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**APPLE VALLEY  
FIRE PROTECTION DISTRICT  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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Jennifer L. Starbuck, CPA  
Joseph P. Walsh, CPA  
Willie C. Robinson, CPA  
Daija M. Trujillo  
Alicia L. Lennartz

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Apple Valley Fire Protection District

I have audited the accompanying financial statements of the governmental activities and funds of Apple Valley Fire Protection District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Apple Valley Fire Protection District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and funds of the Apple Valley Fire Protection District as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages two through twelve is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

*Jennifer Starbuck*

Starbuck Walsh, LLP  
October 20, 2010

# APPLE VALLEY FIRE PROTECTION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

### 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, 2010. 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 \$8,217,651 decreased \$342,625 or 4.0%, from the prior year.
- The District's governmental expenditures of \$9,329,351 increased by \$232,545 or 2.6% from the prior year.
- On a budgetary basis, General Fund revenues recorded positive variances for the final budget of the year. Actual revenues exceeded budgeted revenues by \$1,060,099. Actual expenditures were \$383,761 over what was budgeted to be spent. The overage in actual expenditures was attributable to the additional salary costs associated with retirees.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,646,577, a decrease of \$663,577 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 95,000 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, 1 Deputy Chief, 1 Division Chief and 2 Battalion Chiefs, 14 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 3 brush engines. The District currently employs 55 full and 23 part-time personnel, with addition support of one (1) Reserve Fire Inspector and an Explorer Post consisting of 12 scouts.

#### 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, 2010**

Revenue related to property valuations represents approximately 66.98% of the District's overall revenue and comes from two sources: Direct property tax receipts that are distributed from the County; and special assessment property taxes from specific properties. 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 Assets 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 \$9,973,721.
- Total Governmental Fund Balances decreased by \$663,577 to \$2,646,577 at June 30, 2010.
- The Unreserved Fund Balance at June 30, 2010 was \$2,506,869, representing 28.23% 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 Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets
- 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, 2010

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 Assets* 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 assets 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 Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. As of June 30, 2010, the District had total assets of \$11,143,334 and total liabilities of \$1,169,613, resulting in total net assets of \$9,973,721. This represented a decrease of \$1,111,700 in total net assets.

*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 Assets* are divided between those that are restricted and those that are unrestricted. Restricted net assets are those net of related liabilities that are restricted to uses specified by third parties. Unrestricted net assets 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, 2010

<i>Net Assets</i>	2010	2009	Increase (Decrease) 2010/2009
<b>Assets</b>			
<b>Current Assets</b>			
Cash and investments	\$ 2,057,720	\$ 2,503,799	\$ (446,079)
Receivables (net of allowance for uncollectibles)	727,447	737,389	(9,942)
Restricted cash and investments	120,241	267,875	(147,634)
Prepaid Insurance	-	6,498	(6,498)
<b>Total Current Assets</b>	<u>2,905,408</u>	<u>3,515,561</u>	<u>(610,153)</u>
<b>Non-Current Assets</b>			
Capital assets, net of accumulated depreciation	8,237,926	8,634,189	(396,263)
<b>Total Non-Current Assets</b>	<u>8,237,926</u>	<u>8,634,189</u>	<u>(396,263)</u>
<b>Total Assets</b>	<u>11,143,334</u>	<u>12,149,750</u>	<u>(1,006,416)</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accrued payables	258,331	204,907	53,424
Deposits	500	500	-
<b>Total Current Liabilities</b>	<u>258,831</u>	<u>205,407</u>	<u>53,424</u>
<b>Long Term Liabilities</b>			
<b>Noncurrent Liabilities,</b>			
Due within one year	572,707	214,731	357,976
Due in more than one year	338,075	644,191	(306,116)
<b>Total Long Term Liabilities</b>	<u>910,782</u>	<u>858,922</u>	<u>51,860</u>
<b>Total Liabilities</b>	<u>1,169,613</u>	<u>1,064,329</u>	<u>105,284</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	8,237,926	8,634,189	(396,263)
Restricted for capital projects – Jess Ranch	596	835	(239)
Restricted – Development impact fees	139,112	267,040	(127,928)
Unrestricted	1,596,087	2,183,357	(587,270)
<b>Total Net Assets</b>	<u>\$ 9,973,721</u>	<u>\$ 11,085,421</u>	<u>\$ (1,111,700)</u>

