

**CHINO VALLEY
INDEPENDENT FIRE DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

**CHINO VALLEY INDEPENDENT FIRE DISTRICT
CHINO HILLS, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

	<i>PAGE</i>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – General Fund	12
Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund to the Statement of Activities	15
Notes to Financial Statements	16
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	35
Schedule of Funding Progress for Other Postemployment Benefit Plan	36
Notes to Required Supplementary Information	37



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Chino Valley Independent Fire District
Chino Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Chino Valley Independent Fire District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the general fund of the District as of June 30, 2014, and the respective change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 through 10, budgetary comparison schedule on page 36, schedule of funding progress on page 37, and notes to the required supplementary on page 38, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vannink, Trine, Day & Co. CP

Rancho Cucamonga, California
December 4, 2014



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This report presents our discussion and analysis of the Chino Valley Independent Fire District's (hereinafter "District") financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the *District's* financial statements, which follow.

District Highlights

Noteworthy District highlights for FY2013-14 included:

- The District received a District Transparency Certificate of Excellence award from the Special Districts Leadership Foundation. This award program was created in an effort to promote transparency in the operations and governance of California special districts to the public and to provide special districts with an opportunity to showcase their efforts in transparency.
- In partnership with the District's collective bargaining groups and unrepresented employees, District employees will pay their full share of required member retirement contributions, over a multi-year phase-in period. By July 1, 2016, all employees will contribute their full required contributions under the District's retirement plans.
- The District reached an agreement with Mt. San Antonio College to host a regional fire academy at the District's training center, allowing the college and its' fire academy students access to the District's state-of-the-art training and educational facilities.

Financial Highlights

- At the close of the fiscal year ended June 30, 2014, the assets of the District of \$34,619,546, exceeded liabilities by \$25,123,775 (net position). Of this amount, \$15,680,148 (unrestricted net position) may be used to meet the District's ongoing obligations.
- The District's total net position increased during the fiscal year by \$701,725. While this net increase was attributable to a number of factors, most significantly, cash and investment balances at June 30, 2014 increased over the prior year by approximately \$760,000.
- For the year ended June 30, 2014, General Fund revenues exceeded expenditures by approximately \$1.4 million.
- As of June 30, 2014, the District's General Fund reported an ending fund balance of about \$21,074,144 of which \$9,969,888, or about 47%, was unassigned. The unassigned portion of General Fund balance represented roughly 33% of FY2013-14 General Fund expenditures from operations.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) General Fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the District's finances, in a manner similar to private-sector businesses.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between assets and liabilities representing *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. The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g. compensated absence expense).

Fund financial statements. The fund financial statements provide more detailed information about the District's specific sources of funding and spending for particular purposes. Like other governmental agencies, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has the following kind of funds: *Governmental funds* - Used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The District maintains one governmental fund: the General Fund. A Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance are presented for the General Fund.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$25,123,775, at June 30, 2014.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

NET POSITION

	Governmental Activities June 30, 2014	Governmental Activities June 30, 2013
Current assets	\$24,833,104	\$23,762,917
Capital assets (net)	9,786,442	10,042,445
Total Assets	\$34,619,546	\$33,805,362
Current liabilities	2,525,391	3,087,504
Other liabilities	6,970,380	6,295,808
Total Liabilities	\$9,495,771	\$9,383,312
Net investment in capital assets	9,443,627	10,042,445
Unrestricted	15,680,148	14,379,605
Total Net Position	\$25,123,775	\$24,422,050

The unrestricted portion of net position, totaling \$15,680,148, may be used to meet the District's ongoing obligations.

Government activities. Governmental activities increased the District's net position by \$701,725, during the fiscal year ended June 30, 2014.

CHANGES IN NET POSITION

	Governmental Activities FYE June 30, 2014	Governmental Activities FYE June 30, 2013
Program revenues:		
Charges for services	\$9,047,645	\$7,723,894
Operating grants and contributions	331,377	138,768
General revenues:		
Property taxes	21,563,612	19,985,776
Investment income	115,139	99,429
Total revenues	\$31,057,773	\$27,947,867
Expenses:		
Public Safety – Fire Protection	30,356,048	28,918,711
Total expenses	\$30,356,048	\$28,918,711
Change in Net Position	\$701,725	(\$970,844)
Net Position, July 1,	\$24,422,050	\$25,392,894
Net Position, June 30,	\$25,123,775	\$24,422,050



CHINO VALLEY INDEPENDENT FIRE DISTRICT

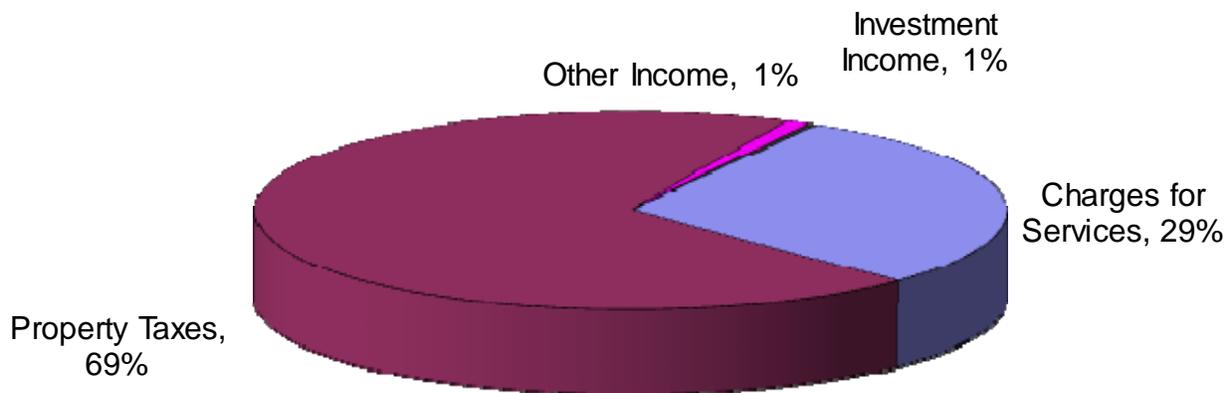
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Key elements of the difference between fund balance of the General Fund and the net position of governmental activities are as follows:

- The difference in the method of accounting for net capital assets in the governmental funds versus the statement of activities accounts for an increase in the net position of governmental activities by approximately \$9.79 million.
- Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds, resulting in a decrease in net position of governmental activities of approximately \$6.58 million.
- The net Other Post Employment Benefit (OPEB) asset of approximately \$0.84 million is not available to pay for current period expenditures and is not reported in the general fund.

