

**APPLE VALLEY
FIRE PROTECTION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Apple Valley Fire Protection District
Apple Valley, CA

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, 2015, 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 and the State Controller's Office Minimum Audit Standards. 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, 2015, 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.

Emphasis of a Matter

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transaction for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-14, the schedule of the District's proportionate share of the plan's net pension liability and related ratios as of the measurement date and the schedule of plan contributions information on pages 46-47, and the schedule of funding for the District's other post-employment benefit plan on page 49 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
Apple Valley, CA
February 15, 2016

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, 2015. 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 \$8,853,180 increased \$746,513 or 9.2%, from the prior year.
- The District's governmental expenditures of \$9,039,360 increased by \$1,095,697 or 13.8% from the prior year.
- On a budgetary basis, General Fund actual revenues recorded positive variances from the final budget of the year. Actual revenues were above budgeted revenues by \$136,384. Actual expenditures were \$104,932 more 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 \$3,112,164, a decrease of \$164,362 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, 2015

Revenue related to property valuations represents approximately 57.8% 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 26.2% 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 \$289,860.
- Total Governmental Fund Balances decreased by \$164,362 to \$3,112,164 at June 30, 2015.
- The Unrestricted Net Position at June 30, 2015 was a deficit of \$8,203,928 following the implementation of GASB 68.

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, 2015

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, 2015, the District had total assets and deferred outflows of resources of \$12,768,351 and total liabilities and deferred inflows of resources of \$12,478,491 resulting in total net position of \$289,860. This represents an increase of \$364,040 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.

Deferred Outflows of Resources consists of pension payments that will benefit future periods.

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. Non-current liabilities include the District's net pension liability.

Deferred Inflows of Resources include the difference between projected and actual performance of pension assets. This is revenue that will be recognized in future periods.

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. After the implementation of GASB 68, in which the District's net pension liability was recorded, the District's unrestricted net position is a deficit balance.

APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Net Position

	<u>2015</u>	<u>2014</u>	Increase (Decrease) <u>2015/2014</u>
Assets			
Current Assets			
Cash and investments	\$ 3,170,707	\$ 2,182,926	\$ 987,781
Receivables (net of allowance for uncollectibles)	199,787	281,867	(82,080)
Restricted cash and investments	45,413	1,176,030	(1,130,617)
Total Current Assets	<u>3,415,907</u>	<u>3,640,823</u>	<u>(224,916)</u>
Non-Current Assets			
Capital assets, net of accumulated depreciation	8,318,665	7,971,243	347,422
Total Non-Current Assets	<u>8,318,665</u>	<u>7,971,243</u>	<u>347,422</u>
Total Assets	<u>11,734,572</u>	<u>11,612,066</u>	<u>122,506</u>
Deferred Outflows of Resources	<u>1,033,778</u>	<u>-</u>	<u>1,033,778</u>
Liabilities			
Current Liabilities			
Accrued payables	303,243	363,647	(60,404)
Deposits	500	650	(150)
Total Current Liabilities	<u>303,743</u>	<u>364,297</u>	<u>(60,554)</u>
Long Term Liabilities			
Noncurrent Liabilities,			
Due within one year	236,446	227,373	9,073
Due in more than one year	9,213,274	1,069,443	8,143,831
Total Long Term Liabilities	<u>9,449,720</u>	<u>1,296,816</u>	<u>8,152,904</u>
Total Liabilities	<u>9,753,463</u>	<u>1,661,113</u>	<u>8,092,350</u>
Deferred Inflows of Resources	<u>2,725,027</u>	<u>-</u>	<u>2,725,027</u>
Net Position			
Invested in capital assets, net of related debt	7,830,381	7,449,306	381,075
Restricted – Development impact fees	10,228	39,804	(29,576)
Restricted for capital projects – other	653,179	1,078,697	(425,518)
Unrestricted	(8,203,928)	1,383,146	(9,587,074)
Total Net Position	<u>\$ 289,860</u>	<u>\$ 9,950,953</u>	<u>\$ (9,661,093)</u>

APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The following *Statement of Activities* compares key elements in the change in net position during the fiscal years 2015 and 2014, as well as the District’s revenues and expenditures for the same two periods:

	2015	2014
Net Position at Beginning of the Year	\$ 9,950,953	\$ 8,839,786
Prior period adjustment	(10,025,133)	-
Net position at beginning of the year – as restated	<u>(74,180)</u>	<u>8,839,786</u>
 General Revenues		
Property taxes	5,119,169	4,884,446
Special assessments	2,321,474	2,267,905
Redevelopment funds-low/mod income	-	1,094,088
Use of property and money	218,434	222,058
Gain on sale of assets	11,400	4,010
Total General Revenues	<u>7,670,477</u>	<u>8,472,507</u>
 Program Revenues		
Charges for services	643,748	536,028
Operating grants and contributions	1,153	35,235
Capital grants and contributions	559,631	160,995
Total Program Revenues	<u>1,204,522</u>	<u>732,258</u>
 Total Revenues	8,874,999	9,204,765
Less: General Expenses	<u>(8,510,959)</u>	<u>(8,093,598)</u>
Increase in Net Position	<u>364,040</u>	<u>1,111,167</u>
Net Position at Year End	\$ <u>289,860</u>	\$ <u>9,950,953</u>

- Total revenues decreased \$329,766, or 3.6%, from 2014 levels due primarily to the receipt of one-time-only redevelopment fund low-to-moderate income housing funds of \$1,094,088 in 2014. However, in 2015 the District was awarded a grant of \$469,465 from the Federal Emergency Management Agency (FEMA) to be used for equipment purchases. Increases in property tax revenue and charges for services also reduced the impact of the loss in one-time-only funds.
- General expenses increased \$434,903 or 5.4%, from 2015. Some of the increase reflects a \$427,397, or 7.1%, increase in salaries and benefits, offset by a \$225,172, or 12.6% decrease in services and supplies. A larger factor in the overall increase in expenses is that 2015 depreciation expense was \$283,077 greater than depreciation expense in 2014. This is attributable to the equipment purchases, which are depreciated over a short expected life.

APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The Governmental Funds *Balance Sheet* presents the current assets, liabilities and fund balances of the District as of June 30, 2015. The Balance Sheet assets of \$3,434,145 exclude capital assets, net of accumulated depreciation. The assets presented on the Balance Sheet are as follows:

Total Assets from Statement of Net Position	\$ 11,734,572
Less: Capital Assets, net of Accumulated Depreciation	<u>(8,318,665)</u>
Assets Reported on Balance Sheet	<u><u>\$ 3,415,907</u></u>

The Balance Sheet liabilities include interfund payables and exclude noncurrent liabilities of \$9,814,039. The liabilities presented on the Balance Sheet are as follows:

Total Liabilities from Statement of Net Position	\$ 9,753,463
Less: Non-Current Liabilities: Due within One Year	(236,446)
Less: Non-Current Liabilities: Due in More than One Year	<u>(9,213,274)</u>
Liabilities Reported on Balance Sheet	<u><u>\$ 303,743</u></u>

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

Assets reported on Balance Sheet	\$ <u>3,415,907</u>
Liabilities Reported on Balance Sheet	303,743
Fund Balance	<u>3,112,164</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,415,907</u></u>

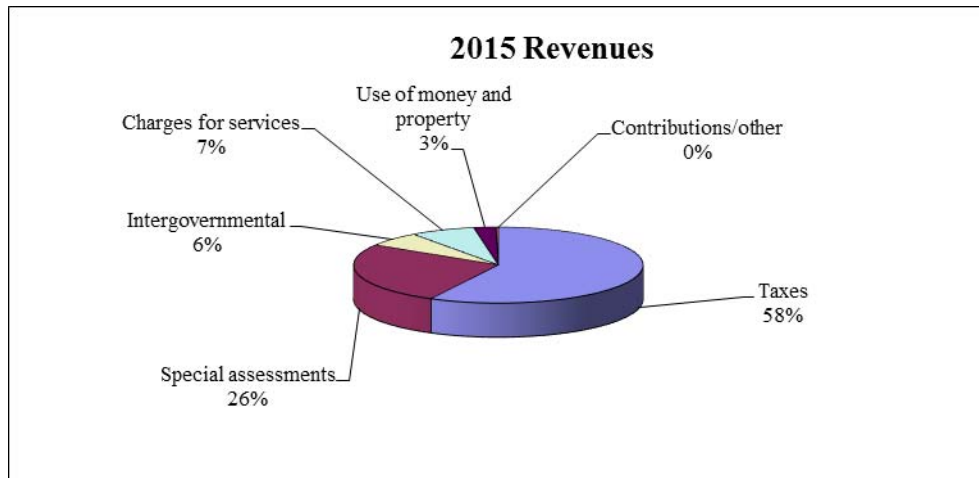
The *Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position* reconciles the difference between the fund balance of governmental funds of \$3,112,164 and the much smaller number representing the District’s net position of \$289,860:

End of year fund balance – Governmental Funds	\$ 3,112,164
Capital Assets, Net of Accumulated Depreciation	8,318,665
Deferred Outflows of Resources	1,033,778
Long Term Liabilities	
Due within one year	(236,446)
Due in more than one year	(9,213,256)
Deferred Inflows of Resources	<u>(2,725,045)</u>
Net Position of Governmental Activities	<u><u>\$ 289,860</u></u>

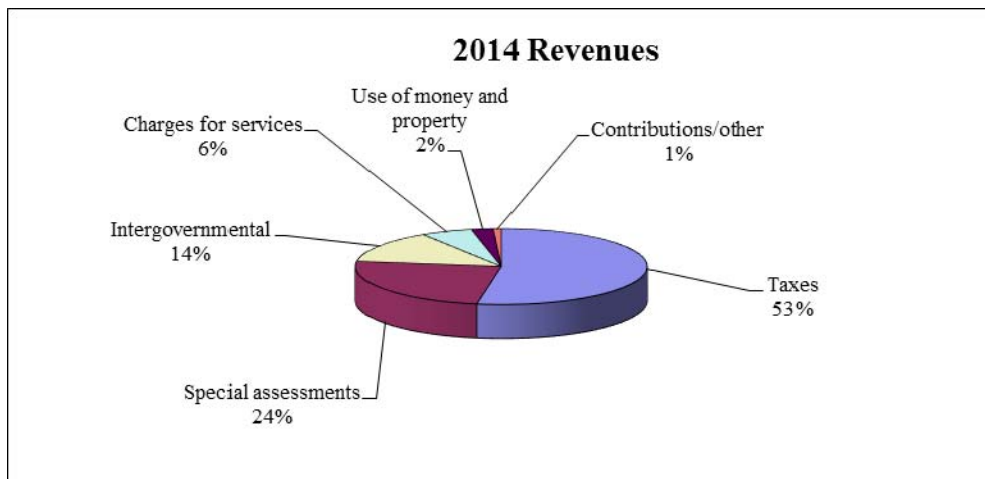
APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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. 2015 revenues total \$8,874,999 consist of the following:



