

**CHINO VALLEY
INDEPENDENT FIRE DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and the general fund of the Chino Valley Independent Fire District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Chino Valley Independent Fire District, as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3 through 9, budgetary comparison schedule on page 34, and schedule of funding progress on page 35 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.

Vavrinch, Train, Dwyer & Co., LLP

Rancho Cucamonga, California
November 30, 2012



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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, 2012. We encourage readers to consider this information in conjunction with the *District's* financial statements, which follow.

District Highlights

Noteworthy District highlights for FY2011-12 included:

- Paid off the District's retirement plan employer side fund obligations during the fiscal year from fund balance, resulting in projected savings of nearly \$3.2 million in interest costs over the remaining terms of the obligations, including savings in '11-12 of about \$460,000.
- In partnership with the City of Chino (City), opened new fire facilities, including the District's seventh fire station, Station No. 67, a state-of-the-art training center on the same campus, and also replaced and relocated old Station No. 61. Under the terms of a fire protection services agreement with the City, the City is generally responsible for design and construction of fire facilities, and the District is responsible for ongoing facility repairs and maintenance, as well as continuing staffing and operating costs. See Note 9 to the financial statements for additional information.
- Added fire personnel required for constant staffing of new Station No. 67, resulting in an increased level of service to the community, while maintaining overhead support personnel at previously established levels.
- Worked collaboratively with the safety labor group to restructure the postemployment health plan benefit for eligible safety members, resulting in potentially significant cost savings to the District over time. Changes included the elimination of a postemployment health benefit allowance for eligible safety members hired after April 17, 2012.

Financial Highlights

- At the close of the fiscal year ended June 30, 2012, the assets of the District of \$33,037,272, exceeded liabilities by \$25,392,894 (net assets). Of this amount, \$14,453,048 (unrestricted net assets) may be used to meet the District's ongoing obligations.
- The District's total net assets decreased during the fiscal year by \$6,395,460. While this net decrease was attributable to a number of factors, most significantly, the District utilized approximately \$4.75 million from fund balance to pay off its retirement plan employer side fund obligations, as referenced above. Additionally, exclusive of the aforementioned side fund obligations extinguishment, General Fund expenditures from ongoing operations exceeded revenues by just under \$700,000.
- As of June 30, 2012, the District's General Fund reported an ending fund balance of \$19,697,718, of which \$8,133,847, or 41% was unassigned. The unassigned portion of General Fund balance represented 28% of FY2011-12 General Fund expenditures from operations.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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 Assets* presents information on all of the District's assets and liabilities, with the difference between assets and liabilities representing *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$25,392,894, at June 30, 2012.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Chino Valley Independent Fire District Net Assets

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011
Current assets	\$22,097,426	\$27,880,664
Capital assets (net)	10,939,846	11,686,830
Total Assets	\$33,037,272	\$39,567,494
Current liabilities	1,128,274	1,595,059
Other liabilities	6,516,104	6,184,081
Total Liabilities	\$7,644,378	\$7,779,140
Invested in capital assets	10,939,846	11,686,830
Unrestricted	14,453,048	20,101,524
Total Net Assets	\$25,392,894	\$31,788,354

The unrestricted portion of net assets, totaling \$14,453,048, may be used to meet the District's ongoing obligations.

Government activities. Governmental activities decreased the District's net assets by \$6,395,460, during the fiscal year ended June 30, 2012.