Revenue by Source - Governmental Activities





CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

FUND BALANCE

As of June 30, 2014, the District's General Fund reported an ending fund balance of \$21,074,144, an increase of \$1,407,189 over the prior year. As specified in the District's Fund Balance Reporting Policy, in addition to the various commitments and assignments of fund balance outlined below, the District's Board of Directors has also specified that a minimum unassigned fund balance equal to three months of General Fund expenditures be established for general contingency purposes.

As of June 30, 2014, the District's classifications of fund balance were as follows:

	Classifications of Fund Balance June 30, 2014
Nonspendable:	
Deposits and Prepaid Items	\$62,648
Total Nonspendable Fund Balance	\$62,648
Committed:	
Workers Compensation Reserve Fund	\$1,571,212
Equipment Replacement Fund	1,689,331
Facilities Acquisition and Maintenance Fund	1,096,892
Compensated Absences Fund	1,668,596
Emergency Contingency Fund	5,015,577
Total Committed Fund Balance	\$11,041,608
Unassigned:	
Minimum Fund Balance for General Contingency Purposes	\$7,523,365
Available Fund Balance for Discretionary Use	2,702,675
Total Unassigned Fund Balance	\$9,969,888
Total General Fund Balance	\$21,074,144

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary amendments of \$4,580 in additional net revenues were approved in the final budget, including \$115,000 in additional revenues, and \$110,420 in corresponding net expenditures. The more significant changes from original to final budget included:

- Other revenue adjustments of \$115,000 associated with increasing projections for permit and inspection fee revenues of \$75,000, as well as \$45,000 for projected increases in mutual aid recoveries.
- Various adjustments in salaries and benefit accounts based on projections for the balance of the fiscal year, resulting in a net increase of \$131,600 in wage-related expenditures, offset by a net decrease in service and supplies expenditures of \$21,180.

FY2013-14 actual General Fund net revenues varied favorably from budget by about \$1.83 million. Favorable revenue variances amounted to roughly \$1.38 million, due primarily to conservative revenue forecasts and the recording of revenues associated with the finalization of the agreement amendment with the City of Chino. Expenditure variances netted favorably as well by about \$440,000 inclusive of the other financing sources, due primarily to budget carryovers of expenditures into FY2014-15.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

INVESTMENTS

At June 30, 2014, the District's investment portfolio totaled about \$21.7 million, compared with \$21.2 million at June 30, 2013, summarized as follows:

	Investments June 30, 2014		Investments June 30, 2013	
	Balance	%	Balance	%
Overnight Repurchase Agreements – Sweep Account	\$4,488,018	21%	\$2,987,719	14%
US Agency Securities	5,970,000	28%	995,000	5%
Medium Term Corporate Notes	2,270,363	10%	3,272,951	15%
JPA Beneficial Interest Shares – CalTRUST	3,042,385	14%	4,003,014	19%
Pooled Investments – Local Agency Investment Fund (LAIF)	5,943,264	27%	9,922,917	47%
Total investments	\$21,714,030	100%	\$21,181,601	100%

The District invests temporarily idle cash in accordance with the California Government Code and the District's Investment Policy, where more restrictive. The District's investment objectives are as follows: (1) protect principal, (2) provide for liquidity needs, (3) obtain reasonable rates of return on investment within the first two objectives, and (4) maintain the public trust by avoiding any investment transactions that might impair public confidence. The District primarily employs a buy and hold strategy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2014, amounted to approximately \$9.8 million, net of accumulated depreciation. This investment in capital assets includes land, investment in joint venture, construction in progress, buildings, improvements other than buildings and equipment. During the fiscal year, the District's net investment in capital assets decreased by about \$256,000, due to depreciation charges in excess of capital asset acquisitions and capital asset retirements.

Capital Assets

	Governmental Activities June 30, 2014	Governmental Activities June 30, 2013
Land	\$105,438	\$105,438
Investment in joint venture	179,742	222,452
Construction in progress	-	377,928
Buildings	6,944,161	6,878,690
Improvements other than buildings	722,806	800,505
Equipment	9,726,308	10,042,967
Total capital assets	\$17,678,455	\$18,427,980
Less: accumulated depreciation	(7,892,013)	(8,385,535)
Total capital assets, net of accumulated depreciation	\$9,786,442	\$10,042,445



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Outstanding Debt

Long-term debt. At the end of the fiscal year, the District's total outstanding debt amounted to approximately \$7 million.

	Governmental Activities June 30, 2014	Governmental Activities June 30, 2013
Compensated absences	\$5,056,353	\$4,798,071
Capital lease payable	342,815	-
Worker's Compensation claims	1,571,212	1,497,737
Total outstanding debt	\$6,970,380	\$6,295,808

Approximately \$871,000 of the total debt amount is due in FY2014-15.