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

The following *Statement of Activities* compares key elements in the change in net assets during the fiscal years 2010 and 2009, as well as the District's revenues and expenditures for the same two periods:

	2010	2009
Net Assets at Beginning of the Year	\$ <u>11,085,421</u>	\$ <u>11,621,951</u>
<b>General Revenues</b>		
Property taxes	5,359,762	5,984,460
Special assessments	2,061,534	2,010,554
Use of property and money	125,082	146,520
Gain on sale of assets	16,008	-
PASIS dividends	200,000	-
<b>Total General Revenues</b>	<u>7,762,386</u>	<u>8,141,534</u>
<b>Program Revenues</b>		
Charges for services	272,615	290,935
Operating grants and contributions	111,220	57,672
Capital grants and contributions	71,430	70,135
<b>Total Program Revenues</b>	<u>455,265</u>	<u>418,742</u>
<b>Total Revenues</b>	8,217,651	8,560,276
Less: General Expenses	<u>(9,329,351)</u>	<u>(9,096,806)</u>
(Decrease) Increase in Net Assets	<u>(1,111,700)</u>	<u>(536,530)</u>
Net Assets at Year End	\$ <u>9,973,721</u>	\$ <u>11,085,421</u>

- Total revenues decreased 4.0% from 2009.
- General expenses increased about 2.6% over 2009.



**APPLE VALLEY FIRE PROTECTION DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

The Governmental Funds *Balance Sheet* presents the current assets, liabilities and fund balances of the District as of June 30, 2010. The Balance Sheet assets of \$2,905,408 exclude capital assets, net of accumulated depreciation. The assets presented on the Balance Sheet are as follows:

Total Assets from Statement of Net Assets	\$ 11,143,334
Less: Capital Assets, net of Accumulated Depreciation	(8,237,926)
Assets Reported on Balance Sheet	<u>\$ 2,905,408</u>

The Balance Sheet liabilities exclude noncurrent liabilities of \$910,782. The liabilities presented on the Balance Sheet are as follows:

Total Liabilities from Statement of Net Assets	\$ 1,169,613
Less: Non-Current Liabilities: Due within One Year	-
Less: Non-Current Liabilities: Due in More than One Year	(910,782)
Liabilities Reported on Balance Sheet	<u>\$ 258,831</u>

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

Assets reported on Balance Sheet	\$ <u>2,905,408</u>
Liabilities Reported on Balance Sheet	258,831
Fund Balance	<u>2,646,577</u>
Total Liabilities and Fund Balance	<u>\$ 2,905,408</u>

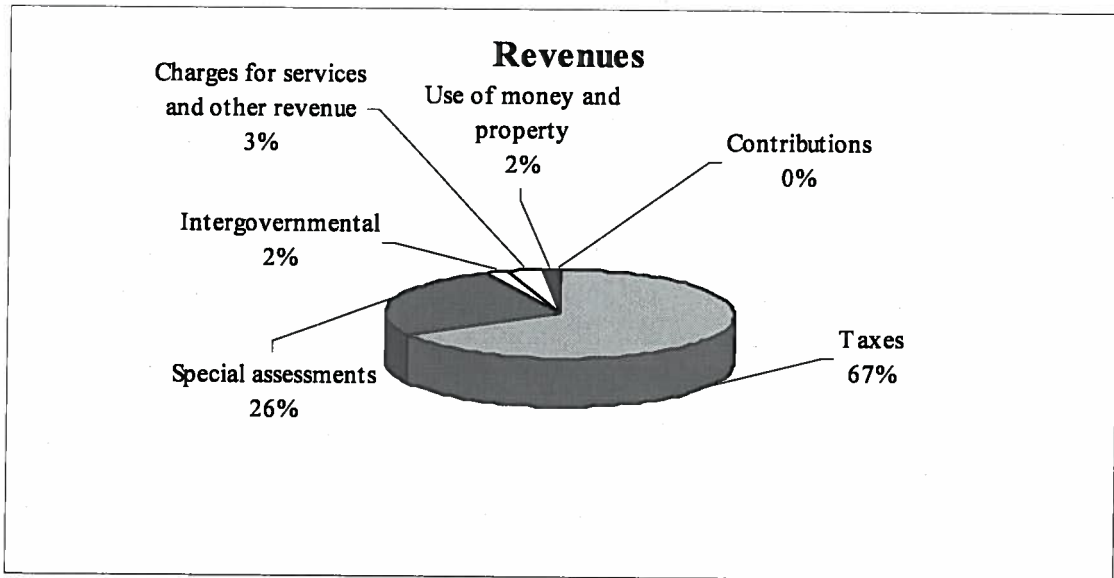
The *Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets* reconciles the difference between the fund balance of governmental funds of \$2,646,577 and the much larger number representing the District's net assets of \$9,973,721:

