FIVE CITIES FIRE AUTHORITY

AUDIT REPORT

For the Fiscal Year Ended June 30, 2014

FIVE CITIES FIRE AUTHORITY
AUDIT REPORT
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For the Fiscal Year Ended June 30, 2014

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FIVE CITIES FIRE AUTHORITY

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Five Cities Fire Authority
Arroyo Grande, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Five Cities Fire Authority (the Authority) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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 major fund of Five Cities Fire Authority, as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

OFFICES: BEVERLY HILLS · CULVER CITY· SANTA MARIA

Emphasis of Matter

Change in Accounting Principles

As discussed in note 1 to the basic financial statements effective July 1, 2013, the Five Cities Fire Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* Statement No. 66, *Technical Correct-2012,* Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the budgetary information on page 19 and the schedule of funding progress for Post Employment Benefits Other than Pensions on page 20, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, on our consideration of the Five Cities Fire Authority'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 Authority's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim LLP

Santa Maria, California
November 20, 2014

FIVE CITIES FIRE AUTHORITY

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
ASSETS	
Cash and investments	$ 477,352
Receivables:	
Accounts	22,816
Interest	110
Grant	361,399
Prepaid items	4,558
Capital assets:	
Depreciable:	
Vehicles and equipment	706,724
Accumulated depreciation	(457,221)
Total assets	1,115,738
LIABILITIES	
Accounts payable	371,019
Accrued payroll	100,602
Unearned revenue	325
Noncurrent liabilities:	
Due in more than one year:	
Compensated absences	358,952
Other postemployment benefits	88,600
Total liabilities	919,498
NET POSITION	
Net investment in capital assets	249,503
Unrestricted	(53,263)
Total net position	$ 196,240

The notes to the basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Contributions and Grants	Program Revenues: Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:					
Fire protection services	$ 4,544,044	$ 3,708,638	$ 760,464	$ 29,833	$ (45,109)
Total governmental activities	$ 4,544,044	$ 3,708,638	$ 760,464	$ 29,833	(45,109)
General Revenues					
Investment income					155
Total general revenues					155
Change in net position					(44,954)
Net position at beginning of fiscal year					241,194
Net position at end of fiscal year					$ 196,240

The notes to the basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2014

	General Fund
ASSETS	
Cash and investments	$ 477,352
Receivables:	
Accounts	22,816
Interest	110
Grant	361,399
Prepaid items	4,558
Total assets	$ 866,235
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	$ 371,019
Accrued payroll	100,602
Unearned revenue	325
Total liabilities	471,946
Fund Balance:	
Nonspendable:	
Prepaid items	4,558
Unrestricted	389,731
Total fund balance	394,289
Total liabilities and fund balance	$ 866,235

The notes to the basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND - BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Fiscal Year Ended June 30, 2014

Total fund balance - governmental fund		$ 394,289
In the governmental fund, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost	$ 706,724	
Accumulated depreciation	(457,221)	
Net capital assets		249,503
In the governmental fund, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
Compensated absences	$ 358,952	
Other postemployment benefits	88,600	
Total long-term liabilities		(447,552)
Total net position - governmental activities		$ 196,240

The notes to the basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2014

	General Fund
REVENUES	
Member contributions	$ 3,467,600
Use of money and property	155
Intergovernmental revenues	168,422
Grant revenue	790,297
Charges for services	4,116
Other revenue	68,500
Total revenue	4,499,090
EXPENDITURES	
Current:	
Salaries and benefits	3,656,018
Services and supplies	684,338
Capital outlay	131,272
Total expenditures	4,471,628
Excess of revenue over expenditures	27,462
Fund balance, July 1, 2013	366,827
Fund balance, June 30, 2014	$ 394,289

The notes to the basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2014

Total net change in fund balances - governmental funds	$ 27,462
Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of $131,272 is more than depreciation expense $(119,500) in the period.	11,772
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). For this fiscal year ended, vacation earned exceeded the amounts used by:	(56,413)
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In the governmental fund, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid). This fiscal year, postemployment benefits earned were more than the amounts used by:	(27,775)
Change in net position - governmental activities	$ (44,954)

The notes to the basic financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Five Cities Fire Authority (FCFA) has been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant FCFA's accounting policies are described below:

A. Reporting Entity

FCFA was established on July 9, 2010, by a joint powers agreement between the Cities of Arroyo Grande, Grover Beach, and Oceano Community Services District. The FCFA governing board consists of one member appointed from each participating entity, as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. Each participating entity contributes its pro rata share of operating costs to FCFA based on a funding formula, calculated annually.