Chino Valley Independent Fire District Changes in Net Assets

	Governmental Activities FYE June 30, 2012	Governmental Activities FYE June 30, 2011
Program revenues:		
Charges for services	\$7,624,044	\$8,032,267
Operating grants and contributions	242,587	758,167
Capital grants and contributions	-	-
General revenues:		
Property taxes	20,076,881	20,063,414
Investment income	85,154	111,923
Total revenues	\$28,028,666	\$28,965,771
Special items:		
CalPERS side fund payment	(4,749,934)	-
Total revenues and special items	\$23,278,732	\$28,965,771
Expenses:		
Public Safety – Fire Protection	29,674,192	27,882,429
Total expenses	\$29,674,192	\$27,882,429
Change in Net Assets	(\$6,395,460)	\$1,143,342
Net Assets, July 1,	\$31,788,354	\$30,645,012
Net Assets, June 30,	\$25,392,894	\$31,788,354



CHINO VALLEY INDEPENDENT FIRE DISTRICT

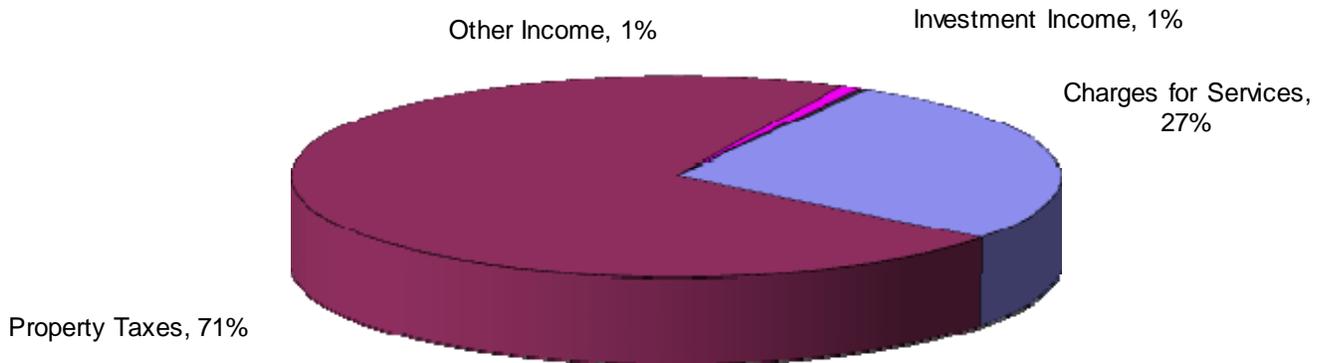
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Key elements of the difference between fund balance of the General Fund and the net assets 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 assets of governmental activities by approximately \$10.94 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 assets of governmental activities of approximately \$6.07 million.
- The net Other Post Employment Benefit (OPEB) asset of approximately \$0.83 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, 2012

As of June 30, 2012, the District's General Fund reported an ending fund balance of \$19,697,718, a decrease of \$5,449,354 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, 2012, the District's classifications of fund balance were as follows:

	Classifications of Fund Balance June 30, 2012
Nonspendable:	
Deposits and Prepaid Items	\$202,920
Total Nonspendable Fund Balance	\$202,920
Committed:	
Workers Compensation Reserve Fund	\$1,434,697
Equipment Replacement Fund	946,228
Facilities Acquisition and Maintenance Fund	1,064,711
Compensated Absences Fund	1,676,864
Emergency Contingency Fund	4,890,056
Total Committed Fund Balance	\$10,012,556
Assigned:	
Transfers Required to Balance Next Fiscal Year’s Budget	\$1,348,395
Total Assigned Fund Balance	\$1,348,395
Unassigned:	
Minimum Fund Balance for General Contingency Purposes	\$7,335,085
Available Fund Balance for Discretionary Use	798,762
Total Unassigned Fund Balance	\$8,133,847
Total General Fund Balance	\$19,697,718

General Fund Budgetary Highlights

Budgetary amendments of \$128,500 in additional net expenditures were approved in the Final budget, including \$238,500 in new or increased budget expenditure requests, and \$110,000 in corresponding budget reductions and eliminations. The more significant changes from Original to Final budget included:

- Expenditures of \$75,000 authorized for the balance of the fiscal year based on projections of worker’s compensation staffing coverage costs.
- \$70,000 for equipment for county mandated electronic patient care reporting system start-up costs.
- Reduction of \$65,000 in the budget for wellness services as a result of revised projections for the balance of the fiscal year.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Capital Asset and Debt Administration.