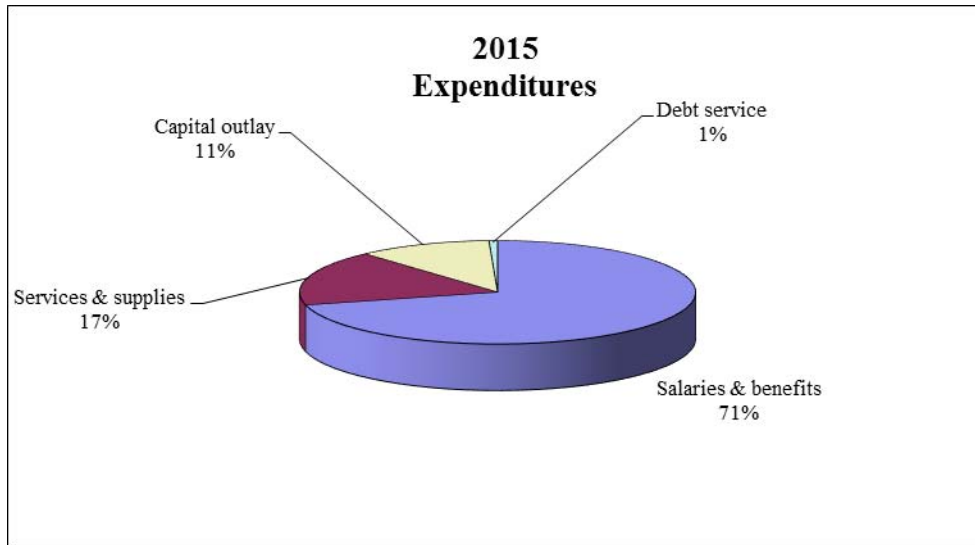
2014 revenues amounted to \$9,269,746 as follows:



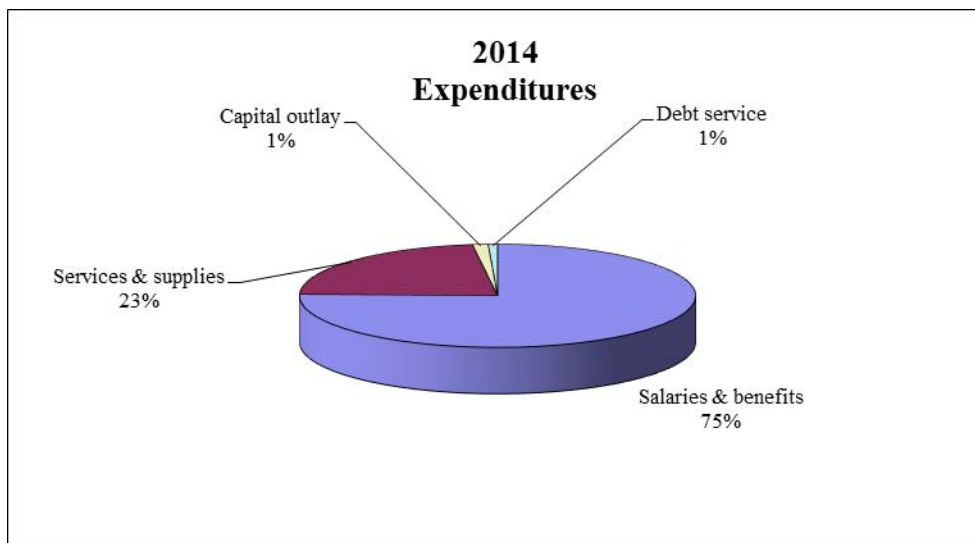
APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The expenditures in the 2015 *Statement of Revenues, Expenditures and Changes in Fund Balance* total \$9,039,360 and consist of the following:



2014 expenditures amounted to \$7,943,663 as follows:



APPLE VALLEY FIRE PROTECTION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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	\$	(164,362)
Add principal portion of debt service payment		33,653
Add the cost of assets capitalized		992,348
Add the difference between pension contribution paid and actuarial pension expense		177,491
Less depreciation expense		(644,925)
Less increase in compensated absences reported in the Government-Wide Statement of Activities which did not affect current financial Resources.		<u>(30,165)</u>
Change in Net Position in Governmental Activities	\$	<u><u>364,040</u></u>

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, a Special Revenue Fund, and a Capital Projects Fund.

The **Basis of Accounting/M 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, 2015

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.

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, 2015 include cash demand deposits of \$1,831,287 and investments in the Local Agency Investment Fund (LAIF) of \$1,456,251.
- 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.
- 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 \$805,044 consisting of \$292,446 in accrued vacation and \$512,598 in accrued sick leave, and installment debt of \$488,284.
- 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: **Prior Period Adjustment** describes the implementation of GASBs 68 and 71.
- Note 9: **Retirement Plan** includes (a) a general plan description, (b) an explanation of the District's net pension liability, (c) a schedule of the District's proportionate share of each risk pool's net pension

APPLE VALLEY FIRE PROTECTION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

liability, (d) schedules of the District's actuarial pension expense and deferred outflows and deferred inflows, and (e) a statement regarding any amounts the District has payable to the CalPERS.

- Note 10: **Other Postemployment Benefits** includes the District's policies and plans for providing health insurance for its retirees.
- Note 11: **Interfund Activities** describes the amount and nature of transfers between funds.
- Note 12: **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 13: **Contingencies** are inherent to financial statements.

Currently Known Facts, Decisions, and Conditions

- 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 went from 0% to 60.5% funded in 6 years. Changes in the most recent actuarial valuation have decreased the funded ratio to 45.1%.
- In November 1997, Measure V, a 20-year special tax to restore fire protection and emergency medical services, was passed by a two-thirds vote of the people. With Measure V set to sunset in 2017-2018, a June 2014 ballot initiative to renew the 20-year term was unsuccessful. With approximately 28% of the District's annual revenue at risk, the District's Board of Directors plan to return to the ballot box within by November 2016 for renewal purposes.