The reporting entity is the Five Cities Fire Authority. There are no component units in this report which meet the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61.

B. Basis of Accounting and Presentation

The accounts of FCFA are organized in one general fund. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

The governmental general fund is reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when *measureable and available*. FCFA considers all revenues reported in the governmental general fund to be available if the revenues are collected within sixty days after the fiscal year-end. Expenditures are recorded when the related fund liability is *incurred*, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital assets acquisitions are reported as expenditures in the general fund. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which FCFA gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, FCFA may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, either restricted and unrestricted fund balances or net position may be available to finance program expenditures/expenses. FCFA's policy is to first apply restricted grant resources to such programs, followed by general revenues, if necessary.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

B. Basis of Accounting and Presentation – continued

Government-wide Statements

The Statement of Net Position and the Statement of Activities display information about FCFA. These statements include the financial activities of the overall FCFA government. Eliminations have been made to minimize the double counting or internal activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the FCFA's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the FCFA's general fund.

C. Cash and Investments

FCFA pools its available cash for investment purposes. FCFA considers pooled cash and investments, with original maturities of three months or less, to be cash equivalents.

Certain proceeds of long-term debt, including certain resources set aside for repayment, are classified as restricted assets on the government-wide balance sheet, because their use is limited by applicable debt covenants. FCFA has classified additional assets as restricted to comply with laws and other agreements.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

D. Capital Assets

Capital assets are defined as costs related to the acquisition or purchase of property, plant, and equipment. Capital assets are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. It is FCFA's policy to capitalize all capital assets with costs exceeding $5,000 and with useful lives exceeding one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The purpose of depreciation is to spread the cost of capital assets equitable among all users over the life of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each fiscal year until the asset is fully depreciated. FCFA has assigned the useful lives listed below to capital assets:

Structures and improvements	50 years
Equipment	5 – 25 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

E. Compensated Absences

In compliance with GASB Statement No. 16, FCFA has established a liability for accrued sick leave and vacation. All vacation is accrued when incurred in the government-wide statements. This liability is calculated for current employees at the current rates of pay. FCFA employees accrue vacation and sick leave that vary in amounts, based primarily on employment status and years of service. In the event of termination or retirement, employees are reimbursed for the total value of their accumulated vacation days and compensatory time. In the event of retirement, employees may choose to be paid 50% of their unused sick leave, to a maximum of 480 hours at the current rate of pay. In addition, unused accumulated sick leave may be converted to PERS retirement credit per the FCFA's contract with PERS.

F. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, general fund recognizes bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

G. Fund Balances and Net Position

Fund balance is the difference between the assets and liabilities reported in the governmental general fund. In compliance with GASB Statement No. 54, FCFA has established the following fund balance types:

Nonspendable – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – The restricted fund balance classification includes amounts that reflect constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance, etc.) it employed to previously commit those amount. Committed fund balance should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent to be established by (a) the governing body itself or (b) a body or official to which the governing body had delegated the authority to assign amounts to be used for specific purposes.

Unassigned – The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes within the General Fund. The General Fund is the only fund that should report this category of fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

G. Fund Balances and Net Position – continued

Governmental Accounting Standards Board Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified in the following categories:

Net Investment in Capital Assets – Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by outstanding debt directly attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – The restricted net position is the portion of net position that has external constraints placed on it by external creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation.

Unrestricted Net Position – The unrestricted net position classification is the amount remaining that does not fall into one of the above two categories.

FCFA's policy that when an expenditure is incurred for which both restricted and unrestricted fund balances are available, the restricted fund balance be spent first followed by committed, then assigned, and, if applicable, unassigned.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimations and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures or expenses as appropriate. Actual results could differ from those estimated.

I. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65 – For the fiscal year ended June 30, 2014, FCFA implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The statement is effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB Statement No. 65 did not have an impact on FCFA's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 66 – For the fiscal year ended June 30, 2014, FCFA implemented GASB Statement No. 66, "Technical Corrections-2012-An Amendment of GASB Statements No. 10 and No. 62." The statement is effective for periods beginning after December 15, 2012. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Implementation of GASB Statement No. 66 did not have an impact on FCFA's financial statements for the fiscal year ended June 30, 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

I. New Accounting Pronouncements – continued

Governmental Accounting Standards Board Statement No. 67 – For the fiscal year ended June 30, 2014, FCFA implemented GASB Statement No. 67, "Financial Reporting for Pension Plans-An Amendment of GASB Statement No. 25." The statement is effective for periods beginning after June 15, 2013. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial report for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and GASB Statement No. 50, "Pension Disclosures," as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB Statement No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope if this statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of GASB Statement No. 67 did not have an impact on FCFA's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 70 – For the fiscal year ended June 30, 2014, FCFA implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The statement is effective for periods beginning after June 15, 2013. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Implementation of GASB Statement No. 70 did not have an impact on FCFA's financial statements for the fiscal year ended June 30, 2014.