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to approximately \$10.94 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 \$750,000, due to depreciation charges in excess of capital asset acquisitions. The most significant acquisition during the fiscal year was a replacement fire engine funded under contract by the City of Chino.

Chino Valley Independent Fire District Capital Assets

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011
Land	\$105,438	\$105,438
Investment in joint venture	221,230	228,603
Construction in progress	377,928	243,947
Buildings	6,878,690	6,878,690
Improvements other than buildings	783,425	762,037
Equipment	9,982,247	9,913,569
Total capital assets	\$18,348,958	\$18,132,284
Less: accumulated depreciation	(7,409,112)	(6,445,454)
Total capital assets, net of accumulated depreciation	\$10,939,846	\$11,686,830

Chino Valley Independent Fire District Outstanding Debt

Long-term debt. At the end of the fiscal year, the District's total outstanding debt amounted to approximately \$6.52 million.

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011
Compensated absences	\$5,081,407	\$4,922,597
Worker's Compensation claims	1,434,697	1,261,484
Total outstanding debt	\$6,516,104	\$6,184,081

Approximately \$741,628 of the total debt amount is due in FY2012-13.



CHINO VALLEY INDEPENDENT FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Economic Factors and Next Year's Budgets and Rates

- Local property values remains relatively stable within the District's service area. The general economic downturn and the impact on local residential housing and commercial real estate markets have been taken into account in the budgetary projections for next fiscal year. Property tax revenues are projected to increase by about a modest 0.5% over FY2011-12 figures.
- Other revenues are projected to increase slightly as well, and overall revenues are projected at about 1.4% over FY2011-12 levels.
- Budgeted expenditures for FY2012-13 have been reduced in comparison to FY2011-12 levels, whenever practical to do so. Total expenditures in FY2012-13 are projected to increase by about 2.7%, primarily due to capital expenditure requirements in FY2012-13.
- The Preliminary Budget approved by the District Board of Directors for FY2012-13 in June for 2012, included projected expenditures in excess of revenues of about \$1.35 million. Primarily as a result of updated projections, the budgeted deficit was favorably reduced to approximately \$1.06 million in Final Budget in September.
- The District has assigned a sufficient amount of fund balance to offset the budgeted expenditures in excess of revenues in the FY2012-13 budget, while continuing to maintain adequate levels of fund balance to provide for economic uncertainties and temporary downturns in the foreseeable future.
- The District also projects and forecasts long-range revenues and expenditures for longer-term, financial, operating and strategic planning purposes.
- These and other factors were considered in the preparation of the District's budget for FY2012-13.

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.

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CHINO VALLEY INDEPENDENT FIRE DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 20,648,912
Accounts receivable	119,291
Taxes receivable	245,841
Accrued interest receivable	5,462
Note receivable	45,194
Deposits with other agencies	25,000
Prepaid costs	177,920
Net OPEB asset	829,806
Capital assets, net of accumulated depreciation	<u>10,939,846</u>
Total Assets	<u>33,037,272</u>
LIABILITIES	
Accounts payable	389,334
Accrued payroll	738,940
Noncurrent liabilities:	
Due within one year	741,628
Due in more than one year	<u>5,774,476</u>
Total Liabilities	<u>7,644,378</u>
NET ASSETS	
Invested in capital assets	10,939,846
Unrestricted	<u>14,453,048</u>
Total Net Assets	<u>\$ 25,392,894</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, 2012**

	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental Activities					
Public safety - fire protection	\$ 29,674,192	\$ 7,624,044	\$ 242,587	\$ -	\$ (21,807,561)
Total Governmental Activities	\$ 29,674,192	\$ 7,624,044	\$ 242,587	\$ -	(21,807,561)
General Revenues:					
Taxes:					
Property taxes					20,076,881
Investment income					85,154
Special items - CalPERS side fund payment					(4,749,934)
Total General Revenues and Special Items					15,412,101
Change in Net Assets					(6,395,460)
Net Assets at Beginning of Year					31,788,354
Net Assets at End of Year					\$ 25,392,894