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, 2015**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 3,170,707
Taxes receivable	177,856
Accrued interest receivable	725
Other receivables	21,206
Grants receivable	-
Restricted cash and cash equivalents	45,413
Capital assets, net of accumulated depreciation	<u>8,318,665</u>
Total Assets	<u>11,734,572</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	<u>1,033,778</u>
LIABILITIES	
Accrued payables	303,243
Deposits	500
Noncurrent liabilities	
Due within one year	236,446
Due in more than one year:	
Net pension liability	8,156,393
Other	<u>1,056,881</u>
Total Liabilities	<u>9,753,463</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related	<u>2,725,027</u>
NET POSITION	
Invested in capital assets, net of related debt	7,830,381
Restricted - Development impact fees	10,228
Restricted - Capital projects	653,179
Unrestricted	<u>(8,203,928)</u>
Total Net Position	<u>\$ 289,860</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, 2015**

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net Governmental Activities</u>
Governmental Activities					
Public safety	\$ 8,510,959	\$ 643,738	\$ 1,153	\$ 559,631	\$ (7,306,437)
Total Governmental Activities	<u>\$ 8,510,959</u>	<u>\$ 643,738</u>	<u>\$ 1,153</u>	<u>\$ 559,631</u>	<u>(7,306,437)</u>
General Revenues					
Property taxes					7,440,643
Investment income					218,434
Gain on disposition of assets					<u>11,400</u>
Total General Revenues					<u>7,670,477</u>
Change in Net Position					364,040
Net Position at Beginning of Year - As Restated					<u>(74,180)</u>
Net Position at End of Year					<u>\$ 289,860</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, 2015**

ASSETS	General Fund	Other Governmental Funds	Totals
Cash and investments	\$ 2,555,673	\$ -	\$ 2,555,673
Receivables			
Taxes receivable	177,856	-	177,856
Accrued permits and fees	-	-	-
Accrued interest receivable	725	-	725
Other receivables	14,873	-	14,873
Due from other governments	3,373	2,960	6,333
Restricted cash and investments	-	660,447	660,447
Total Assets	<u>\$ 2,752,500</u>	<u>\$ 663,407</u>	<u>\$ 3,415,907</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 303,243	\$ -	\$ 303,243
Deposits	500	-	500
Total Liabilities	<u>303,743</u>	<u>-</u>	<u>303,743</u>
FUND BALANCES			
Restricted for:			
Debt service	35,185	-	35,185
Facilities and equipment	-	10,228	10,228
Committed to:			
Held for economic uncertainties	785,893	-	785,893
Petty cash and revolving cash	2,250	-	2,250
Assigned to:			
Facilities and equipment	688,532	653,179	1,341,711
Unpaid sick and vacation benefits	542,415	-	542,415
Unassigned:	394,482	-	394,482
Total Fund Balances	<u>2,448,757</u>	<u>663,407</u>	<u>3,112,164</u>
Total Liabilities and and Fund Balances	<u>\$ 2,752,500</u>	<u>\$ 663,407</u>	<u>\$ 3,415,907</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, 2015**

Fund Balance of the Governmental funds	\$ 3,112,164
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Deferred outflows of resources are not current financial resources and are not included in the governmental funds.	1,033,778
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	8,318,665
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(2,725,045)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(9,449,702)</u>
Net Position of Governmental Activities	<u><u>\$ 289,860</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, 2015**

	General Fund	Other Governmental Funds	Total
REVENUES			
Property taxes	\$ 5,119,169	\$ -	\$ 5,119,169
Special assessments	2,321,474	-	2,321,474
Intergovernmental	500	548,712	549,212
Charges for current services	643,738	-	643,738
Use of money and property	216,363	2,071	218,434
Contributions	1,153	-	1,153
Total Revenues	<u>8,302,397</u>	<u>550,783</u>	<u>8,853,180</u>
EXPENDITURES			
Salaries and benefits	6,415,073	-	6,415,073
Services and supplies	1,518,377	50,113	1,568,490
Capital outlay	68,351	923,997	992,348
Debt service			
Principal	-	33,653	33,653
Interest and fiscal charges	6,683	23,113	29,796
Total Expenditures	<u>8,008,484</u>	<u>1,030,876</u>	<u>9,039,360</u>
Excess of Revenues Over (Under) Expenditures	<u>293,913</u>	<u>(480,093)</u>	<u>(186,180)</u>
Other Financing Sources (Uses)			
Operating transfers in	-	134,020	134,020
Operating transfers out	(25,000)	(109,020)	(134,020)
Proceeds from sale of assets	11,400	-	11,400
Proceeds from insured loss	10,418	-	10,418
Total Other Financing Sources	<u>(3,182)</u>	<u>25,000</u>	<u>21,818</u>
Net Change in Fund Balance	290,731	(455,093)	(164,362)
FUND BALANCE, Beginning of Year	<u>2,158,026</u>	<u>1,118,500</u>	<u>3,276,526</u>
FUND BALANCE, End of Year	<u>\$ 2,448,757</u>	<u>\$ 663,407</u>	<u>\$ 3,112,164</u>

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, 2015**

Net Change in Fund Balance - Governmental Funds	\$	(164,362)
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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.

33,653

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

992,348

Depreciation expense

(644,925)

Governmental funds report pension contributions paid as expenditures. In the Statement of Activities, the actuarial pension cost is expensed. This amount represents the difference between the District's pension payments of \$959,274 and its actuarial expense of \$781,783.

177,491

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.

