HESPERIA FIRE PROTECTION DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

June 30, 2016

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Fire Protection District
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Fire Protection District (a component unit of the City of Hesperia) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditors' 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 District'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 District'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hesperia Fire Protection District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2965 Roosevelt Street, Carlsbad, CA 92008-2389 • Tel: 760.729.2343 • Fax: 760.729.2234

Offices located in Orange and San Diego Counties

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule, Schedule of Funding Progress for DPHP, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Contributions, identified as Required Supplementary Information (RSI) in the accompanying table of contents 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Carlsbad, California
January 25, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year (FY) ended June 30, 2016. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position decreased by approximately $0.6 million, or 11.2% during Fiscal Year 2015-16. The primary reason for this decrease in net position was the increase of $1.2 million or 24.9% in Net Pension Liability. However, this increase in liabilities was partially offset by a $0.9 million, or 46.4% decrease in deferred inflows of resources as higher than anticipated investment earnings with California Public Employee Retirement System (CalPERS) resulted in a lower pension deferral due to differences between expected and actual return on investment.

- In Fiscal Year 2015-16, the District made a significant purchase of $0.4 million for a used fire ladder truck which replaced an aging fire ladder truck. This purchase contributed to the expense total of $11.4 million which exceeded the revenue total of $10.7 million as shown in Table 2 – Changes of Net Position.

- The Fire District Board of Directors has been considering alternatives to fiscally manage the ongoing issue of operating expenditures exceeding operating revenues. The District's operating fund ended Fiscal Year 2015-16 with an operating loss of nearly $0.3 million. At the November 1, 2016 Board Meeting, the Board approved a resolution requesting that the Local Agency Formation Commission (LAFCO) initiate proceedings to analyze the reorganization of the District, with the San Bernardino County Fire Protection District as the designated successor of a potential annexation. More detail can be found within Note 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

REPORTING THE DISTRICT AS A WHOLE

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the basic financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Position and the Statement of Activities – report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting method, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *statement of net position* presents financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 10-12 of this report.

REPORTING THE DISTRICT'S FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses two governmental funds; one to account for its operations and one to account for capital projects.

Governmental Funds. *Governmental funds* are 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 of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

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

The notes to the financial statements can be found on pages 18-34 of this report.

THE DISTRICT AS A WHOLE

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District.

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5.2 million at the close of the most recent fiscal year.

Table 1
Condensed Statement of Net Position

	2015	2016	Changes from 2015 to 2016 Amount	Percentage
Current and other assets	$ 6,238,243	$ 5,858,731	$ (379,512)	-6.1%
Capital assets	9,189,012	9,015,577	(173,435)	-1.9%
Total Assets	15,427,255	14,874,308	(552,947)	-3.6%
Total deferred outflow of resources	540,730	494,024	(46,706)	-8.6%
Current and other liabilities	3,071,259	2,843,067	(228,192)	-7.4%
Long-term debt outstanding	173,909	95,224	(78,685)	-45.2%
Net pension liability	5,000,681	6,246,032	1,245,351	24.9%
Total Liabilities	8,246,029	9,184,323	938,294	11.4%
Total deferred inflow of resources	1,917,289	1,027,387	(889,902)	-46.4%
Net Position:				
Investment in capital assets	9,189,012	9,015,577	(173,435)	-1.9%
Unrestricted	(3,384,885)	(3,858,955)	(474,070)	-14.0%
Total Net Position	$ 5,804,127	$ 5,156,622	$ (647,505)	-11.2%

The following are brief explanations for the balance change of each line of Table 1 above for the year ending June 30, 2016:

- Current and other assets reported a decrease of $0.4 million or 6.1% from Fiscal Year 2014-15. This is mainly the result of a $0.5 million decrease in Due from Other Governments as cash was received from the final Staffing for Adequate Fire and Emergency Response (SAFER) draws, San Bernardino County fire annual inspection fees, and property tax apportionment collections. This decrease was offset by a $0.1 million increase in cash and $0.1 million increase in accounts receivable, which is represented by the increase in outstanding paramedic billings during the fiscal year.