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**GENERAL FUND
BALANCE SHEET
JUNE 30, 2012**

ASSETS

Cash and investments	\$ 20,648,912
Accounts receivable	119,291
Taxes receivable	245,841
Accrued interest receivable	5,462
Note receivable	45,194
Deposits with other agencies	25,000
Prepaid items	177,920
Total Assets	<u>\$ 21,267,620</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable and accrued liabilities	\$ 389,334
Accrued payroll	738,940
Current claims payable	441,628
Total Liabilities	<u>1,569,902</u>

FUND BALANCE

Nonspendable	202,920
Committed	10,012,556
Assigned	1,348,395
Unassigned	8,133,847
Total Fund Balance	<u>19,697,718</u>
Total Liabilities and and Fund Balance	<u>\$ 21,267,620</u>

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 ASSETS**

JUNE 30, 2012

Fund Balance of the General Fund	\$ 19,697,718
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	10,939,846
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(6,074,476)
The net OPEB asset is not available to pay for current period expenditures and is not reported in the governmental funds.	829,806
Net Assets of Governmental Activities	<u><u>\$ 25,392,894</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, 2012**

REVENUES

Taxes	\$ 20,076,881
Licenses and permits	365,943
Charges for current services	7,258,101
Use of money and property	85,154
Other	242,587
Total Revenues	<u>28,028,666</u>

EXPENDITURES

Current:	
Salaries and benefits	24,594,712
Services and supplies	3,909,327
Capital outlay	224,047
Total Expenditures	<u>28,728,086</u>
Excess (deficiency) of revenues over expenditures	(699,420)
Special Item - CalPERS side fund payment	<u>(4,749,934)</u>
Net Change in Fund Balance	(5,449,354)
FUND BALANCE, Beginning of Year	<u>25,147,072</u>
FUND BALANCE, End of Year	<u>\$ 19,697,718</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, 2012**

Net Change in Fund Balance - General Fund \$ (5,449,354)

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:

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:

Cost of purchased assets capitalized	224,047
Depreciation expense	(963,658)
Decrease in joint venture	(7,373)

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. (158,810)

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. (56,549)

The excess between the annual required contributions (ARC) and amount funded during the fiscal year for other postemployment benefits was recorded as an expenditure for the governmental funds. However, the difference between the ARC and the amount funded is recorded as a deferred charge in the statement of activities. 16,237

Change in Net Assets of Governmental Activities \$ (6,395,460)

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chino Valley Independent Fire 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 (the "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 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 Future Fiscal Years

GASB Statement No. 60 - In November of 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*. This Statement provides guidance on reporting and disclosure of service concession agreements. This statement is not effective until July 1, 2012. The District has not determined the effect on the financial statements.

GASB Statement No. 61 - In November of 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This Statement will update existing standards pertaining to financial reporting for which significant issues have been identified in practice. This statement is not effective until July 1, 2012. The District has not determined the effect on the financial statements.

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates FASB and AICPA pronouncements into the GASB's authoritative literature containing certain accounting and financial reporting guidance. This statement is effective for periods beginning after December 15, 2011. The District has not determined the effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position*. This statement provides financial reporting guidance on deferred outflows of resources and deferred inflows of resources. This statement is effective as of July 1, 2012. The District has not determined the effect on the financial statements.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

C. New Accounting Pronouncements, (Continued)

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. The District has not determined the effect on the financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012— an Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective as of July 1, 2013. The District has not determined the effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 25*. This statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement also addresses accounting and financial reporting for the activities of pension plans that are administered through trusts. This Statement is effective as of July 1, 2013. The District has not determined the effect on the financial statements.