NOTE 2 – CASH AND INVESTMENTS

The composition of cash and investments as of June 30, 2014, is as follows:

	Total
Cash in bank and on hand	$ 277,308
Investments	200,044
Total cash and investments, statement of net position	$ 477,352

NOTE 2 – CASH AND INVESTMENTS – continued

Investments Authorized by the California Government Code and FCFA's Investment Policy

The table below identifies the investment types that are authorized for FCFA by the California Government Code. 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
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	60%	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	20%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None
Guaranteed Investment Contract	15 months	None	None

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. One of the ways that FCFA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations. Information about the sensitivity of the fair values of FCFA's investments to market interest rate fluctuations is provided below that shows the distribution of the City's investments by maturity:

	Remaining Maturity (in Months)				
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Local Agency Investment Fund	$ 200,044	$ 200,044	$ -	$ -	$ -
Total	$ 200,044	$ 200,044	$ -	$ -	$ -

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 rating by a nationally recognized statistical rating organization. Presented on the following page is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type:

NOTE 2 – CASH AND INVESTMENTS – continued

Disclosures Relating to Credit Risk – continued

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End AAA	AA	Not Rated
Local Agency Investment Fund	$ 200,044	N/A	$ -	$ -	$ -	$ 200,044
Total	$ 200,044		$ -	$ -	$ -	$ 200,044

Concentration of Credit Risk
The investment policy of FCFA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total FCFA's investments.

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 FCFA's investment policy do not contain legal or 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 fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure FCFA's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of FCFA's deposits with financial institutions in excess of the Federal Depository Insurance Corporation's limits were held in uncollateralized accounts.

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 FCFA'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 governmental investment pools (such as LAIF).

Investment in State Investment Pool
The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the City'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.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Depreciable capital assets				
Vehicles and equipment	$ 575,452	$ 131,272	$ -	$ 706,724
Total depreciable capital assets	575,452	131,272		706,724
Less accumulated depreciation	337,721	119,500		457,221
Net capital assets	$ 237,731	$ 11,772	$ -	$ 249,503

NOTE 4 – LONG-TERM DEBT

A. Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Governmental Activities					
Compensated absences	$ 302,539	$ 205,259	$ 148,846	$ 358,952	$ -
OPEB	60,825	32,896	5,121	88,600	
Total	$ 363,364	$ 238,155	$ 153,967	$ 447,552	$ -

B. Compensated Absences

FCFA employees accumulate earned but unused vacation and sick pay benefits, which can be converted to cash at termination of employment. Since no means exists to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the Statement of Net Position. No expenditure is reported for these amounts in the general fund statement. The non-current portion of these vested benefits (payable in accordance with various collective bargaining agreements) at June 30, 2014, total $358,952.

C. Other Postemployment Benefits

In 2004, GASB issued Statement No. 45 which required FCFA to measure and report the liabilities associated with other post-employment benefits (OPEB). FCFA's annual OPEB requirement was determined to be $88,600 at June 30, 2014. FCFA is currently funding the liability on a pay-as-you-go basis. See Note 6 for further detail.

NOTE 5 – PENSION PLAN

Plan Description

FCFA's defined pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. FCFA 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 – 400 P Street – Sacramento, CA 95814.

NOTE 5 – PENSION PLAN – continued

Funding Policy
FCFA contributes the employee and employer shares for the Safety Plan. Since FCFA has less than 100 active members in each plan, it is required to participate in a risk pool with the City of Arroyo Grande. FCFA 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 the fiscal year 2013-14, are shown below:

	Fire Safety Employees	
	Plan	Rate
Tier I	3.0% @ 55	23.948%
Tier II	2.7% @ 57	11.500%