Economic Factors and Next Year's Budgets and Rates

- Local property values remains relatively stable within the District's service area and are projected to increase next fiscal year. Additionally, new construction is on the rise in the District as well. Property tax related revenues in the original FY2014-15 budget are projected to increase in the range of 2 to 3%. More recent estimates suggest increases substantially higher than originally projected, which will be addressed in the final budget.
- Total budgeted expenditures for FY2014-15 are projected at substantially the same level at last fiscal year.
- The District's original budget for FY2014-15, approved in September, projects a modest surplus of about \$41,500.
- The District also projects and forecasts long-range revenues and expenditures over a 10-year horizon. These projections are used for financial, operating and strategic planning purposes.
- These and other factors were considered in the preparation of the District's original budget for FY2014-15.

OPERATING BUDGET SUMMARY

	General Fund Budget June 30, 2015	General Fund Budget June 30, 2014
Property tax revenue	\$21,351,335	\$20,728,513
Contract revenue	7,830,476	7,336,965
Other revenue	1,026,832	1,496,652
Total revenue	\$30,208,643	\$29,562,130
Salaries and benefits	\$24,979,137	\$24,476,716
Services and supplies	4,521,983	4,451,215
Capital outlay	666,018	1,055,108
Total operating & capital expenditures	\$30,167,138	\$29,983,039
Net revenue (transfer from fund balance)	\$41,505	(\$420,909)



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Requests for Information

This financial report is designed to provide a general overview of the financial position of the Chino Valley Independent Fire District for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chino Valley Independent Fire District, Attn.: Finance Manager, 14011 City Center Drive, Chino Hills, California 91709.

Other relevant information may also be accessed on the District's website at www.chinovalleyfire.org.

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CHINO VALLEY INDEPENDENT FIRE DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 22,876,491
Accounts receivable	614,087
Taxes receivable	394,967
Accrued interest receivable	5,876
Note receivable	39,192
Deposits with other agencies	25,000
Prepaid costs	37,648
Net OPEB asset	839,843
Capital assets, net of accumulated depreciation	9,786,442
Total Assets	<u>34,619,546</u>
LIABILITIES	
Accounts payable	332,481
Accrued payroll	1,118,657
Unearned revenue	1,074,253
Noncurrent liabilities:	
Due within one year	871,173
Due in more than one year	6,099,207
Total Liabilities	<u>9,495,771</u>
NET POSITION	
Net investment in capital assets	9,443,627
Unrestricted	15,680,148
Total Net Position	<u>\$ 25,123,775</u>

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues		(Expenses) Revenues and change in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Public safety - fire protection	\$ 30,348,100	\$ 9,047,645	\$ 331,377	\$ (20,969,078)
Interest	7,948			(7,948)
Total Governmental Activities	<u>\$ 30,356,048</u>	<u>\$ 9,047,645</u>	<u>\$ 331,377</u>	<u>(20,977,026)</u>
General Revenues:				
Taxes:				
Property taxes				21,563,612
Investment income				<u>115,139</u>
Total General Revenues				<u>21,678,751</u>
Change in Net Position				701,725
Net Position at Beginning of Year				<u>24,422,050</u>
Net Position at End of Year				<u><u>\$ 25,123,775</u></u>

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**GENERAL FUND
BALANCE SHEET
JUNE 30, 2014**

ASSETS

Cash and investments	\$ 22,876,491
Accounts receivable	614,087
Taxes receivable	394,967
Accrued interest receivable	5,876
Note receivable	39,192
Deposits with other agencies	25,000
Prepaid items	37,648
	<hr/>
Total Assets	\$ 23,993,261

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable and accrued liabilities	\$ 332,481
Accrued payroll	1,118,657
Unearned revenue	1,074,253
Current claims payable	393,726
	<hr/>
Total Liabilities	2,919,117

FUND BALANCE

Nonspendable	62,648
Committed	11,041,608
Unassigned	9,969,888
	<hr/>
Total Fund Balance	21,074,144
	<hr/>
Total Liabilities and and Fund Balance	\$ 23,993,261

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

GENERAL FUND

**RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Fund Balance of the General Fund	\$ 21,074,144
Amounts reported for governmental activities in the Statement of Net Position is different because:	
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	9,786,442
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(6,576,654)
The net OPEB asset is not available to pay for current period expenditures and is not reported in the governmental funds.	<u>839,843</u>
Net Position of Governmental Activities	<u><u>\$ 25,123,775</u></u>

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014**

REVENUES	
Taxes	\$ 21,563,612
Licenses and permits	654,908
Charges for current services	8,392,737
Use of money and property	115,139
Other	331,377
Total Revenues	<u>31,057,773</u>
EXPENDITURES	
Current:	
Salaries and benefits	25,271,163
Services and supplies	3,996,070
Capital outlay	718,218
Debt service:	
Principal	169,499
Interest	7,948
Total Expenditures	<u>30,162,898</u>
Excess of revenues over expenditures	<u>894,875</u>
OTHER FINANCING SOURCES	
Capital lease	<u>512,314</u>
Net Change in Fund Balance	1,407,189
FUND BALANCE, Beginning of Year	<u>19,666,955</u>
FUND BALANCE, End of Year	<u>\$ 21,074,144</u>

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GENERAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balance - General Fund	\$ 1,407,189
<p>Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are 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:</p>	
Cost of purchased assets capitalized	726,167
Depreciation expense	(887,047)
Book value of disposed assets	(52,413)
Decrease in joint venture	(42,710)
<p>Capital lease repayments require current financial resources and are recorded as an expenditure in the General Fund. These payments reduce the liability at the government-wide level, and therefore, are not included in the Statement of Activities. This amount represents the net change in the capital lease liability.</p>	
	(342,815)
<p>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.</p>	
	(258,282)
<p>Worker's compensation claims that are estimated to have been incurred and not reported (IBNR) 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 Worker's Compensation IBNR liability.</p>	
	147,636
<p>The excess funding over the annual required contributions (ARC) during the fiscal year for other postemployment benefits was recorded as an expenditure in the governmental funds. However, the difference between the ARC and the amount funded is recorded as a an asset in the statement of net position.</p>	
	<u>4,000</u>
Change in Net Position of Governmental Activities	<u>\$ 701,725</u>

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chino Valley Independent Fire District (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 Chino Valley Independent Fire District (District) was formed in 1932 by the County of San Bernardino to provide fire protection services to the unincorporated areas of the Chino Valley area. The District was consolidated with the Chino Valley Fire Department in 1972 and became self-governing in November 1990. The District is now governed by a five-member Board of Directors elected by the citizens of the District. No other governmental units are a part of the reporting entity.

