established to indicate tentative plans for financial resource utilization of unreserved fund balance in a future period. The District’s governmental funds reserves and designations at June 30, 2013 are presented below:

| | |
|-----------------------------------|---------------------|
| Fund Balance | |
| Restricted | \$ 45,592 |
| Committed | |
| Reserve for economic uncertainty | 747,794 |
| Petty cash and revolving cash | 2,250 |
| Total Committed | <u>750,044</u> |
| Assigned | |
| Facilities and equipment | 688,532 |
| Unpaid sick and vacation benefits | 283,830 |
| Total Assigned | <u>972,362</u> |
| Unassigned | <u>182,245</u> |
| Total Fund Balance | <u>\$ 1,950,243</u> |

Fund reserved for economic uncertainty were committed by formal action of the District’s Board of Directors. The fund was established to commit 10-15% of the District’s annual operating expenditures, exclusive of capital outlay. In 2013 the District has committed 10% of qualifying operating expenditures. The policy requires additions to the fund if it falls below 7% of qualifying expenditures, and allows for additions up to 15%. Funds may be spent on qualifying expenditures to the extent that the balance remains within 7% to 15%.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE #8 – RETIREMENT PLAN

Plan Description

The District's defined benefit pension plans, The Safety and Miscellaneous Plans of the Apple Valley Fire Protection District (the "Plans"), provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members in the Safety and Miscellaneous Plans are required to contribute 9 percent and 8 percent, respectively, of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2012-2013 was 22.515% for miscellaneous employees and 19.702% for safety employees. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2012-2013, the District's annual pension cost was \$721,964, and was equal to the District's required and actual contributions. The required contribution for fiscal year 2012-2013 was determined as part of the June 30, 2011 actuarial valuation using mandated risk pooling for all employers with retirement plans with fewer than 100 members. The actuarial assumptions included (a) 7.75 % investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%; and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Plans' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over 15 years. Additionally, at the time of joining the risk pool, a Side Fund was created to account for the difference between the unfunded status of the pool and funded status of our plan. The initial side fund amortization period was 14 years as of June 30, 2005.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #8 – RETIREMENT PLAN (Continued)

Three-Year Trend Information for the Plans

| Year Ending June 30, | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------|---------------------------------|-------------------------------------|------------------------------|
| 2011 | \$ 1,008,929 | 100% | - |
| 2012 | \$ 817,984 | 100% | - |
| 2013 | \$ 721,964 | 100% | - |

Funded Status of Safety Plan

Mandatory Risk Pool initiated valuations at 6/30/03 for all employers under 100 active members

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded/ (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------|---|---------------------------------|--|-----------------|------------------------------|---------------------------------------|
| | | | | | | |
| 06/30/09 | \$ 1,802,882,330 | \$ 1,520,081,328 | \$ 282,801,002 | 84.3% | \$ 221,600,192 | 127.6% |
| 06/30/10 | \$ 1,915,095,826 | \$ 1,628,915,283 | \$ 286,180,543 | 85.1% | \$ 224,562,008 | 127.4% |
| 06/30/11 | \$ 2,061,923,933 | \$ 1,759,286,797 | \$ 302,637,136 | 85.3% | \$ 225,026,216 | 134.5% |

Funded Status of Miscellaneous Plan

Mandatory Risk Pool initiated valuations at 6/30/03 for all employers under 100 active members

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded/ (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------|---|---------------------------------|--|-----------------|------------------------------|---------------------------------------|
| | | | | | | |
| 06/30/09 | \$ 2,140,438,884 | \$ 1,674,260,302 | \$ 466,178,582 | 78.2% | \$ 440,071,499 | 105.9% |
| 06/30/10 | \$ 2,297,871,345 | \$ 1,815,671,616 | \$ 482,199,729 | 79.0% | \$ 434,023,381 | 111.1% |
| 06/30/11 | \$ 2,486,708,579 | \$ 1,981,073,089 | \$ 505,635,490 | 79.7% | \$ 427,300,410 | 118.3% |

NOTE #9 - OTHER POST EMPLOYMENT BENEFITS

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of June 30, 2007 for the postemployment healthcare benefits provided by the District.

Plan Description

The District has established a single-employer trust, "The Apple Valley Fire Protection District Retiree Health Reimbursement Arrangement," ("the HRA") with US Bank National Association ("the Bank") to administer its postemployment healthcare plan. The District's plan provides retiree healthcare benefits in the form of premium payments for employees who retire from the District. Eligible retirees may elect coverage through the District's contract with CalPERS healthcare benefits. The plan benefits are established and may be amended by the Apple Valley Fire Protection District's Board of Directors.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE #9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Under the HRA, retirees are classified into two groups. The first group, current retirees and spouses and active employees hired before January 1, 2003, receives \$400 per month (\$550 for retiree and spouse) in District-paid premiums called Supplemental Benefit Contribution (SBC). This group also has the option of electing coverage through the District's contract with CalPERS healthcare benefits. Retirees who elect that coverage also receive the benefit of District-paid premiums for the Minimum Required Contribution (MRC) required by PERS. At June 30, 2013 the MRC was \$115 per month. The second group, active employees hired after January 1, 2003, will receive only the minimum required contribution.