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*. 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.

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.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

E. Basis of Accounting/Measurement Focus

Government – Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

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

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012

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

The District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Pools*, which 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. In accordance with GASB Statement No. 31, the District has adjusted certain investments to fair value (when material).

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

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, 2012**

NOTE #3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Cash and investments	<u>\$ 20,648,912</u>
Cash and investments as of June 30, 2012, consist of the following:	
Petty cash	\$ 500
Cash demand deposits	<u>688,634</u>
Total Cash	<u>689,134</u>
Overnight Repurchase Agreements Sweep Account	538,416
Federal National Mortgage Association (FNMA) Securities	2,000,000
Medium Term Corporate Notes	3,272,952
Money Market Funds	5,160
JPA Beneficial Interest Shares - CalTRUST	2,999,638
Pooled investments - Local Agency Investment Fund (LAIF)	<u>11,143,612</u>
Total Investments	<u>19,959,778</u>
Total Cash and Investments	<u>\$ 20,648,912</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, credit 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, 2012**

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. As of year end, the weighted average maturity of the investments held by the district is less than one year.

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	\$ 538,416	\$ 538,416		
Federal National Mortgage Association (FNMA) Securities	2,000,000			\$ 2,000,000
Medium Term Corporate Notes	3,272,952			3,272,952
Money Market Funds	5,160	5,160		
JPA Beneficial Interest Shares - CalTRUST	2,999,638	2,999,638		
Pooled investments - Local Agency Investment Fund (LAIF)	11,143,612	11,143,612		
Total Investments	<u>\$ 19,959,778</u>	<u>\$ 14,686,826</u>		<u>\$ 5,272,952</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. As of June 30, 2012 the District’s investments in FNMA securities and Medium Term Corporate Notes were rated AA+ by Standard & Poors.

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, 2012, 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>
Federal National Mortgage Association (FNMA) Securities	\$ 2,000,000
Medium Term Corporate Notes - General Electric	2,256,952
Medium Term Corporate Notes - Berkshire Hathaway	1,016,000

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE #3 – CASH AND INVESTMENTS, (CONTINUED)

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, 2012, all of the District's deposits with financial institutions were composed of non-interest bearing deposits. Non-interest bearing deposits are fully insured in accordance with FDIC guidelines.

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 LAIF that is regulated by the California Government Code 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.

As of June 30, 2012, the District's investments in the State Treasurer's investment pool (LAIF) were \$11,143,612. The total amounts invested by all public agencies in LAIF at June 30, 2012 were \$60,502,186,417. Of these amounts, as of June 30, 2012, 93.06 percent is invested in non-derivative financial products, and 6.94 percent is invested in structured notes and asset-backed securities. The District relied upon information provided by the State Treasurer in estimating the District's fair value position of its holdings in LAIF.

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.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE #4 – PREPAID COSTS

Prepaid costs in the amount of \$177,920 were primarily comprised of \$128,701 of SDRMA insurance pre-payments, \$27,777 of employee benefit pre-payments, and \$14,076 of OPEB retiree benefit pre-payments pertaining to the fiscal year 2012-2013.

NOTE #5 – CAPITAL ASSETS AND DEPRECIATION

In accordance with GASB Statement No. 34, the District has reported all capital assets in the Government-Wide Statement of Net Assets. The following table presents the capital assets activity for the year ended June 30, 2012.