The District serves the City of Chino, the City of Chino Hills and unincorporated areas of San Bernardino County within its boundaries.

B. Accounting and Reporting Policies

The District conforms to the pronouncements of the GASB, which are the primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

C. New Accounting Pronouncements

Effective in Current Fiscal Year

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement provides guidance on proper classification of certain items previously reported as assets and liabilities as deferred outflows or inflows of resources. This Statement also provides guidance on recognition of certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This statement is effective as of July 1, 2013.

Effective in Future Fiscal Years

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 67, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective as of July 1, 2014. The District has not determined the effect on the financial statements.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

C. New Accounting Pronouncements, (Continued)

Effective in Future Fiscal Years, (Continued)

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective as of July 1, 2014. The District has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This statement addresses an issue relating to amounts associated with contributions made by a government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement is not effective until June 30, 2015. The District has not determined its effect on the financial statements.

D. Description of Fund

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

Governmental Fund Type

General Fund – Because the District provides only fire protection services all resources are accounted for in this fund.

E. Basis of Accounting/Measurement Focus

Government – Wide Financial Statements

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

E. Basis of Accounting/Measurement Focus, (Continued)

Government – Wide Financial Statements, (Continued)

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 District's only function is fire protection. 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 unearned revenues. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due. Capital asset acquisitions under capital lease are reported as other financing sources.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

F. Claims and Judgments

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.

G. 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	30 years
Improvements other than buildings	30 years
Equipment	5 to 15 years

H. 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 covers District expenditures in the General Fund. Budget figures used in the accompanying financial statements present both original and final budget.
- 3) Formal budgetary integration at the fund level is employed as a management control device during the year.
- 4) The annual budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

I. Deferred Compensation Plan

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

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

J. Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Pools*, requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Accordingly, the District has adjusted certain investments to fair value (when material).

Investments are included within the financial statement classifications of "Cash and investments" and are stated at fair value.

K. 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.

L. 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.

NOTE #2 – 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.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Cash and investments	<u>\$ 22,876,491</u>
Cash and investments as of June 30, 2014, consist of the following:	
Petty cash	\$ 500
Cash demand deposits	<u>1,161,961</u>
Total Cash	<u>1,162,461</u>
Overnight Repurchase Agreements Sweep Account	4,488,018
U.S. Agency Securities	
Federal Farm Credit Bank (FFCB) Securities	995,000
Federal Home Loan Mortgage Corp (FHLMC)	3,981,000
Federal National Mortgage Association (FNMA)	994,000
Medium Term Corporate Notes	2,270,363
JPA Beneficial Interest Shares - CalTRUST	3,042,385
Pooled investments - Local Agency Investment Fund (LAIF)	<u>5,943,264</u>
Total Investments	<u>21,714,030</u>
Total Cash and Investments	<u>\$ 22,876,491</u>

Investments Authorized by the District's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Money Market Mutual Funds	N/A	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
State of California Treasury Obligations	2 years	25%	None
Bankers Acceptances	180 days	30%	None
Commercial Paper	270 days	25%	10%
Certificates of Deposit	2 years	30%	None
Repurchase Agreements	90 days	25%	None
Time deposits	2 years	25%	None
Beneficial Interest Shares	N/A	15%	None
JPA Beneficial Interest Shares - CalTRUST	N/A	None	None
Medium Term Corporate Notes	5 years	30%	15%

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #3 – CASH AND INVESTMENTS, (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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

<u>Investment Type</u>	<u>Total Amount</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Overnight Repurchase Agreements Sweep Account	\$ 4,488,018	\$ 4,488,018		
U.S. Agency Securities				
Federal Farm Credit Bank (FFCB) Securities	995,000			\$ 995,000
Federal Home Loan Mortgage Corp (FHLMC)	3,981,000			3,981,000
Federal National Mortgage Association (FNMA)	994,000			994,000
Medium Term Corporate Notes	2,270,363		\$ 1,254,363	1,016,000
JPA Beneficial Interest Shares - CalTRUST	3,042,385	3,042,385		
Pooled investments - Local Agency Investment Fund (LAIF)	5,943,264	5,943,264		
Total Investments	<u>\$ 21,714,030</u>	<u>\$ 13,473,667</u>	<u>\$ 1,254,363</u>	<u>\$ 6,986,000</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF and CalTRUST do not have ratings provided by a nationally recognized statistical rating organization. The amounts invested in the Overnight Repurchase Agreement Sweep account are collateralized by a pool comprised of direct obligations of the United States, Federal Agency or Government Sponsored Enterprises pursuant to the Master Repurchase Agreement. However, the pool is unrated. Presented below is the minimum rating required (where applicable) by the California Government Code or the District's investment policy, where more restrictive, and the actual Standard and Poor's rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Total Amount</u>	<u>Minimum Legal Rating</u>	<u>Not Rated</u>	<u>AA+</u>	<u>AA</u>
Overnight Repurchase Agreements Sweep Account	\$ 4,488,018	N/A	\$ 4,488,018		
U.S. Agency Securities					
Federal Farm Credit Bank (FFCB) Securities	995,000	N/A		\$ 995,000	
Federal Home Loan Mortgage Corp (FHLMC)	3,981,000	N/A		3,981,000	
Federal National Mortgage Association (FNMA)	994,000	N/A		994,000	
Medium Term Corporate Notes	2,270,363	A		1,254,363	\$ 1,016,000
JPA Beneficial Interest Shares - CalTRUST	3,042,385	N/A	3,042,385		
Pooled investments - Local Agency Investment Fund (LAIF)	5,943,264	N/A	5,943,264		
Total Investments	<u>\$ 21,714,030</u>		<u>\$ 13,473,667</u>	<u>\$ 7,224,363</u>	<u>\$ 1,016,000</u>