The financial report for The Apple Valley Fire Protection District Retiree Health Reimbursement Arrangement can be obtained from the finance department of the Apple Valley Fire Protection District at 22400 Headquarters Drive, Apple Valley, CA 92307.

Funding Policy

The contribution requirements of the HRA are established and may be amended by the District's Board. The minimum contributions by the District are based on actuarially determined rates described as the Annual Required Contribution (ARC). For the fiscal year ending June 30, 2013, the District's ARC represented a contribution of \$145,544 to the HRA.

Annual OPEB Cost

For the fiscal year ended June 30, 2013, the District's annual OPEB cost (expense) of \$286,600 exceeded the ARC of \$145,544 by \$141,056. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the HRA, and the net OPEB obligation since adoption of GASB No. 45 is as follows:

| <u>Fiscal Year Ending</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|-------------------------|---|----------------------------|
| 06/30/09 | \$ 262,021 | 100% | - |
| 06/30/10 | \$ 277,742 | 100% | - |
| 06/30/11 | \$ 221,900 | 100% | - |
| 06/30/12 | \$ 244,000 | 100% | - |
| 06/30/13 | \$ 286,600 | 100% | - |

Funded Status and Funding Progress

| <u>Fiscal Year Ended</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability</u> | <u>Unfunded Accrued Liability</u> | <u>Funded Ratio</u> | <u>Annual Covered Payroll</u> | <u>UAAL as a Percentage of Payroll</u> |
|--------------------------|----------------------------------|------------------------------------|-----------------------------------|---------------------|-------------------------------|--|
| 06/30/09 | \$ 429,743 | \$ 2,448,970 | \$ 2,019,227 | 17.5% | \$ 4,336,425 | 46.6% |
| 06/30/10 | \$ 706,149 | \$ 2,448,970 | \$ 1,742,821 | 28.8% | \$ 4,622,446 | 37.7% |
| 06/30/11 | \$ 865,741 | \$ 2,570,097 | \$ 1,704,356 | 33.7% | \$ 3,895,347 | 43.8% |
| 06/30/12 | \$ 1,015,544 | \$ 2,570,097 | \$ 1,554,553 | 39.5% | \$ 3,940,591 | 39.4% |
| 06/30/13 | \$ 1,198,288 | \$ 2,573,281 | \$ 1,374,993 | 46.6% | \$ 3,504,472 | 39.2% |

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE #9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the HRA and include the types of benefits provided at the time of each valuation. In the June 30, 2013 actuarial valuation, the frozen attained age actuarial cost method was used. In this method, the frozen actuarial accrued liability is determined using the projected unit credit actuarial cost method and spread in level dollars over 30 years. Normal cost is determined on the basis of total benefit present value in excess of the sum of the actuarial accrued liability plus assets with the balance spread in level dollars over the expected future working lifetime of active employees.

Assumptions include a 6.0% discount rate and an annual healthcare cost trend rate of 3% for the MRC for all years.

NOTE #10 - INTERFUND ACTIVITIES

Interfund activities were as follows:

| | Interfund Receivable | Interfund Payable | Interfund Transfers in | Interfund Transfers Out |
|--|-------------------------|----------------------|---------------------------|----------------------------|
| General Fund | \$ - | \$ - | \$ 28,383 | \$ - |
| Special Revenue Fund – Development Impact Fees Fund | - | - | - | 28,383 |
| | \$ - | \$ - | \$ 28,383 | \$ 28,383 |

Transfers were made from the Development Impact Fees Fund to the General Fund to reimburse the General Fund for specific development fees incurred. For the year ended June 30, 2013, \$28,383 was transferred to cover the second payment on the installment debt incurred for the purchase of two new fire engines

NOTE #11 - SHORT-TERM FINANCING

The District issued Tax and Revenue Anticipation Bonds with California Statewide Communities Development Authority in the amount of \$1,465,000 with a coupon interest rate of 2.0% per annum and a maturity date of June 28, 2013. Increases and decreases during the year ended June 30, 2013 were as follows:

| Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---------------------------------|--------------|--------------|---------------------------|
| \$ - | \$ 1,465,000 | \$ 1,465,000 | \$ - |

Interest expense of \$28,974 and debt issuance costs of \$28,613 were charged to the public safety function in the Statement of Activities.