End of year fund balance – Governmental Funds	\$ 2,646,577
Capital Assets, Net of Accumulated Depreciation	8,237,926
Long Term Liabilities	
Due within one year	-
Due in more than one year	(910,782)
Net Assets of Governmental Activities	<u>\$ 9,973,721</u>

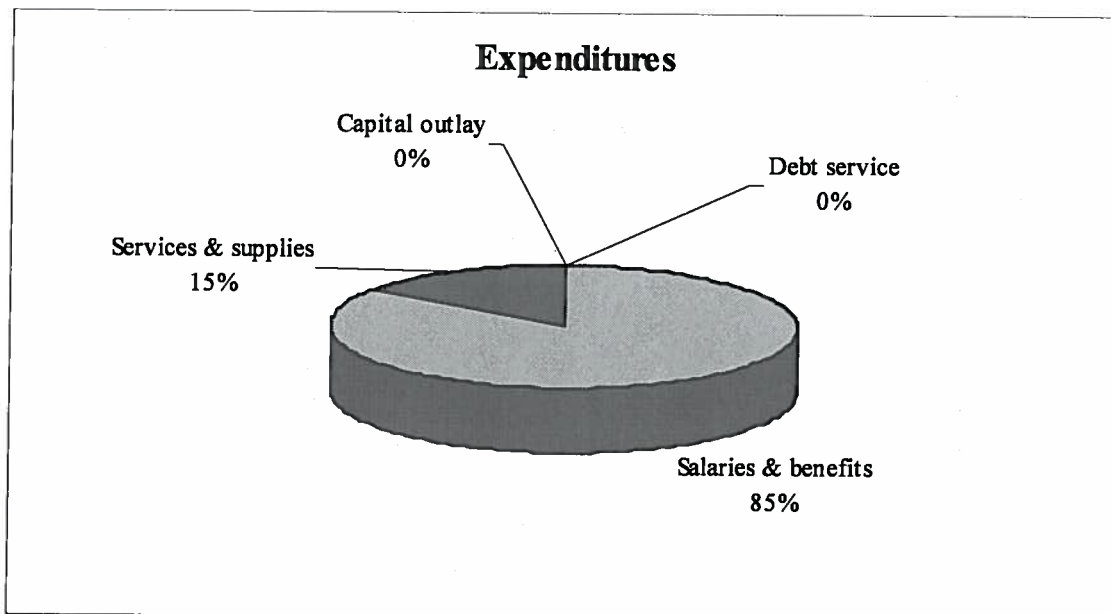
**APPLE VALLEY FIRE PROTECTION DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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 \$8,001,643 and consist of the following:



The expenditures in the *Statement of Revenues, Expenditures and Changes in Fund Balance* total \$8,881,228 and consist of the following:



**APPLE VALLEY FIRE PROTECTION DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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*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	\$	(663,577)
Add the cost of assets capitalized		5,142
Less depreciation expense		(401,405)
Less compensated absences reported in the Government-wide Statement of Activities, but which did not require current financial Resources.		(51,860)
		<hr/>
Change in Net Assets in Governmental Activities	\$	<u>(1,111,700)</u>

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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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;

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.