	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 #12)	228,603		\$ 7,373	221,230
Construction in Progress	243,947	\$ 133,981		377,928
Total Capital Assets Not Being Depreciated	577,988	133,981	7,373	704,596
Capital Assets, Being Depreciated:				
Buildings	6,878,690			6,878,690
Improvements other than buildings	762,037	21,388		783,425
Equipment	9,913,569	68,678		9,982,247
Total Capital Assets Being Depreciated	17,554,296	90,066		17,644,362
Less Accumulated Depreciation For:				
Buildings	500,139	223,551		723,690
Improvements other than buildings	190,996	26,075		217,071
Equipment	5,754,319	714,032		6,468,351
Total Accumulated Depreciation	6,445,454	963,658		7,409,112
Total Capital Assets, Being Depreciated, Net	11,108,842	(873,592)		10,235,250
Governmental Activities Capital Assets, Net	\$ 11,686,830	\$ (739,611)	\$ 7,373	\$ 10,939,846

Depreciation expense in the amount of \$963,658 was charged to the public safety function on the Statement of Activities for the year ended June 30, 2012.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 \$200 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, 2012, the total liability of \$1,434,697 consists of open claims of \$1,339,999 and estimated incurred but not reported (IBNR) claims of \$94,698. 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, 2012, 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>
2011	\$ 814,408	\$ 1,198,997	\$ (751,921)	\$ 1,261,484
2012	1,261,484	828,029	(654,816)	1,434,697

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 \$2.5 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 \$2,000 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, 2012**

NOTE #7 – LONG-TERM DEBT

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Amount Due In 2012-13
Compensated absences	\$ 4,922,597	\$ 484,455	\$ 325,645	\$ 5,081,407	\$ 300,000
Workers' compensation claims	1,261,484	828,029	654,816	1,434,697	441,628
	<u>\$ 6,184,081</u>	<u>\$ 1,312,484</u>	<u>\$ 980,461</u>	6,516,104	<u>\$ 741,628</u>
Less amount due in 2012-13				<u>(741,628)</u>	
Total amount due in more than one year				<u>\$ 5,774,476</u>	

Compensated Absences

Accumulated vacation and sick leave benefits payable in future years when used by the District employees amounted to \$5,081,407 (\$1,584,249 vacation and \$3,497,158 sick leave and holiday time) at June 30, 2012. Vacation and sick leave benefits will be recorded as an expenditure in the governmental funds when the related current liability is incurred. Based on past experience an estimate of \$300,000 has been set up as the amount due during fiscal year 2012-2013.

Workers' Compensation Claims

The workers' compensation claims liability of \$1,434,697 as of June 30, 2012, consists of open claims of \$1,339,999 and estimated incurred but not reported (IBNR) claims of \$94,698. 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.

NOTE #8 – CLASSIFICATIONS OF NET ASSETS AND FUND BALANCE

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

Invested in Capital Assets

This category groups all capital assets, into one component of net assets. Accumulated depreciation on these assets reduces this category.

Unrestricted Net Assets

This category represents the net assets of the District that are not externally restricted for any project or other purpose classified into the other two categories.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE #8 – CLASSIFICATIONS OF NET ASSETS AND FUND BALANCE, (CONTINUED)

District fund balance is classified in accordance with GASB issued Statement No. 54, which classifies fund balance into five different components. The components are nonspendable, restricted, committed, assigned and unassigned.

- *Nonspendable* – resources that are not in spendable form or required to be maintained intact such as deposits on file with other agencies.
- *Restricted* – resources are subject to externally enforceable legal restrictions; 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 of the District Board such as an ordinance or resolution. 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 designee in accordance with its Fund Balance Policy dated May 11, 2011. At June 30, 2012, assigned fund balance includes the use of fund balance to cover expenditures in excess of revenues in the amount of \$1,348,395 identified as Budget Transfers in Next Fiscal Year's Approved Budget.
- *Unassigned* – any residual positive net resources of the General Fund in excess of those portions of fund balance classified in one of the other four categories of fund balance.