The District has a line of credit with Desert Community Bank in anticipation of upcoming tax revenues. The available funds are \$1,400,000 at 4.0% per annum with a maturity date of April 30, 2014. The District will repay the line of credit with 2013-2014 tax revenues. No amounts were drawn on the line in 2013 and the balance at June 30, 2013 was \$0.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE #12 – CONTINGENCIES

To the best of the District's knowledge, there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the District, which is likely to have a material adverse effect on the financial condition of the District.

APPLE VALLEY FIRE PROTECTION DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – AGENT RETIREMENT PLANS (CALPERS)
JUNE 30, 2013**

RETIREMENT PLAN

The funded status of the plans as of the most recent valuation date, June 30, 2011, along with the actuarial assumptions and methods used in those valuations follow:

Funded Status of Safety Plan

Mandatory Risk Pool initiated valuations at 6/30/03 for all employers under 100 active members

| Valuation Date | Entry Age | Actuarial Value of Assets | Unfunded/ (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|----------------|--------------------------|---------------------------|----------------------------------|--------------|------------------------|---------------------------------|
| | Normal Accrued Liability | | | | | |
| 06/30/09 | \$ 1,802,882,330 | \$ 1,520,081,328 | \$ 282,801,002 | 84.3% | \$ 221,600,192 | 127.6% |
| 06/30/10 | \$ 1,915,095,826 | \$ 1,628,915,283 | \$ 286,180,543 | 85.1% | \$ 224,562,008 | 127.4% |
| 06/30/11 | \$ 2,061,923,933 | \$ 1,759,286,797 | \$ 302,637,136 | 85.3% | \$ 225,026,216 | 134.5% |

Funded Status of Miscellaneous Plan

Mandatory Risk Pool initiated valuations at 6/30/03 for all employers under 100 active members

| Valuation Date | Entry Age | Actuarial Value of Assets | Unfunded/ (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|----------------|--------------------------|---------------------------|----------------------------------|--------------|------------------------|---------------------------------|
| | Normal Accrued Liability | | | | | |
| 06/30/09 | \$ 2,140,438,884 | \$ 1,674,260,302 | \$ 466,178,582 | 78.2% | \$ 440,071,499 | 105.9% |
| 06/30/10 | \$ 2,297,871,345 | \$ 1,815,671,616 | \$ 482,199,729 | 79.0% | \$ 434,023,381 | 111.1% |
| 06/30/11 | \$ 2,486,708,579 | \$ 1,981,073,089 | \$ 505,635,490 | 79.7% | \$ 427,300,410 | 118.3% |

Actuarial Assumptions and Methods

The actuarial assumptions included (a) 7.75 % investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%; and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Plans' assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over 15 years. Additionally, at the time of joining the risk pool, a Side Fund was created to account for the difference between the unfunded status of the pool and funded status of our plan. The initial side fund amortization period was 14 years as of June 30, 2005.

APPLE VALLEY FIRE PROTECTION DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2013**

**THE APPLE VALLEY FIRE PROTECTION DISTRICT RETIREE HEALTH REIMBURSEMENT
ARRANGEMENT**

The funded status of the plan as of the most recent valuation date, June 30, 2013, along with the actuarial assumptions and methods follow:

Funded Status and Funding Progress

| <u>Fiscal Year Ended</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability</u> | <u>Unfunded Accrued Liability</u> | <u>Funded Ratio</u> | <u>Annual Covered Payroll</u> | <u>UAAL as a Percentage of Payroll</u> |
|----------------------------------|--|--|---|-------------------------|---------------------------------------|--|
| 06/30/09 | \$ 429,743 | \$ 2,448,970 | \$ 2,019,227 | 17.5% | \$ 4,336,425 | 46.6% |
| 06/30/10 | \$ 706,149 | \$ 2,448,970 | \$ 1,742,821 | 28.8% | \$ 4,622,446 | 37.7% |
| 06/30/11 | \$ 865,741 | \$ 2,570,097 | \$ 1,704,356 | 33.7% | \$ 3,895,347 | 43.8% |
| 06/30/12 | \$ 1,015,544 | \$ 2,570,097 | \$ 1,554,553 | 39.5% | \$ 3,940,591 | 39.4% |
| 06/30/13 | \$ 1,198,288 | \$ 2,573,281 | \$ 1,374,993 | 46.6% | \$ 3,504,472 | 39.2% |

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the HRA and include the types of benefits provided at the time of each valuation. In the June 30, 2013 actuarial valuation, the frozen attained age actuarial cost method was used. In this method, the frozen actuarial accrued liability is determined using the projected unit credit actuarial cost method and spread in level dollars over 30 years. Normal cost is determined on the basis of total benefit present value in excess of the sum of the actuarial accrued liability plus assets with the balance spread in level dollars over the expected future working lifetime of active employees.

Assumptions include a 6.0% discount rate and an annual healthcare cost trend rate of 3% for the MRC for all years.