The contribution requirements of the plan members are established by the State statutes and the employer contribution rate is established and may be amended by CalPERS. FCFA's contributions to CalPERS for fiscal years ending June 30, 2014, 2013, and 2012, were $593,678, $588,055, and $363,220, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description
FCFA provides post-retirement health benefits, in accordance with State statutes, to all employees retiring from FCFA and enrolled in an insurance program under the California Public Employees' Medical and Hospital Care (PEMHCA). The CalPERS PEMHCA plan is a defined contribution, multiple employer, and healthcare plan providing benefits to active and retired employees. The healthcare plan is administered by the California Public Employees' Retirement System. Copies of the CalPERS annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy
FCFA participates in the CalPERS Health Benefit Program where all employee groups were under the equal contribution option. FCFA was required to contribute $115 per month during calendar year 2013 and $119 per month during calendar year 2014 towards the cost of the retiree health insurance, which is the same amount contributed toward active employee health insurance. The remaining balance of the premium is paid directly by the retirees to CalPERS. The mandatory employer contribution for active and retiree health insurance is increased annually in accordance with PEMHCA regulation. Beginning on January 1, 2015, the contribution amount will increase to $122 per month. During fiscal year 2013-14, expenditures of $5,121 were recognized for post-retirement health insurance contributions on a pay-as-you-go basis.

As required by GASB Statement No. 45, an actuary will determine FCFA's annual required contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the normal cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

GASB Statement No. 45 does not require pre-funding of OPEB benefits. Therefore, FCFA's funding policy is to continue to pay healthcare premiums for retirees as they fall due. FCFA has elected not to establish an irrevocable trust at this time.

Annual OPEB Cost
For the fiscal year 2013-14, FCFA's OPEB cost (expense) of $32,896 was less than the annual required contributions (ARC) of $33,980 due to interest on OPEB obligations of $2,433 and the amortization adjustment to ARC of $(3,517). FCFA's annual OPEB cost, the annual OPEB cost contributed, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of 2013-14, is on the following page:

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS – continued

Fiscal Year Ending June 30	Annual OPEB Cost	Annual OPEB Cost Contributed	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 21,260	$ 658	3%	$ 20,602
2012	20,950	795	4%	20,155
2013	20,647	579	3%	20,068
2014	32,896	5,121	16%	27,775
Total	$ 95,753	$ 7,153	7%	$ 88,600

The funded status of the plan as of July 1, 2013, is as follows:

Actuarial accrued liability (AAL)	$ 233,411
Actuarial value plan assets	
Unfunded actuarial accrued liability (UAAL)	$ 233,411
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$ 2,032,946
UAAL as a percentage of covered payroll	11%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events are far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation of plan assets, dated July 1, 2013, used the Projected Unit Credit cost method. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after three years. These assumptions reflect an implicit 4.0 percent general inflation assumption. FCFA's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of July 1, 2013 was 30 years.

NOTE 7 – CONTINGENCIES, COMMITMENTS AND SUBSEQUENT EVENTS

According to the FCFA's staff, no contingent liabilities are outstanding and no lawsuits are pending of real financial consequence.

FCFA has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the term of the grants, it is believed that any required reimbursement will not be material.

Management has evaluated subsequent events through the date the financial statements were available for issuance which is November 20, 2014.

FIVE CITIES FIRE AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION SECTION (unaudited)

FIVE CITIES FIRE AUTHORITY
BUDGETARY INFORMATION - MAJOR GOVERNMENTAL FUND
General Fund
For the Fiscal Year Ended June 30, 2014

	Budget Amounts			Variance
	Original	Final	Actual Amounts	Over/(Under)
REVENUES				
Member contributions	$ 3,467,600	$ 3,467,600	$ 3,467,600	$ -
Use of money and property			155	155
Intergovernmental revenues	20,600	70,600	168,422	97,822
Grant revenue	582,300	853,754	790,297	(63,457)
Charges for services	500	500	4,116	3,616
Other revenue	15,000	55,000	68,500	13,500
Total revenues	4,086,000	4,447,454	4,499,090	51,636
EXPENDITURES				
Salaries and benefits	3,682,300	3,682,300	3,656,018	(26,282)
Services and supplies	503,850	772,317	684,338	(87,979)
Capital outlay	67,700	187,533	131,272	(56,261)
Total expenditures	4,253,850	4,642,150	4,471,628	(170,522)
Excess of revenue over expenditures	(167,850)	(194,696)	27,462	222,158
Fund balance, July 1, 2013	366,827	366,827	366,827	
Fund balance, June 30, 2014	$ 198,977	$ 172,131	$ 394,289	$ 222,158

FIVE CITIES FIRE AUTHORITY

OTHER POSTEMPLOYMENT BENEFITS - SCHEDULE OF FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded AAL (UAAL)(b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percent-age of Covered Payroll ((b-a)/c)
07/01/10	$ -	$ 85,857	$ 85,857	0%	$ 1,504,703	6%
07/01/13	$ -	$ 233,411	$ 233,411	0%	$ 2,032,946	11%