(30,165)

Change in Net Position of Governmental Activities

\$ 364,040

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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Increase (Decrease)
	Original	Final		
REVENUES				
Property taxes	\$ 4,946,807	\$ 5,075,053	\$ 5,119,169	\$ 44,116
Special assessments	2,272,582	2,285,087	2,321,474	36,387
Intergovernmental	34,860	50,411	500	(49,911)
Charges for current services	397,303	538,331	643,738	105,407
Use of money and property	201,804	217,131	216,363	(768)
Contributions	-	-	1,153	1,153
Total Revenues	7,853,356	8,166,013	8,302,397	136,384
EXPENDITURES				
Salaries and benefits	6,073,705	6,076,687	6,415,073	338,386
Services and supplies	1,770,116	1,810,111	1,518,377	(291,734)
Capital assets	-	-	68,351	68,351
Debt service				
Principal	-	-	-	-
Interest and fiscal charges	5,112	6,754	6,683	(71)
Contingencies	10,000	10,000	-	(10,000)
Total Expenditures	7,858,933	7,903,552	8,008,484	104,932
Excess (Deficiency) of Revenues Over Expenditures	(5,577)	262,461	293,913	31,452
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	12,000	12,000	11,400	(600)
Other financing sources	-	-	10,418	10,418
Transfers (net)	(5,000)	(25,000)	(25,000)	-
Total Other Financing Sources	7,000	(13,000)	(3,182)	9,818
Net Change in Fund Balance	1,423	249,461	290,731	41,270
FUND BALANCE, Beginning of Year	2,158,026	2,158,026	2,158,026	-
FUND BALANCE, End of Year	\$ 2,159,449	\$ 2,407,487	\$ 2,448,757	\$ 41,270

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

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 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 three 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, except as noted below 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. Development Impact Fees revenues are allocated to the District from fees collected from new development within the Town of Apple Valley's boundaries.
- *Capital Projects Fund* – The Capital Projects Fund is used to account for funds intended for property and equipment expenditures. The District's Capital Project Fund was established with the receipt of one-time-only redevelopment funds passed through the County of San Bernardino.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

C. Basis of Accounting/Measurement Focus

Government – Wide Financial Statements

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, 2015**

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.
- 5) The District is not required to adopt a budget for its Special Revenue and Capital Project Funds; therefore, budgetary comparison information is not presented for those funds.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

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.

Management believes that the District has no fiduciary role under the 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).

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.

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 development impact fees collected by the Town of Apple Valley and remitted to the District for capital expenditures, and the low-to-moderate income housing portion of redevelopment fees distributed to the District.

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.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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, 2014.

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.

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.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pensions, information about the fiduciary net position of the California Public Employees Retirement System (CalPERS) and additions to/deductions from CalPERS fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, employer and employee contributions are recognized in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

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.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #2 – CASH AND INVESTMENTS (continued)

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	\$ <u>250,000</u>	\$ <u>-</u>	\$ <u>1,581,287</u>	\$ 1,831,287	\$ 1,759,869
Pooled investments:					
*Local Agency				<u>1,456,251</u>	<u>1,456,251</u>
Investment Fund				<u>1,456,251</u>	<u>1,456,251</u>
				<u>\$ 3,287,538</u>	<u>\$ 3,216,120</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, 2015, the carrying amount of the pool was \$69,606,487,716 and the estimated market value of the pool (including accrued interest) was \$69,672,945,247. The District’s proportionate share of that value is \$1,456,251. 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.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities				
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	6,267,518	68,351	-	6,335,869
Equipment and vehicles	4,287,613	923,997	47,757	5,163,853
Total Capital Assets Being Depreciated	<u>10,555,131</u>	<u>992,348</u>	<u>47,757</u>	<u>11,499,722</u>
Less Accumulated Depreciation For				
Buildings and other improvements	1,987,827	155,279	-	2,143,106
Equipment and vehicles	3,167,994	489,646	47,757	3,609,883
Total Accumulated Depreciation	<u>5,155,821</u>	<u>644,925</u>	<u>47,757</u>	<u>5,752,989</u>
Total Capital Assets Being Depreciated, Net	<u>5,399,310</u>	<u>347,423</u>	<u>-</u>	<u>5,746,733</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,971,243</u>	<u>\$ 347,423</u>	<u>\$ -</u>	<u>\$ 8,318,666</u>

Depreciation expense in the amount of \$644,925 was charged to the public safety function on the Statement of Activities for the year ended June 30, 2015.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Through the year ended June 30, 2015, the District was a member of the Public Agency Self Insurance System of San Bernardino County (PASIS). PASIS provided workers' compensation insurance services. PASIS was set up as a banking system where the members shared the expenses, and each member was responsible for its own losses up to a \$300,000 per occurrence self-insured retention. Losses above the self-insured retention were covered by reinsurance, purchased by PASIS. The District made 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 were reported when it was probable that a loss had occurred and the amount of that loss could be reasonably estimated. These losses do not include an estimate of claims that have been incurred but not reported. At June 30, 2015, the amount of potential outstanding claims liability was estimated to be \$2,804,652. The District has been able to access its accumulated balance with PASIS. Funds available as of June 30, 2015 were \$1,087,584.

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
2013	\$ 1,060,756	\$ 298,021	\$ 250,006	\$1,108,771	\$ 2,174,291
2014	\$ 1,108,771	\$ 304,057	\$ 313,894	\$1,098,934	\$ 2,879,549
2015	\$ 1,098,934	\$ 334,595	\$ 345,945	\$1,087,584	\$ 2,804,652

On October 20, 2015, the District's board approved a resolution to dissolve PASIS. The dissolution is discussed in Note #15, *Subsequent Events*.

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 2015-2016
Installment loan	\$ 521,937	\$ -	\$ 33,653	\$ 488,284	\$ 35,185
Compensated absences	774,879	495,391	465,227	805,043	201,261
	<u>\$ 1,296,816</u>	<u>\$ 495,391</u>	<u>\$ 498,880</u>	<u>\$ 1,293,327</u>	<u>\$ 236,446</u>

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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
2016	\$	35,175	\$ 21,581	\$ 56,766
2017		36,786	19,980	56,766
2018		38,460	18,306	56,766
2019		40,210	16,556	56,766
2020		42,040	14,726	56,766
2021		295,613	12,813	308,426
Total	\$	<u>488,284</u>	\$ <u>103,962</u>	\$ <u>592,246</u>

Compensated Absences

For governmental funds, accumulated vacation and sick leave benefits payable in future years when used by the District employees amounted to \$805,043 (\$292,446 vacation and \$512,597 sick leave) at June 30, 2015. 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.