# APPLE VALLEY FIRE PROTECTION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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

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

- Note 2: **Cash and Investments** at June 30, 2010 include cash demand deposits of \$1,351,038 and investments in the Local Agency Investment Fund (LAIF) of \$826,923.
- 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 vehicles and mobile data computers.
- 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 \$910,782 consisting of \$302,910 in accrued vacation and \$607,872 in accrued sick leave.
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- Note 7: **Classifications of Net Assets and Fund Balance** provides an explanation of how net assets are classified for the purposes of reporting, in three categories: Invested in Capital Assets, Restricted Net Assets, Unrestricted Net Assets.
- 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.
- Note 9: **Other Postemployment Benefits** includes the District's policies and plans for providing health insurance for its retirees.
- Note 10: **Contingencies** are inherent to financial statements. The District estimates the amount of its loss of redevelopment fund revenue to the State, and states that it has no liability claims or legal proceedings filed that are expected to have a material effect on the District.

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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**Currently Known Facts, Decisions, and Conditions**

The District expects total revenues to decrease another 4% for the 2010-2011 fiscal year and then to remain level for 2011-2012.

**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 ASSETS**

**JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 2,057,720
Taxes receivable	667,604
Accrued interest receivable	2,789
Other receivables	36,599
Grants receivable	20,455
Restricted cash and cash equivalents	120,241
Capital assets, net of accumulated depreciation	8,237,926
Total Assets	<u>11,143,334</u>
<b>LIABILITIES</b>	
Accrued payables	258,331
Deposits	500
Noncurrent liabilities	
Due within one year	572,707
Due in more than one year	338,075
Total Liabilities	<u>1,169,613</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	8,237,926
Restricted for capital projects	596
Restricted - Development impact fees	139,112
Unrestricted	1,596,087
Total Net Assets	<u>\$ 9,973,721</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, 2010**

	Program Revenues				Net Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Public safety - fire protection	\$ 9,329,351	\$ 272,615	\$ 111,220	\$ 71,430	\$ (8,874,086)
Total Governmental Activities	<u>\$ 9,329,351</u>	<u>\$ 272,615</u>	<u>\$ 111,220</u>	<u>\$ 71,430</u>	<u>(8,874,086)</u>
General Revenues					
					7,421,296
Property taxes					125,082
Investment income					16,008
Gain on sale of assets					200,000
PASIS dividends					<u>200,000</u>
Total General Revenues					<u>7,762,386</u>
Change in Net Assets					(1,111,700)
Net Assets at Beginning of Year					<u>11,085,421</u>
Net Assets at End of Year					<u>\$ 9,973,721</u>

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



**APPLE VALLEY FIRE PROTECTION DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2010**

ASSETS	General Fund	Special Revenue Funds		Totals
		Jess Ranch Equipment	Development Impact Fees	
Cash and investments	\$ 2,057,720	\$ -	\$ -	\$ 2,057,720
Receivables				
Accounts receivable	13,171	-	-	13,171
Accrued property taxes	628,146	-	-	628,146
Accrued special taxes	39,458	-	-	39,458
Accrued interest	2,789	-	-	2,789
Accrued other	23,428	-	-	23,428
Due from other governments	988	-	19,467	20,455
Restricted cash and investments	-	596	119,645	120,241
Total Assets	<u>\$ 2,765,700</u>	<u>\$ 596</u>	<u>\$ 139,112</u>	<u>\$ 2,905,408</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 258,331	\$ -	\$ -	\$ 258,331
Deposits	500	-	-	500
Total Liabilities	<u>258,831</u>	<u>-</u>	<u>-</u>	<u>258,831</u>
<b>FUND BALANCES</b>				
Restricted Spendable				
Facilities	-	596	139,112	139,708
Limited spendable				
Petty cash and revolving cash	2,250	-	-	2,250
Assigned spendable				
Held for economic uncertainties	1,065,733	-	-	1,065,733
Facilities and equipment	589,000	-	-	589,000
Unpaid sick and vacation benefits	572,707	-	-	572,707
Unassigned spendable	<u>277,179</u>	<u>-</u>	<u>-</u>	<u>277,179</u>
Total Fund Balances	<u>2,506,869</u>	<u>596</u>	<u>139,112</u>	<u>2,646,577</u>
Total Liabilities and and Fund Balances	<u>\$ 2,765,700</u>	<u>\$ 596</u>	<u>\$ 139,112</u>	<u>\$ 2,905,408</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 ASSETS**