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, 2012**

NOTE #8 – CLASSIFICATIONS OF NET ASSETS AND FUND BALANCE, (CONTINUED)

The District's governmental funds at June 30, 2012 are presented below:

Fund Balance	
Nonspendable:	
Deposits with other agencies	\$ 25,000
Prepaid items	177,920
Total Nonspendable	<u>202,920</u>
Committed:	
Workers compensation reserve fund	1,434,697
Equipment replacement fund	946,228
Facilities acquisition and maintenance fund	1,064,711
Compensated absences fund	1,676,864
Emergency contingency fund	4,890,056
Total Committed	<u>10,012,556</u>
Assigned:	
Budget transfer in next fiscal year's approved budget	<u>1,348,395</u>
Unassigned:	<u>8,133,847</u>
Total Fund Balance	<u>\$ 19,697,718</u>

On June 8, 2011, the Board approved resolution 2011-05 creating an Emergency Contingency Fund representing 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, 2012, the amount of \$7,335,085 was maintained pursuant to the policy and classified as part of unassigned fund balance.

NOTE #9 – 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 has agreed to pay the District an amount equal to the dispatch service cost incurred by the District. The amount of dispatch service expense incurred and subsequently received from the City was \$77,237 for 2011-2012.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE #9 – AGREEMENT, (CONTINUED)

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

Design and Construction of Fire Facilities – The City has agreed to the design and construction of three new fire facilities. Under the agreement, the facilities will be owned by the City and it is intended that the City will enter into a long-term lease for the District's use. The City's maximum commitment toward the costs of the facilities shall be \$18.1 million. The District has agreed to pay costs in excess of \$18.1 million which are estimated at \$2 million with the right of termination in the event that proposed contract awards exceed of \$20.1 million. No payments were made by District in the fiscal year 2011-12.

Elimination of Dispatch Service Payments – The City and District have 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, as described above.

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 value 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 City's obligation to the District is reduced in an amount equal to these statutory pass-through payments, as provided for in the Health and Safety Code.

The City of Chino issued a certificate of occupancy for Fire Station No. 7 on August 31, 2011. In accordance with the Agreement, no payments were made for dispatch services after August 2011.

NOTE #10 – 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.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE #10 – RETIREMENT PLAN, (CONTINUED)

Funding Policy

Active plan members in the Safety and Miscellaneous Plans are required to contribute 9 percent and 8 percent, respectively, of their annual covered salary, which the District pays on their behalf. 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 2011-2012 were 23.006 percent for safety employees and 13.353 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. See Note #13 for information regarding the payoff of the Plans' side fund obligations during fiscal year 2011-2012.

Annual Pension Cost

For fiscal year 2011-2012, the District's annual pension cost was \$3,421,658 for both safety and miscellaneous members, and was equal to the District's required and actual contributions.

Three-Year Trend Information for the Plans

<u>Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 2,590,857	100%	-
2011	2,774,246	100%	-
2012	3,421,658	100%	-

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

NOTE #11 – 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) as of 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.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE #11 – OTHER POSTEMPLOYMENT BENEFITS, (CONTINUED)

The benefit allowance provides a lifetime allowance to eligible plan members and their surviving spouses, if applicable. The benefit allowance is provided in conjunction with the MOU terms allowing retirees to continue their current health insurance which also covers active members. 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:

Between 5 and 10 Years	More than 10 Years
\$250 per month	\$500 per month

Any and all insurance premium costs incurred by retirees above the monthly benefit allowance are borne by the retiree. In addition, for retirees who retired prior to October 1, 2006, the District contributes an additional \$17.86 towards the CalPERS retiree health plan, for those eligible plan members.

Eligible plan members retiring on or after the establishment of the Nationwide plan will receive the monthly benefit in an amount equal to the difference between the \$500 lifetime benefit and CalPERS minimum health plan contributions under government code section 22892(c). Those members not enrolled in a CalPERS health plan will receive the minimum health plan contribution under government code section 22892(c).