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #3 – CASH AND INVESTMENTS, (CONTINUED)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2014, the District had investments with the following issuers that were greater than 5 percent of the pool:

<u>Investment Type</u>	<u>Total Amount</u>
Medium Term Corporate Notes - General Electric	\$ 1,254,363
U.S. Agency Securities - FHLMC	3,981,000

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

As of June 30, 2014, \$1,050,000 of the District's deposits with financial institutions was held in excess of FDIC limits in accounts collateralized by the pledging institution as described above.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and CalTRUST). Pursuant to the Master Repurchase Agreement the amounts in the Overnight Repurchase Agreement Sweep Account are collateralized at 102 percent with the collateral held by the financial institutions custodian but not in the District's name.

Investment in Investment Pools

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is not registered with the Securities and Exchange Commission. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #3 – CASH AND INVESTMENTS, (CONTINUED)

Investment in Investment Pools, (Continued)

In addition, the District is a voluntary participant in CalTRUST, an investment pool administered by California State Association of Counties (CSAC) Finance Corporation. CalTRUST was established under the provisions of the California Joint Exercise of Powers Act in accordance with California Government Code. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s fair value per share provided by CalTRUST applied to the number of shares held by the District. The balance available for withdrawal is based on the accounting records maintained for CalTRUST by Nottingham Shareholder Services.

NOTE #4 – PREPAID COSTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of the prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTE #5 – CAPITAL ASSETS AND DEPRECIATION

The following table presents the capital assets activity for the year ended June 30, 2014.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 105,438			\$ 105,438
Investment in joint venture (Note #13)	222,452		\$ 42,710	179,742
Total Capital Assets Not Being Depreciated	327,890		42,710	285,180
Capital Assets, Being Depreciated:				
Buildings	6,878,690	\$ 71,331	5,860	6,944,161
Improvements other than buildings	796,551		73,745	722,806
Equipment	10,424,849	654,836	1,353,377	9,726,308
Total Capital Assets Being Depreciated	18,100,090	726,167	1,432,982	17,393,275
Less Accumulated Depreciation For:				
Buildings	947,241	224,549	3,901	1,167,889
Improvements other than buildings	244,292	24,853	23,290	245,855
Equipment	7,194,002	637,645	1,353,378	6,478,269
Total Accumulated Depreciation	8,385,535	887,047	1,380,569	7,892,013
Total Capital Assets, Being Depreciated, Net	9,714,555	(160,880)	52,413	9,501,262
Governmental Activities Capital Assets, Net	\$ 10,042,445	\$ (160,880)	\$ 95,123	\$ 9,786,442

Depreciation expense in the amount of \$887,047 was charged to the public safety function on the Statement of Activities for the year ended June 30, 2014.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE #6 – RISK MANAGEMENT

Special District Risk Management Authority (SDRMA)

The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority, created pursuant to California Government Sections 6500 et seq and established in 1986. The Authority provides property, liability and worker's compensation coverage protection and risk management services statewide exclusively for California special districts, joint power authorities and other public agencies. The District has various policies of coverage with SDRMA and mainly including the following:

Workers' Compensation Coverage and Employer's Liability

The District is self-insured up to the first \$250,000 per claim and is protected up to \$5 million per occurrence for Workers' Compensation and \$5 million per occurrence for Employer Liability, after the initial self-retention. Annual contributed premiums are to be paid annually based on estimated wages and subject to adjustment at the end of each year.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2014, the total liability of \$1,571,212 consists of open claims of \$1,480,599 and estimated incurred but not reported (IBNR) claims of \$90,613. This liability is the District's best estimate based on available information provided by the third party claims administrator and analysis of prior claims history. Changes in the reported liability at June 30, 2014, resulted from the following:

<u>Year</u>	<u>Liability Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims and Payments</u>	<u>Liability End of Year</u>
2013	\$ 1,434,697	\$ 234,269	\$ (171,229)	\$ 1,497,737
2014	1,497,737	585,873	(512,398)	1,571,212

General Liability

The District is protected for general liability, Public Officials' and Employees' Errors and Omission and Employment Practices Liability up to \$5 million per occurrence with a combined single limit of \$5 million and deductibles of \$500 per occurrence. The District does not have a self-insured retention level for its general and vehicle liability coverage; accordingly no liability has been recorded. The Auto Liability policy has a single limit of \$5 million; with a deductible of \$1,000.

Property Loss

The District is covered per occurrence up to and a combined total of \$1 billion, subject to a \$1,000 deductible per occurrence.