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.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #7 - CLASSIFICATIONS OF NET POSITION AND FUND BALANCE (continued)

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” 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, 2015 are presented below:

Restricted	
Debt service	\$ 35,185
Facilities and equipment	10,228
	<u>45,413</u>
Committed	
Economic uncertainties	785,893
Petty cash and revolving cash	2,250
	<u>788,143</u>
Assigned	
Facilities and equipment	1,341,711
Unpaid sick and vacation benefits	542,415
	<u>1,884,126</u>
Unassigned	<u>394,482</u>
	<u>\$ 3,112,164</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 2015 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, 2015**

NOTE #8 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014 has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*:

		Governmental Activities
Prior Period Adjustment	<hr/>	<hr/>
Beginning net position as previously reported at June 30, 2014	\$	9,950,953
Prior period adjustment – Implementation of GASB 68:		
Net pension liability (measurement date as of June 30, 2013)		(11,058,471)
Deferred outflows – District’s contributions made during fiscal year 2014		<u>1,033,338</u>
Total prior period adjustment		<u>(10,025,133)</u>
Net position as restated, July 1, 2014	\$	<u><u>(74,180)</u></u>

NOTE #9 – RETIREMENT PLAN

A. General Information

Plan Description

The District participates in the California Public Employees’ Retirement System (CalPERS) pension plan, which is a cost-sharing multiple-employer defined benefit pension plan (the Plan). CalPERS administers the Plan, which provides benefits for two membership classifications, Safety and Miscellaneous, and those benefits are tiered based upon the date of employees’ membership. A full description of the pension plan with respect to the number of employees covered, benefit provisions, funding provisions, and membership information is listed in June 30, 2013 Annual Actuarial Valuation Reports for the Safety and Miscellaneous Plans. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation reports. The actuarial valuation reports and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS website under Forms and Publications, at www.calpers.ca.gov.

The Plan operates under the provisions of the California Public Employees’ Retirement Law (PERL), the California Public Employees’ Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan’s authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

A. General Information (continued)

Plan Benefits

CalPERS provides retirement, disability, death and survivor benefits. The PERL and PEPRA establish benefit terms. Retirement benefits are calculated on the basis of age, average final compensation and service credit as follows:

	Safety		Miscellaneous	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>
Hire date	Prior to 1/1/2013	On or after 1/1/2013	Prior to 1/1/2013	On or after 1/1/2013
Benefit formula	3.0% at 55	2% at 57	2.7% at 55	2.0% at 62
Benefit vesting schedule	5 years' service	5 years' service	5 years' service	5 years' service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Normal retirement age	55	57	55	62
Monthly benefits (% of compensation)	2.4% - 3.0%	1.426% - 2.0%	2.0% - 2.7%	1.0% - 2.0%
Final compensation period	12 moths	36 moths	12 months	12 months
Required employee contribution rates	9%	50% of Total Normal Cost	8%	50% of Total Normal Cost
Required employer contribution rates	20.032%	16.596%	26.163%	8.715%

Both Tier 1 and Tier 2 of the Safety and Miscellaneous Plans include annual 2.0% compounded cost of living adjustments beginning the second calendar year after the year of retirement.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans cover by Safety and Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the active employee and employer contribution rates for the risk pools are as follows: Safety Risk Pool – 8.980 and 19.757 percent of annual pay, respectively; Safety PEPRA Risk Pool – 9.576 percent and 10.05 percent of annual pay, respectively; and Miscellaneous Risk Pool – 7.947 percent and 24.707 percent of annual pay, respectively.

Employer contributions rate may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

B. Net Pension Liability

The District’s net pension liability for the Plan is measured as the total pension liability less the pension plan’s fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Salary Increases ⁽¹⁾	3.3% - 14.20%
Investment Rate of Return ⁽²⁾	7.5%
Mortality Rate Table ⁽³⁾	Derived using CalPERS Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies, 2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service.

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS’ website under Forms and Publications.

APPLE VALLEY FIRE PROTECTION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE #9 – RETIREMENT PLAN (Continued)

B. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. Refer to the *sensitivity of the net pension liability to changes in the discount rate* section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-2018 fiscal year. Cal PERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (Continued)

B. Net Pension Liability (continued)

Discount Rate (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(1.55%)	(1.05%)
Total	100.0%		

¹ An expected inflation of 2.5% is used for this period.

² An expected inflation of 3.0% used for this period.

Pension Plan Fiduciary Net Position

Information about the pension plan’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS’ audited financial statements, which are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications at www.calpers.ca.gov. The plan’s fiduciary net position and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report for several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

C. Proportionate Share of Net Pension Liability

The following tables show the Plans’ proportionate shares of the risk pools’ collective net pension liability over the measurement period.

	Plan Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Plan Net Pension Liability/(Asset) (c) = (a) – (b)
Safety Plan			
Balance at: 6/30/13 (VD)	\$ 40,462,829	\$ 30,665,829	\$ 9,797,000
Balance at: 6/30/14 (MD)	42,425,858	35,280,940	7,144,918
Net changes during 2013-2014	1,963,029	4,615,111	(2,652,082)
Safety PEPR A			
Balance at: 6/30/13 (VD)	\$ 353	\$ 262	\$ 91
Balance at: 6/30/14 (MD)	370	301	69
Net changes during 2013-2014	17	39	(22)
Miscellaneous Plan			
Balance at: 6/30/13 (VD)	\$ 4,307,229	\$ 3,045,849	\$ 1,261,380
Balance at: 6/30/14 (MD)	4,563,551	3,552,145	1,011,406
Net changes during 2013-2014	256,322	506,296	(249,974)
District as a Whole			
Balance at: 6/30/13 (VD)	\$ 44,770,411	\$ 33,711,940	\$ 11,058,471
Balance at: 6/30/14 (MD)	46,989,779	38,833,386	8,156,393
Net changes during 2013-2014	2,219,368	5,121,446	2,901,578

Valuation Date (VD)
Measurement Date (MD)