During fiscal year 2008, the District established an irrevocable trust in accordance with the parameters of GASB Statement No. 45. Amounts contributed to the Trust for the fiscal year ended June 30, 2012 were \$149,000.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (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, 2012 was \$368,000 and 3 percent of payroll. 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)	\$ 368,000
Interest on net OPEB obligation	(63,052)
Adjustment to ARC	55,839
Annual OPEB cost (expense)	360,787
Contributions made	(377,024)
(Increase)/decrease in net OPEB asset	(16,237)
Net OPEB obligation (asset) - beginning of year	(813,569)
Net OPEB obligation (asset) - end of year	\$ (829,806)

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE #11 – OTHER POSTEMPLOYMENT BENEFITS, (CONTINUED)

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 2012 was as follows:

Fiscal Year Ended:	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/12	\$ 360,787	\$ 377,024	104.50%	\$ (829,806)
6/30/11	375,741	596,082	158.64%	(813,569)
6/30/10	363,918	575,482	158.14%	(593,228)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 36.9 percent funded. The actuarial accrued liability was \$5,280,000 and the actuarial value of assets was \$1,947,000, resulting in an unfunded actuarial accrual liability of \$3,333,000. 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 25.1 percent.

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, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.75 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 over 30 years as a level percentage of projected payroll. The remaining amortization period as of June 30, 2012 was 24 years.

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

The accompanying schedule of funding progress shows the funded status of the plan and unfunded actuarial accrued liability as a percentage of payroll.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE #12 – 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; accordingly, 20 percent of FERC's equity has been included as a capital asset of the District (see Note #5).

Summarized unaudited financial information for FERC at June 30, 2012, is presented below:

Balance Sheet	
Assets	<u>\$ 1,107,952</u>
Liabilities	\$ 1,805
Equity	<u>1,106,147</u>
Total Liabilities and Equity	<u>\$ 1,107,952</u>
Revenues and Expenditures	
Revenues	\$ 56,013
Expenditures	<u>48,900</u>
Excess of revenues over (under) expenditures	<u>\$ 7,113</u>

NOTE #13 – SPECIAL ITEM

The District's defined benefit pension plans, the Safety and Miscellaneous Plans of the Chino Valley Independent Fire District (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. Upon joining the risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the District's plan. As of July 1, 2011, the side fund obligation, net of lump sum prepayment credits, totaled \$4,749,934. On July 13, 2011 the District's board approved the payment of the side fund obligation in its entirety with amounts paid out of District fund balance. On July 28, 2011 the side fund balance was paid.

REQUIRED SUPPLEMENTARY INFORMATION

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 20,286,020	\$ 20,286,020	\$ 20,076,881	\$ (209,139)
Licenses and permits	400,000	400,000	365,943	(34,057)
Charges for current services	7,258,851	7,258,851	7,258,101	(750)
Use of money and property	116,000	116,000	85,154	(30,846)
Other	390,000	390,000	242,587	(147,413)
Total Revenues	28,450,871	28,450,871	28,028,666	(422,205)
EXPENDITURES				
Current:				
Salaries and benefits	24,704,599	24,779,599	24,594,712	184,887
Services and supplies	4,274,738	4,248,238	3,909,327	338,911
Capital outlay	846,000	926,000	224,047	701,953
Total Expenditures	29,825,337	29,953,837	28,728,086	1,225,751
Excess (deficiency) of revenues over expenditures	(1,374,466)	(1,502,966)	(699,420)	803,546
Special Item - CalPERS Side Fund Payment	(4,749,934)	(4,749,934)	(4,749,934)	-
Net Change in Fund Balance	(6,124,400)	(6,252,900)	(5,449,354)	803,546
FUND BALANCE, Beginning of Year	25,147,072	25,147,072	25,147,072	
FUND BALANCE, End of Year	\$ 19,022,672	\$ 18,894,172	\$ 19,697,718	\$ 803,546

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, 2012**

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
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%
6/30/2008	4,203,000	673,000	3,530,000	16.0%	11,895,000	29.7%

See accompanying notes to required supplementary information.

CHINO VALLEY INDEPENDENT FIRE DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

***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 – SCHEDULES OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN

The Schedules 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 for the Safety and Miscellaneous Plans in accordance with GASB Statement No. 45.