Settlements have not exceeded coverages for each of the past three years.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #7 – CAPITAL LEASE PAYABLE

During the year, the District entered into a lease agreement as lessee for financing the acquisition of equipment valued at \$512,314. The first payment of \$177,447 was made during the year. This lease agreement qualifies as a capital lease for accounting purposes and, therefore has been recorded at present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 were as follows:

Year Ending June 30,	Governmental Activities
2015	\$ 177,447
2016	177,447
Total Minimum Lease Payments	354,894
Less: Amounts representing interest	(12,079)
Present Value of Minimum Lease Payments	<u>\$ 342,815</u>

NOTE #8 – LONG-TERM DEBT

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Amount Due In 2014-15
Compensated absences	\$ 4,798,071	\$ 885,271	\$ 626,989	\$ 5,056,353	\$ 300,000
Capital lease payable	-	512,314	169,499	342,815	177,447
Workers' compensation claims	1,497,737	585,873	512,398	1,571,212	393,726
	<u>6,295,808</u>	<u>\$ 1,983,458</u>	<u>\$ 1,308,886</u>	6,970,380	<u>\$ 871,173</u>
Less amount due in 2014-15				(871,173)	
Total amount due in more than one year				<u>\$ 6,099,207</u>	

Compensated Absences

Accumulated vacation and sick leave benefits payable in future years when used by the District employees amounted to \$5,056,353 (\$1,583,036 vacation and \$3,473,317 sick leave and holiday time) at June 30, 2014. Vacation and sick leave benefits will be recorded as an expenditure in the governmental funds when the related current liability is incurred. Based on historical analysis, management estimates \$300,000 as the amount due during fiscal year 2014-2015.

Workers' Compensation Claims

The workers' compensation claims liability of \$1,571,212 as of June 30, 2014, consists of open claims of \$1,480,599 and estimated incurred but not reported (IBNR) claims of \$90,613. The open claims liability is based on claims activity reports provided by the District's third party claims administrator. The estimate for IBNR claims is based on prior claims history and is estimated as a percentage of open claims.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE #9 – CLASSIFICATIONS OF NET POSITION AND FUND BALANCE

In the Government-Wide financial statements net position is classified in the following categories:

Net Investment in Capital Assets

Net investment in capital assets of \$9,443,627 represents the value of capital assets net of accumulated depreciation as of June 30, 2014, less the balance outstanding on the capital lease of \$342,815 used to acquire capital assets.

Unrestricted Net Position

Unrestricted net position of \$15,680,148 represents the net amount of assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

In the fund financial statements, the District fund balance is classified into five components as follows:

- *Nonspendable* – resources that are not in spendable form or required to be maintained intact.
- *Restricted* – resources that are restricted to specific purpose; these restrictions are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources are constrained to specific purposes by a formal action (resolution or ordinance) of the District Board. The constraint remains binding unless removed in the same formal manner by the District Board. Board action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- *Assigned* – amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The Board has delegated the authority to assign amounts, for specific purposes to the Fire Chief or the Fire Chief's designee.
- *Unassigned* – the residual classification of the General Fund.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balance are available, the District's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, the District's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #9 – CLASSIFICATIONS OF NET POSITION AND FUND BALANCE, (CONTINUED)

The District's fund balances at June 30, 2014 are presented below:

Fund Balance	
Nonspendable:	
Deposits with other agencies	\$ 25,000
Prepaid items	37,648
Total Nonspendable	<u>62,648</u>
Committed:	
Workers compensation reserve fund	1,571,212
Equipment replacement fund	1,689,331
Facilities acquisition and maintenance fund	1,096,892
Compensated absences fund	1,668,596
Emergency contingency fund	5,015,577
Total Committed	<u>11,041,608</u>
Unassigned:	<u>9,969,888</u>
Total Fund Balance	<u><u>\$ 21,074,144</u></u>

The Board approved resolution 2011-05 committing resources to the following:

Commitment	Description
Workers compensation reserve fund	Established at a level equal to the estimated value of claims
Equipment replacement fund	Provides for vehicle, apparatus, and major equipment replacement
Facilities acquisition and maintenance fund	Provides for facility acquisition and maintenance
Compensated absences fund	Established at a level of 33% of employee accrued leave balances
Emergency contingency fund	Established at an amount of two months of the District's approved expenditure budget to be used for in the event of a declaration of a local, state or federal state of emergency

In addition, the Board approved a minimum fund balance policy whereby the District desires a general contingency reserve equal to three months approved budgeted expenditures. At June 30, 2014, the amount of \$7,523,365 was maintained pursuant to the policy and classified as part of unassigned fund balance.

NOTE #10 – AGREEMENT

Revised Fire Protection Services Agreement with the City Of Chino

Effective May 1, 1996, the District and the City of Chino (the City) entered into a revised fire protection services agreement. The District and the City agreed to replace the funding method set forth in the adopted LAFCO conditions when the District became self-governing in 1990. The method change provided additional funding to the District, which is more consistent with the level of funding received from areas outside the City limits. The City agreed to pay the District an amount equal to the dispatch service cost incurred by the District.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE #10 – AGREEMENT, (CONTINUED)

Effective June 2, 2009, the District revised the fire protection services agreement in the following manner:

Elimination of Dispatch Service Payments – The City and District agreed to eliminate the requirement of the City to pay or reimburse the District for dispatch services beginning with the first full month following the City's issuance of a certificate of occupancy for the first fire station completed. Dispatch reimbursement terminated in August 2011.

Payments Under 1996 Agreement – Effective February 1, 2012, California State Assembly Bill AB x1 26 dissolved redevelopment agencies in California, and provided for the creation of successor agencies for winding down the affairs of former redevelopment agencies. Pass-through tax increment payment obligations previously made by the City's Redevelopment Agency (RDA) to the District, are now being paid by the Successor Agency for the former Chino RDA, into a property tax trust fund administered by the County of San Bernardino. The District now receives these pass-through payments from the County property tax trust fund.