The District’s net pension liability for the Plans is measured as the proportionate shares of the net pension liability. The net pension liability of the Plans was measured as of June 30, 2014, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate shares of the net pension liability for the Plans as of June 30, 2013 and 2014 was as follows:

	Safety Plan	Safety Plan PEPR A	Miscellaneous Plan
Proportion – June 30, 2013	0.20477%	0.00000%	0.03850%
Proportion – June 30, 2014	0.19048%	0.00000%	0.04092%
Change – Increase (Decrease)	(0.01429%)	0.00000%	0.00243%

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

C. Proportionate Share of Net Pension Liability

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	Discount Rate – 1.0% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
<u>Safety</u>			
Plan’s Net Pension Liability	\$ 12,827,757	\$ 7,144,918	\$ 2,462,505
<u>Safety PEPRAs</u>			
Plan’s Net Pension Liability	119	69	28
<u>Miscellaneous</u>			
Plan’s Net Pension Liability	1,616,819	1,011,406	508,970
District’s Total Net Pension Liability	<u>\$ 4,444,695</u>	<u>\$ 8,156,393</u>	<u>\$ 2,971,503</u>

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

C. Proportionate Share of Net Pension Liability (continued)

Recognition of Gains and Losses (continued)

The EARS� for the 2013-2014 measurement period is 3.8 years, which was obtained by dividing the total service years 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also, note that total future service is based on the members’ probability of decrementing due to an event other than receiving a cash refund.

D. Pension Expense and Deferred Outflows and Deferred Inflows

As of the start of the measurement period (July 1, 2013), the net pension liabilities for the District’s Safety Plan, PEPRA, and Miscellaneous Plan were \$9,797,000, \$91, and \$1,261,380, respectively. (The net pension liabilities of the Safety Risk Pool and Miscellaneous Risk Pools as of June 30, 2013 were \$4,784,321,560, and \$3,276,668,431, respectively.)

For the measurement period ended June 30, 2014 (the measurement date), the District incurred a pension expense of \$781,783 consisting of \$669,724 for the Safety/PEPRA Plan and \$112,059 for the Miscellaneous Plan. (The pension expense for the Safety Risk Pool and the Miscellaneous Risk Pool for the measurement period was \$351,644,102 and \$239,824,465, respectively. A complete breakdown of the pension expense follows:

Pension Expense Component	Safety Plan/PEPRA		
	Risk Pool Amounts	Employer’s Share	Percentage of Employer’s Share
Service Cost	\$ 369,638,880	\$ 873,453	0.26300%
Interest on the Total Pension Liability	1,251,259,652	2,996,003	0.23944%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions ¹	(131,938,305)	(312,813)	0.22863%
Projected Earnings on Pension Plan Investments	(897,207,655)	(2,271,086)	0.25313%
Recognized Difference between Projected and Actual Earnings	(240,108,470)	(607,782)	0.25313%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	26,343	N/A
Recognized Differences Between Contributions And Proportionate Share of Contributions	-	(34,394)	N/A
Subtotal: Expense Components	\$ 351,644,102	\$ 669,724	
Changes of Benefit Terms	-	-	
Employer’s Proportionate Share of Pension Expense/Income	\$ 351,644,102	\$ 669,724	

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows (continued)

Pension Expense Component	Miscellaneous Plan		
	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 132,722	0.03917%
Interest on the Total Pension Liability	921,162,366	320,631	0.03481%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions ¹	(159,834,203)	(68,283)	0.04272%
Projected Earnings on Pension Plan Investments	(678,133,636)	(227,030)	0.03348%
Recognized Difference between Projected and Actual Earnings	(182,199,413)	(60,998)	0.03348%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	(1,834)	N/A
Recognized Difference Between Contributions and Proportionate Share of Contributions	-	16,851	N/A
Subtotal: Expense Components	\$ 239,824,465	\$ 112,059	
Changes of Benefit Terms	-	-	
Employer's Proportionate Share of Pension Expense/Income	\$ 239,824,465	\$ 112,059	
Safety/PEPRA Pension Expense		\$ 669,724	
Miscellaneous Plan Pension Expense		112,059	
Total District Pension Expense		\$ 781,783	

¹This line represents the Plan's share of the risk pool's total employee contributions. This figure may not match the actual contributions made by employees participating in the Plan.

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #9 – RETIREMENT PLAN (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows (continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Safety/PEPRA Plans</u>		
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (2,431,129)
Adjustment due to Differences in Proportions	74,504	-
Net Difference between Contributions and Proportionate Share of Contributions	-	-
Pension Contributions Subsequent to Measurement Date	616,860	-
	<hr/>	<hr/>
Safety Plan Total	\$ 691,367	\$ (2,431,129)
<u>Miscellaneous Plan</u>		
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (243,992)
Adjustment due to Differences in Proportions	-	(5,877)
Net Difference between Contributions and Proportionate Share of Contributions	-	(44,029)
Pension Contributions Subsequent to Measurement Date	342,414	-
	<hr/>	<hr/>
Miscellaneous Plan Total	\$ 342,414	\$ (293,898)
	<hr/>	<hr/>
District Total	\$ 1,033,778	\$ (2,725,027)

The amounts above are net of outflows and inflows recognized in the 2013-2014 measurement period expense. The \$616,860 and \$342,414 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 2014-2015 measurement period. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	<u>Deferred Outflows/(Inflows) of Resources, Net</u>		
	<u>Safety/PEPRA Plans</u>	<u>Miscellaneous Plan</u>	<u>District Total</u>
2015	\$ (581,168)	\$ (62,832)	\$ (644,000)
2016	(581,168)	(62,832)	(644,000)
2017	(586,491)	(62,464)	(648,955)
2018	(607,777)	(60,998)	(668,775)
2019	-	-	-
Thereafter	-	-	-

E. Payable to the Pension Plan

At June 30, 2015 the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #10 - 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, 2015 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 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, 2015, the District’s ARC represented a contribution of \$360,367 to the HRA, based on the amortization of the accrued liability to be 100% funded within 6 years.