**JUNE 30, 2010**

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Fund Balance of the Governmental funds	\$ 2,646,577
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	8,237,926
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(910,782)</u>
Net Assets of Governmental Activities	<u>\$ 9,973,721</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, 2010**

	General Fund	Special Revenue Funds		Total
		Jess Ranch Equipment	Development Impact Fees	
<b>REVENUES</b>				
Property taxes	\$ 5,359,762	\$ -	\$ -	\$ 5,359,762
Special assessments	2,061,534	-	-	2,061,534
Intergovernmental	105,156	-	61,981	167,137
Charges for current services	273,245	-	-	273,245
Use of money and property	123,862	-	1,220	125,082
Contributions	14,883	-	-	14,883
<b>Total Revenues</b>	<b>7,938,442</b>	<b>-</b>	<b>63,201</b>	<b>8,001,643</b>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits	7,524,005	-	-	7,524,005
Services and supplies	1,348,851	120	-	1,348,971
Capital outlay	5,142	-	-	5,142
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	3,110	-	-	3,110
<b>Total Expenditures</b>	<b>8,881,108</b>	<b>120</b>	<b>-</b>	<b>8,881,228</b>
Excess of Revenues Over (Under) Expenditures	(942,666)	(120)	63,201	(879,585)
<b>Other Sources (Uses)</b>				
Proceeds from sales of assets	16,008	-	-	16,008
PASIS Dividends	200,000	-	-	200,000
Operating transfers in	191,248	-	-	191,248
Operating transfers out	-	-	(191,248)	(191,248)
<b>Total Other Financing Sources</b>	<b>407,256</b>	<b>-</b>	<b>(191,248)</b>	<b>216,008</b>
<b>Net Change in Fund Balance</b>	<b>(535,410)</b>	<b>(120)</b>	<b>(128,046)</b>	<b>(663,577)</b>
<b>FUND BALANCE, Beginning of Year</b>	<b>3,042,279</b>	<b>716</b>	<b>267,159</b>	<b>3,310,154</b>
<b>FUND BALANCE, End of Year</b>	<b>\$ 2,506,869</b>	<b>\$ 596</b>	<b>\$ 139,113</b>	<b>\$ 2,646,577</b>

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, 2010**

---

Net Change in Fund Balance - Governmental Funds \$ (663,577)

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 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	5,142
Depreciation expense	(401,405)

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.

(51,860)

Change in Net Assets of Governmental Activities

\$ (1,111,700)