The dissolution of the former redevelopment agency has resulted in changes in the calculation of the City of Chino's contribution and the amounts received by the District through the property tax allocations from the County of San Bernardino. As a result, the City and the District are amending the terms of the 1996 Agreement. While the process was ongoing, the District deferred revenue recognition on the portion of property taxes subject to the changes from the redevelopment dissolution. During the year, the District recognized \$1,236,048 of previously unearned revenue and accrued \$1,070,490 in credits to the City of Chino pursuant to the negotiations with the City of Chino. The formal agreement, a Second Amendment to the 1996 Chino Agreement, was approved by the Board on October 8, 2014. See Note #14 for further details.

NOTE #11 – RETIREMENT PLAN

Plan Description

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

The Public Employees' Pension Reform Act of 2013 (PEPRA) and related Public Employees' Retirement Law amendments in Assembly Bill (AB) 340, passed by the California Legislature, became effective for new plan members hired on or after January 1, 2013. PEPRA, as amended by AB340, mandated the application of certain new member benefit formulas, member contribution requirements, and pensionable compensation caps, among other changes to California retirement law.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #11 – RETIREMENT PLAN, (CONTINUED)

Any employee hired by the District on or after January 1, 2013, is deemed a “new member” under PEPRA, unless the employee was previously employed by another CalPERS participating employer or is otherwise eligible for retirement system reciprocity, having worked for another qualifying California public retirement system. This is provided that the employee had a break in service from prior eligible employment of no more than six months.

For purposes of PEPRA, retirement plan members not fitting the definition of new members, are deemed “classic members”.

Funding Policy

Classic plan members in the Safety and Miscellaneous Plans are required to contribute 9 percent and 8 percent, respectively, of their annual pensionable compensation. Previously, the District paid classic plan member required contributions on the members’ behalf. In conjunction with various District resolutions covering unrepresented employees, and memorandums of understanding (MOU) between the District and its collective bargaining groups, full required member contributions will be assumed by classic plan members over a multi-year phase-in period. By July 1, 2016, all classic plan members will contribute their full required contributions under the retirement plan.

New member contributions are subject to the provisions of PEPRA. For the year ended June 30, 2014, the District did not employ any new members.

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal 2013-2014 were 23.397 percent for safety employees and 14.66 percent for miscellaneous employees. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2013-2014, the District's annual pension cost was \$3,229,385 for both safety and miscellaneous members, and was equal to the District's required and actual contributions.

Three-Year Trend Information for the Plans

Year Ending June 30,	Annual Pension Cost (APC)			Percentage of APC Contributed
	Miscellaneous	Safety	Total	
2012	\$ 199,424	\$ 3,222,234	\$ 3,421,658	100%
2013	187,744	3,026,350	3,214,094	100%
2014	168,026	3,061,359	3,229,385	100%

The funded status of the pooled plan may be obtained from the CalPERS Executive Office.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #12 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District offers a post retirement defined benefit allowance to plan members. Benefit allowance provisions are established through agreements and memorandums of understanding (MOU) between the District, its management and confidential employees and collective bargaining groups representing other full-time District employees.

Plan members include current retirees of the District. Eligible plan members are District employees who have retired from active employment with the District on or after the November 1990 date of formation and are receiving a retirement allowance from CalPERS. Employees covered under the Safety MOU, hired on or after January 1, 2007, as well as management employees, must complete five years of service in order to qualify for the benefit allowance. In addition, a Post Employment Health Plan (PEHP) was established for Safety MOU members with Nationwide Retirement Solutions (Nationwide) on April 18, 2012. Eligible employees retiring on or after the date the Nationwide plan was established receive the benefit allowance under the terms of the Nationwide plan.

The benefit allowance provides a fixed amount lifetime allowance to eligible plan members and their surviving spouses, if applicable. Employees covered under the Safety MOU and hired on or after April 18, 2012, are not eligible for the PEHP benefit.

Funding Policy

The contribution requirements of the District are established and may be amended by the District's Board of Directors. For eligible plan members, the District provides a monthly benefit allowance of \$500 per month for management and safety members. For confidential and miscellaneous members, the monthly allowance is based on the years of District service as follows:

<u>Between 5 and 10 Years</u>	<u>More than 10 Years</u>
\$250 per month	\$500 per month

The District participates in the CalPERS health plan. Under government code section 22892(c), the District is required to pay a minimum contribution toward the monthly insurance plan premium for any eligible retired member enrolled in the CalPERS health plan. As of June 30, 2014, the minimum employer contribution amount is \$119 per month. In addition, for employees who retired prior to October 1, 2006 and are enrolled in the CalPERS health plan, the District contributes an additional \$17.86 per month toward the insurance plan premium.

Eligible PEHP plan members retiring on or after the establishment of the Nationwide plan will receive the applicable monthly postemployment benefit, offset by the employer minimum health plan contribution, if applicable.

Upon retirement, employees hired after the effective date of the PEHP will be eligible to have the employer minimum health plan contribution paid on their behalf, if applicable.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #12 – OTHER POSTEMPLOYMENT BENEFITS, (CONTINUED)

The District participates in a CalPERS sponsored irrevocable trust, California Employers’ Retiree Benefit Trust (CERBT) Fund to prefund its other postemployment benefit (OPEB) liability in accordance with the terms of GASB Statement No. 45. Amounts contributed toward the District’s OPEB liability for the fiscal year ended June 30, 2014 were \$459,000. This included \$279,582 in benefit payments made to or on behalf of eligible retirees, and \$179,418 contributed to the CERBT.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the *annual required contribution (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's ARC requirement for the fiscal year ended June 30, 2014 was \$459,000. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Annual Required Contribution (ARC)	\$ 459,000
Interest on net OPEB asset	(61,000)
Adjustment to ARC	57,000
Annual OPEB Cost	<u>455,000</u>
Contributions made	<u>(459,000)</u>
(Increase)/decrease in net OPEB asset	(4,000)
Net OPEB obligation (asset) - beginning of year	(835,843)
Net OPEB obligation (asset) - end of year	<u><u>\$ (839,843)</u></u>