Annual OPEB Cost

For the fiscal year ended June 30, 2014, the District’s annual OPEB cost (expense) of \$396,600 exceeded the ARC of \$360,367 by \$36,233. 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%	-
06/30/14	\$ 396,600	100%	-
06/30/15	\$ 396,600	100%	-

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #10 - OTHER POST EMPLOYMENT BENEFITS (continued)

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>
6/30/2009	\$ 429,743	\$ 2,448,970	\$ 2,019,227	17.5%	\$ 4,336,425	46.6%
6/30/2010	\$ 706,149	\$ 2,448,970	\$ 1,742,821	28.8%	\$ 4,622,446	37.7%
6/30/2011	\$ 865,741	\$ 2,570,097	\$ 1,704,356	33.7%	\$ 3,895,347	43.8%
6/30/2012	\$ 1,015,544	\$ 2,570,097	\$ 1,554,553	39.5%	\$ 3,940,591	39.4%
6/30/2013	\$ 1,198,288	\$ 2,573,281	\$ 1,374,993	46.6%	\$ 3,504,472	39.2%
6/30/2014	\$ 1,555,592	\$ 2,573,281	\$ 1,017,689	60.5%	\$ 3,563,750	28.6%
6/30/2015	\$ 1,835,695	\$ 4,070,537	\$ 2,234,842	45.1%	\$ 3,694,115	60.5%

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.

APPLE VALLEY FIRE PROTECTION DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE #11 –INTERFUND ACTIVITIES

Interfund activities were as follows:	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Transfers in</u>	<u>Interfund Transfers Out</u>
General Fund	\$	\$	\$	\$
Special Revenue Fund:		-	56,766	25,000
Development Impact Fees				109,020
Capital Projects Fund:				
Capital Improvement Plan	-	-	77,254	-
	\$	\$	\$	\$
	-	-	134,020	134,020

Transfers were made (1) to move revenues from the Development Impact Fees Fund to both the General Fund and the Capital Improvement Plan Fund to reimburse specific development fees incurred, and (2) to use unrestricted revenues collected in the General Fund to finance various programs accounted for in the Capital Improvement Plan Fund, in accordance with budgetary authorizations.

NOTE #12 – SHORT-TERM FINANCING

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 an original maturity date of April 30, 2014. The District repaid the line of credit with 2014-2015 tax revenues.

<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
\$	\$	\$	\$
-	1,100,000	1,100,000	-

Interest expense of \$6,033 and issuance costs of \$650 were charged to the public safety function in the Statement of Activities.

NOTE #13 – 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.

NOTE #15 – SUBSEQUENT EVENTS

On October 20, 2015, the District’s board approved a resolution to dissolve PASIS. The District received the balance of its funds held with PASIS. (See Note 5.) These funds are being held by the District for the purpose of paying claims from incidents arising during the time of its membership with PASIS. Additionally, on July 1, 2015, The Special District Risk Management Authority (“SDRMA”) accepted the District as a participating member of its risk pool.

REQUIRED SUPPLEMENTARY INFORMATION

APPLE VALLEY FIRE PROTECTION DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS AND PLAN CONTRIBUTIONS– PENSION PLANS
JUNE 30, 2015**

SCHEDULE OF THE PLANS’ PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS AS OF THE MEASUREMENT DATE LAST 10 YEARS*

	Measurement Date 6/30/14		
	Safety Plan	PEPRA Safety Plan	Miscellaneous Plan
Plan’s Proportion of the Net Pension Liability/(Asset)	0.11482%	0.00000%	0.1625%
Plan’s Proportionate Share of the Net Pension Liability/(Asset)	\$ 7,144,918	\$ 69	\$ 1,011,406
Plan’s Covered-Employee Payroll ¹	\$ 3,058,285	\$ 55,073	\$ 651,300
Plan’s Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	233.62%	.13%	155.29%
Plan’s Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan’s Total Pension Liability	83.16%	81.35%	77.84%
Plan’s Proportionate Share of Aggregate Employer Contributions ²	\$ 998,845	\$ 9	\$ 96,056

¹Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

²The plan’s proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan’s proportionate share of aggregate contributions is based on the plan’s proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

*Measurement period 2013-2014 (fiscal year 2014-2015) was the first year of implementation; therefore, only one year is shown.

APPLE VALLEY FIRE PROTECTION DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY/(ASSET) AND RELATED
 RATIOS AND PLAN CONTRIBUTIONS– PENSION PLANS
 JUNE 30, 2015**

**SCHEDULE OF PLAN CONTRIBUTIONS
 LAST 10 YEARS***

	Measurement Period 2013-2014		
	Safety Plan	PEPRA Safety Plan	Miscellaneous Plan
Actuarially Determined Contribution	\$ 567,709	\$ 10,802	\$ 159,243
Contributions in Relation to the Actuarially Determined Contribution	(567,709)	(10,802)	(159,243)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered-Employee Payroll ¹	\$ 3,058,285	\$ 55,073	\$ 651,300
Contributions as a Percentage of Covered-Employee Payroll ¹	18.56%	19.61%	24.45%

¹Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

*Measurement period 2013-2014 (fiscal year 2014-2015) was the first year of implementation; therefore, only one year is shown.

NOTES TO SCHEDULE

Changes in Benefit Terms: None

Changes in Assumptions: None

APPLE VALLEY FIRE PROTECTION DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2015**

**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

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/2009	\$ 429,743	\$ 2,448,970	\$ 2,019,227	17.5%	\$ 4,336,425	46.6%
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6/30/2015	\$ 1,835,695	\$ 4,070,537	\$ 2,234,842	45.1%	\$ 3,694,115	60.5%

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.