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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 5,541,925	\$ 4,295,696	\$ 5,359,762	\$ 1,064,066
Special assessments	1,979,005	2,064,640	2,061,534	(3,106)
Intergovernmental	90,908	86,306	105,156	18,850
Charges for services and other revenue	242,901	252,528	273,245	20,717
Use of property and money	167,303	162,673	123,862	(38,811)
Contributions	14,000	16,500	14,883	(1,617)
<b>Total Revenues</b>	<b>8,036,042</b>	<b>6,878,343</b>	<b>7,938,442</b>	<b>1,060,099</b>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits	7,032,110	7,021,509	7,524,005	(502,496)
Services and supplies	1,377,315	1,448,038	1,348,851	99,187
Capital outlay	9,600	9,600	5,142	4,458
Debt service:				
Interest and fiscal charges	8,200	8,200	3,110	5,090
Contingencies	10,000	10,000	-	10,000
<b>Total Expenditures</b>	<b>8,437,225</b>	<b>8,497,347</b>	<b>8,881,108</b>	<b>(383,761)</b>
Excess of Revenues Over Expenditures				
	(401,183)	(1,619,004)	(942,666)	676,338
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	1,500	1,500	16,008	14,508
PASIS Dividends	200,000	200,000	200,000	-
Transfers (net)	200,000	265,354	191,248	(74,106)
<b>Total Other Financing Sources</b>	<b>401,500</b>	<b>466,854</b>	<b>407,256</b>	<b>(59,598)</b>
<b>Net Change in Fund Balance</b>	<b>317</b>	<b>(1,152,150)</b>	<b>(535,410)</b>	<b>616,740</b>
<b>FUND BALANCE, Beginning of Year</b>	<b>3,042,279</b>	<b>3,042,279</b>	<b>3,042,279</b>	<b>-</b>
<b>FUND BALANCE, End of Year</b>	<b>\$ 3,042,596</b>	<b>\$ 1,890,129</b>	<b>\$ 2,506,869</b>	<b>\$ 616,740</b>

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

# APPLE VALLEY FIRE PROTECTION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

### ***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 accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that 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.

# APPLE VALLEY FIRE PROTECTION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

### *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 Assets 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 Assets. The Statement of Activities presents changes in net assets. 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 assets 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, 2010**

***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, 2010

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

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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, 2010**

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

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**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.

**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**

Decisions to establish or rescind committed and assigned fund balances are made by the District's board of directors through formal board resolutions pursuant to adoption of annual budgets. The board of directors also authorizes the establishment, increase, and utilization of reserves for economic uncertainties, or stabilization, funds. The board's Specific Reserve Policy has a goal of maintaining the reserve for economic uncertainty at an amount of at least ten percent (10%) of the total current year budgeted expenditures less planned capital expenditures for the same fiscal year, with a minimum amount not less than seven percent (7%) of the current year budgeted expenditures less budgeted capital items.

***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.

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

***NOTE #2 – CASH AND INVESTMENTS (Continued)***

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.

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	\$ 450,596	\$ -	\$ 926,709	\$ 1,377,305	\$ 1,351,038
Pooled investments:					
*Local Agency Investment Fund				<u>826,923</u>	<u>826,923</u>
				<u>\$ 2,204,228</u>	<u>\$ 2,177,961</u>

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

***NOTE #2 – CASH AND INVESTMENTS (Continued)***

\* 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, 2010, the carrying amount of the pool was \$69,385,966,558 and the estimated market value of the pool (including accrued interest) was \$69,573,678,456. The District's proportionate share of that value is \$826,923. 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 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.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**NOTE #4 – CAPITAL ASSETS AND DEPRECIATION**

In accordance with GASB Statement No. 34, the District has reported all capital assets in the Government-Wide Statement of Net Assets. The following table presents the capital assets activity for the year ended June 30, 2010.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 2,571,933	\$ -	\$ -	\$ 2,571,933
Total Capital Assets Not Being Depreciated	<u>2,571,933</u>	<u>-</u>	<u>-</u>	<u>2,571,933</u>
Capital Assets, Being Depreciated				
Buildings and other improvements	6,241,967	-	-	6,241,967
Equipment and vehicles	3,702,580	5,142	15,000	3,692,722
Total Capital Assets Being Depreciated	<u>9,944,547</u>	<u>5,142</u>	<u>15,000</u>	<u>9,934,689</u>
<i>Less Accumulated Depreciation For</i>				
<i>Buildings and other improvements</i>	<i>1,222,529</i>	<i>152,932</i>	<i>-</i>	<i>1,375,461</i>
<i>Equipment and vehicles</i>	<i>2,659,762</i>	<i>248,473</i>	<i>15,000</i>	<i>2,893,235</i>
<i>Total Accumulated Depreciation</i>	<u><i>3,882,291</i></u>	<u><i>401,405</i></u>	<u><i>15,000</i></u>	<u><i>4,268,696</i></u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u><b>6,062,256</b></u>	<u><b>(396,263)</b></u>	<u><b>-</b></u>	<u><b>5,665,993</b></u>
<b>Governmental Activities Capital Assets, Net</b>	<u><b>\$ 8,634,189</b></u>	<u><b>\$ (396,263)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 8,237,926</b></u>

Depreciation expense in the amount of \$401,405 was charged to the public safety function on the Statement of Activities for the year ended June 30, 2010.