The District's annual OPEB cost, the percentage of the annual cost contributed toward the plan members' benefit allowances, and the net OPEB obligation for fiscal year 2014 was as follows:

Fiscal Year Ended:	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/14	\$ 455,000	\$ 459,000	100.88%	\$ (839,843)
6/30/13	370,963	377,024	101.63%	(835,843)
6/30/12	360,787	377,000	104.49%	(829,806)

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 42 percent funded. The actuarial accrued liability was \$5,974,000 and the actuarial value of assets was \$2,516,000, resulting in an unfunded actuarial accrual liability of \$3,458,000. The covered payroll (annual payroll of the active plan members) was \$13,301,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 26 percent.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #12 – OTHER POSTEMPLOYMENT BENEFITS, (CONTINUED)

Actuarial valuations of an ongoing plan such as the District's benefit allowance program, involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.25 percent investment rate of return (net of administrative expenses), which is the rate of the expected long-term investment returns on the District's own investments in the Irrevocable Trust, and an annual healthcare cost trend rate of 4.5 percent. Both rates included a 3.0 percent inflation assumption.

The Unfunded Actuarially Accrued Liability (UAAL) is being amortized on a closed basis over 30 years as a level percentage of projected payroll. The remaining amortization period as of June 30, 2014 was 23 years.

The benefit allowance was deemed a community rated plan and therefore, no implicit rate subsidy was determined in the actuarial valuation.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

NOTE #13 – JOINT VENTURE

West End Fire and Emergency Response Commission

The District is a member of the West End Fire and Emergency Response Commission (FERC), which was created under a joint powers agreement. It was formed to operate a hazardous materials response team serving the Cities of Montclair, Ontario, Upland, Rancho Cucamonga, and the Chino Valley Independent Fire District. The FERC governing board is comprised of one representative from each member agency.

Members of FERC share equally (20 percent each) in the Commission's assets, to be distributed upon termination of the joint venture agreement. The members have no share of the Commission's debts, liabilities, and obligations.

The District's share of equity in FERC has been accounted for as a joint venture in accordance with GASB Statement No. 14, as amended by GASB Statement No. 61; accordingly, 20 percent of FERC's equity has been included as a capital asset of the District (see Note #5).

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE #13 – JOINT VENTURE, (CONTINUED)

Summarized unaudited financial information for FERC at June 30, 2014, is presented below:

Balance Sheet		
Assets		<u>\$ 898,693</u>
Liabilities		\$ 5,081
Equity		<u>893,612</u>
Total Liabilities and Equity		<u>\$ 898,693</u>
 Revenues and Expenditures		
Revenues		\$ 52,800
Expenditures		<u>50,760</u>
Excess of revenues over (under) expenditures		<u>\$ 2,040</u>

NOTE #14 – SUBSEQUENT EVENT

On October 8, 2014, the Board approved Agreement No. 2014-06, a Second Amendment to the 1996 Chino Agreement which provides for a new method of payment calculation whereby the City of Chino pays the District for fire protection services. In accordance with the terms of the Second Amendment, both the City and the District will receive certain retroactive and prospective credits in the annual calculation of amounts due from the City to the District for fire protection services. Pursuant to the Second Amendment, the City of Chino received credits toward the City's payment obligations under the 1996 Agreement totaling \$1,070,490.

REQUIRED SUPPLEMENTARY INFORMATION

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CHINO VALLEY INDEPENDENT FIRE DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 20,728,513	\$ 20,728,513	\$ 21,563,612	\$ 835,099
Licenses and permits	625,000	625,000	654,908	29,908
Charges for current services	7,336,965	7,451,965	8,392,737	940,772
Use of money and property	150,000	150,000	115,139	(34,861)
Other	721,652	721,652	331,377	(390,275)
Total Revenues	29,562,130	29,677,130	31,057,773	1,380,643
EXPENDITURES				
Current:				
Salaries and benefits	24,476,716	24,608,316	25,271,163	(662,847)
Services and supplies	4,451,215	4,430,035	3,996,070	433,965
Capital outlay	1,055,108	1,055,108	718,218	336,890
Debt service:				
Principal			169,499	(169,499)
Interest			7,948	(7,948)
Total Expenditures	29,983,039	30,093,459	30,162,898	(69,439)
Excess of Revenues Over Expenditures	(696,002)	(416,329)	894,875	1,311,204
OTHER FINANCING SOURCES				
Capital lease			512,314	512,314
Net Change in Fund Balance	(420,909)	(416,329)	1,407,189	1,823,518
FUND BALANCE, Beginning of Year	19,666,955	19,666,955	19,666,955	
FUND BALANCE, End of Year	\$ 19,246,046	\$ 19,250,626	\$ 21,074,144	\$ 1,823,518

See accompanying notes to required supplementary information.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2014**

<u>Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Payroll</u>
6/30/2013	\$ 5,974,000	\$ 2,516,000	3,458,000	42.1%	\$ 13,301,000	26.0%
6/30/2011	5,280,000	1,947,000	3,333,000	36.9%	13,301,000	25.1%
6/30/2010	4,652,000	1,435,000	3,217,000	30.8%	12,715,000	25.3%

See accompanying notes to required supplementary information.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

***NOTE #1 – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL***

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

NOTE #2 – SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN

The Schedule of Funding Progress for Other Postemployment Benefits shows the District's actuarial value of assets, accrued liability, and their relationship of the unfunded actuarially accrued liability (UAAL) to payroll in accordance with GASB Statement No. 45.