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***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, 2010, the amount of potential outstanding claims liability is estimated to be \$2,086,769. The District is able to access its accumulated balance with PASIS. Funds available as of June 30, 2010 in excess of the \$75,000 minimum required deposit were \$1,163,130.

***Three Year Trend Information of Funding for PASIS***

<b>Year</b>	<b>Cash</b>	<b>Premiums</b>	<b>Claims and</b>	<b>Cash</b>	<b>Potential</b>
<b>Ending</b>	<b>Balance</b>	<b>and Interest</b>	<b>Payments</b>	<b>Balance</b>	<b>Outstanding</b>
<b>June 30,</b>	<b>Beginning</b>	<b>and Interest</b>	<b>Payments</b>	<b>End</b>	<b>Claims Liability</b>
	<b>of Year</b>	<b>Earned</b>		<b>of Year</b>	<b>at End of Year</b>
2008	\$ 365,234	\$ 430,936	\$ (152,250)	\$ 948,420	\$ 1,280,151
2009	\$ 948,420	\$ 365,466	\$ 120,172	\$1,193,714	\$ 1,531,067
2010	\$ 1,193,714	\$ 364,277	\$ 319,861	\$1,238,130	\$ 2,086,769

During the year ended June 30, 2010, the District withdrew \$200,000 from its cash balance in PASIS. The amount is included in the \$319,861 reported above as, "claims and payments," and is reported as PASIS dividends in the general revenue section of the statement of activities and as an other financing source on the statement of revenues, expenditures and changes in fund balance.

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***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 2009-2010
Compensated absences	\$ 858,922	\$ 502,935	\$ 451,075	\$ 910,782	\$ 572,707
	<u>\$ 858,922</u>	<u>\$ 502,935</u>	<u>\$ 451,075</u>	<u>\$ 910,782</u>	<u>\$ 572,707</u>

Compensated Absences

For governmental funds, accumulated vacation and sick leave benefits payable in future years when used by the District employees amounted to \$910,782 (\$302,910 vacation and \$607,872 sick leave) at June 30, 2010. 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 was performed as of June 30, 2010 for PASIS indicating an estimate for the District of \$627,315 for projected claims that have been incurred. PASIS management has estimated potential future outstanding claims liability as of June 30, 2010 to be \$2,086,769.

***NOTE #7 - CLASSIFICATIONS OF NET ASSETS AND FUND BALANCE***

In the Government-Wide financial statements net assets are classified in the following categories:

Invested in Capital Assets Net of Related Debt

This component of net assets 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 assets component as the unspent proceeds.

Restricted Net Assets

This component of net assets consists of constraints placed on net asset 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.

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***NOTE #7 - CLASSIFICATIONS OF NET ASSETS AND FUND BALANCE (Continued)***

Unrestricted Net Assets

This category represents the net assets 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, 2010 are presented below:

Fund Balance	
Restricted spendable	\$ 139,708
Limited spendable	
Petty cash and revolving cash	2,250
Debt service	-
Total Limited Spendable	<u>2,250</u>
Assigned spendable	
Held for economic uncertainties	1,065,733
Facilities and equipment	589,000
Unpaid sick and vacation benefits	572,707
Total Assigned Spendable	<u>2,227,440</u>
Unassigned Spendable	<u>277,179</u>
Total Fund Balance	<u>\$ 2,646,577</u>

***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.



**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***NOTE #8 – RETIREMENT PLAN (Continued)***

**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 2009-2010 was 21.547 % for miscellaneous employees and 13.724% 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 2009-2010, the District's annual pension cost was \$1,143,486, and was equal to the District's required and actual contributions. The required contribution for fiscal year 2009-2010 was determined as part of the June 30, 2008 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 statuses of the pool and funded status of our plan. The initial side fund amortization period was 14 years as of June 30, 2005.

**Three-Year Trend Information for the Plans**

<u>Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	868,159	100%	-
2009	1,062,380	100%	-
2010	1,143,486	100%	-

**Funded Status of Safety Plan**

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
06/30/06	\$ 1,473,284,852	\$ 1,252,059,468	\$ 221,225,384	85.0%	\$ 177,088,890	124.9%
06/30/07	\$ 1,648,159,522	\$ 1,422,143,105	\$ 226,016,417	86.3%	\$ 200,537,256	112.7%
06/30/08	\$ 1,755,559,311	\$ 1,517,609,609	\$ 237,949,702	86.5%	\$ 210,590,567	113.0%

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***NOTE #8 – RETIREMENT PLAN (Continued)***

Funded Status of Miscellaneous Plan

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					
6/30/2006	\$ 1,280,157,040	\$ 1,069,546,974	\$ 210,610,066	83.6%	\$ 304,898,179	69.1%
6/30/2007	\$ 1,627,025,950	\$ 1,362,059,317	\$ 264,966,633	83.7%	\$ 376,292,121	70.4%
6/30/2008	\$ 1,823,366,479	\$ 1,529,548,799	\$ 293,817,680	83.9%	\$ 414,589,514	70.9%

***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.

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, 2010 the MRC was \$101 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 of directors. The HRA’s funding policy provides for a funded benefit program that sets aside assets to fund the benefits during the working lifetimes of the plan participants. The contributions by the District are based on actuarially determined rates described as the Annual Required Contribution (ARC). For the fiscal year ending June 30, 2010, the District contributed \$277,742 to the HRA.

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***NOTE #9 - OTHER POST EMPLOYMENT BENEFITS (Continued)***

Annual OPEB Cost

The District's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statements No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For the fiscal year ended June 30, 2010, the District's annual OPEB cost (expense) of \$277,742 was equal to the ARC. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the HRA, and the net OPEB obligation since adoption of GASBS 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%	-

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the funded status of the District's OPEB plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,448,970
Actuarial value of assets	(429,743)
Unfunded actuarial accrued liability (UAAL)	\$ <u>2,019,227</u>
Funded ratio	17.5%

The following represents activity in the HRA subsequent to the most recent actuarial valuation:

Market value at July 1, 2009	\$ 429,577
Contributions	277,742
Investment earnings	84,933
Benefits payments	(78,651)
Administrative expenses	(7,452)
Market value at June 30, 2010	\$ <u>706,149</u>

**APPLE VALLEY FIRE PROTECTION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

***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, 2007 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 ranging from an initial 10.0% to 5.0% after five years.

***NOTE #10 – INTERFUND ACTIVITIES***

Interfund activities were as follows:

	Interfund Receivable	Interfund Payable	Interfund Transfers in	Interfund Transfers Out
General Fund	\$ -	\$ -	\$ 191,248	\$ -
Special Revenue Fund – Development Impact Fees Fund	-	-	-	191,248
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,248</u>	<u>\$ 191,248</u>

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, 2010, \$16,433 was transferred to cover fees associated with the acquisition of donated land, \$115,416 was transferred to cover the repayment of the long-term debt on Station 336, and \$59,399 was transferred to cover costs of a garage at Station 335.

***NOTE #11 – SHORT-TERM FINANCING***

The District has a line of credit in the amount of \$860,000 with Desert Community Bank. The line of credit was established September 24, 2009, bears interest at 4.0% per annum, and had an original maturity date of September 15, 2010. The maturity date was extended through December 15, 2010. Draws from the line of credit were used as a Tax and Revenue Anticipation Note to finance current operations. Increases and decreases during the year ended June 30, 2010 were as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Desert Community Bank Line of Credit	\$ -	\$ 600,000	\$ 600,000	\$ -

***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.