- Capital assets decreased by less than $0.2 million resulting from trading land with the Hesperia Housing Authority (HHA) wherein the District had a $0.2 million decrease. The Fiscal Year 2015-16 depreciation of $0.5 million was offset by vehicle capital asset acquisitions of a used fire ladder truck and a new ambulance for $0.5 million.

- Current and other liabilities decreased by $0.2 million or 7.4% from June 30, 2015. This decrease is due to the recognition of $0.1 million of unearned revenue (decrease of liability) from the County of San Bernardino Fire Department (County) prepaying $3.5 million for a shared fire station, as well as a decrease in accounts payable of $0.2 million which represented the purchase of an ambulance during Fiscal Year 2014-15. These decreases were offset by an increase of $0.1 million in claims payable.

- Long-term debt outstanding decreased by $78,685, or 45.2% from the $173,909 balance in Fiscal Year 2014-15 as there were fewer workers' compensation claims incurred during the 2015-16 Fiscal Year.

- Deferred inflows of resources decreased to $1.0 million in Fiscal Year 2015-16 compared to the $1.9 million total in Fiscal Year 2014-15. This decrease is primarily due to the differences between investment earnings and actuarial valuations and the changes in proportion and the differences between contribution and proportionate share of contributions.

- Unrestricted net position deficit increased $0.5 million primarily from the increase in Net Pension Liability offset by the reduction in Deferred Inflows of Resources.

Table 2
Changes in Net Position

	2015	2016	Changes from 2015 to 2016 Amount	Percentage
Revenues				
Program revenues:				
Charges for services	$ 3,396,024	$ 3,152,452	$ (243,572)	-7.2%
Operating contributions and grants	718,125	29,023	(689,102)	-96.0%
Capital grants and contributions	140,000	140,000	-	0.0%
General revenues:				
Property taxes	6,819,324	7,310,005	490,681	7.2%
Income from money and property	60,914	67,471	6,557	10.8%
Other revenues	1,422	17,800	16,378	1151.8%
Total revenues	11,135,809	10,716,751	(419,058)	-3.8%
Expenses				
Public Safety-Fire	11,399,278	11,185,706	(213,572)	-1.9%
Total expenses	11,399,278	11,185,706	(213,572)	-1.9%
Excess/(Deficiency) of revenues over/ (under) expenses	(263,469)	(468,955)	(205,486)	-145.8%
Loss on exchange of capital assets	-	(178,550)	(178,550)	100.0%
Change in net position	(263,469)	(647,505)	(205,486)	-145.8%
Net Position at July 1, restated	6,067,596	5,804,127	(263,469)	-4.3%
Net position at June 30	$ 5,804,127	$ 5,156,622	$ (647,505)	-11.2%

The cost of all District activities this year was 1.9% less than the June 30, 2015 expenditures of $11.4 million. Other significant changes of note in Table 2 are:

- The June 30, 2016 combined property tax related revenue of $7.3 million reflected a $0.5 million or 7.2% increase over June 30, 2015. Property taxes revenue, which is 68.2% of total revenues, has remained relatively flat compared to Fiscal Year 2014-15. The Fiscal Year 2015-16 tax increment pass-through revenue of $1.6 million increased by 17.6% or $0.2 million primarily because a $140,969 residual tax payment from the County of San Bernardino.

- Charges for services, those billed directly to recipients of the District's services, decreased 7.2% or $0.2 million from the $3.4 million reported at June 30, 2015. The decrease is primarily due to less paramedic ambulance fee revenues being collected. This decrease is due to very low medical reimbursements of services provided to plan users.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year-end, the District's Fire Operations fund reported a fund balance of $0.2 million, which is a decrease of $0.3 million or 59.4% from the June 30, 2015 ending fund balance of $0.5 million. Revenues from all sources totaled $9.8 million, whereas Fire Operations expenditures totaled $10.1 million, thereby causing the erosion of the fund balance. As explained, the board of Directors are considering alternative to manage this issue.

The Fire Capital fund balance totaled $5.6 million, an increase of about $0.2 million or 3.6% from June 30, 2015's ending fund balance of $5.4 million. This increase is due to the collection of $0.7 million in property tax revenues (from pass-throughs), offset by $0.5 million in expenditures during Fiscal Year 2015-16 for the purchase of a fire truck and ambulance.

CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions. At June 30, 2016, capital assets of the governmental activities, net of depreciation, totaled $9.0 million. There was a decrease of $0.2 million in land as a result of the District and the Hesperia Housing Authority (HHA) swapping parcels of land. In this exchange, the District received one parcel of land to be used for the rebuild of Fire Station 301, with an appraised value of $17,250, while the HHA received two (2) parcels of land with an appraised value of nearly $0.2 million. To record the land swap, the District removed the book value of the (2) parcels of land given to the HHA, and added the appraised value of the one (1) parcel of land received from the HHA. The vehicle capital assets increased by $0.5 million. The District purchased a used Fire Ladder Truck for $368,126 and a new Ambulance for $161,062. Both the used Fire Ladder Truck purchase as well as the new Ambulance purchase were made because of an aging problem with the vehicles they were replacing. Depreciation on capital assets is recognized in the Government-Wide financial statements (See Table 3 below).

Table 3
Capital Assets at Year-End

	Balance at June 30, 2015 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2016 Net of Accumulated Depreciation
Land	$ 855,329	$ 17,250	$ (195,800)	$ -	$ 676,779
Land improvements	5,199	-	-	(3,193)	2,006
Vehicles	785,217	536,951	(49,058)	(264,504)	1,008,606
Machinery and equipment	265,851	15,455	-	(54,731)	226,575
Buildings and improvements	7,277,416	-	-	(175,805)	7,101,611
	$ 9,189,012	$ 569,656	$ (244,858)	$ (498,233)	$ 9,015,577

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, decreased during FY 2015-16 to $95,224 from $173,909 due to current year activity in claims payable. The largest part of the activity was a medical payment on the claim of a former District employee.

Table 4
Outstanding Debt, at Year-End

	Principal Balance at June 30, 2015	Additions	Deletions	Principal Balance at June 30, 2016	Due Within One Year
Claims Payable	$ 173,909	$ 119,154	$ (197,839)	$ 95,224	$ -
	$ 173,909	$ 119,154	$ (197,839)	$ 95,224	$ -

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Fiscal Year 2016-17 adopted revenue budget of $11.4 million increased by $0.7 million compared with the Fiscal Year 2015-16 adopted revenue budget of $10.7 million. This is primarily due to an anticipated $0.2 million increase in property taxes, $0.3 million increase in pass through revenue, and an nearly $0.2 million increase in ground emergency medical transportation fees. Fiscal Year 2016-17 adopted expenditure budget of $10.8 million increased by nearly $0.7 million with the Fiscal Year 2015-16 adopted expenditure budget of $10.1 million. This is primarily due to an increase of $0.4 million in the county contract, for the same level of service, and an anticipated purchase of $0.2 million for a new medic ambulance.

The Fire District Board of Directors has been considering alternatives to fiscally manage the ongoing issue of operating expenditures exceeding operating revenues. The District's operating fund ended Fiscal Year 2015-16 with an operating loss of nearly $0.3 million. At the November 1, 2016 Board Meeting, the Board approved a resolution requesting that the Local Agency Formation Commission (LAFCO) initiate proceedings to analyze the reorganization of the District, with the San Bernardino County Fire Protection District as the designated successor of the potential annexation. More detail can be found within Note 10.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Division, at the City of Hesperia, 9700 Seventh Avenue, Hesperia, California 92345.

STATEMENT OF NET POSITION
June 30, 2016

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 5,313,771
Accounts receivable	419,829
Accrued interest	5,228
Due from other governmental agencies	119,903
Total Current Assets	5,858,731
Noncurrent Assets:	
Capital assets:	
Not being depreciated:	
Land	676,779
Being depreciated:	
Land improvements	138,813
Vehicles	5,422,689
Machinery and equipment	733,309
Buildings and improvements	8,660,559
Less: Accumulated depreciation	(6,616,572)
Total Capital Assets	9,015,577
Total Noncurrent Assets	9,015,577
Total Assets	14,874,308
DEFERRED OUTFLOWS OF RESOURCES	
Change in Employer's Proportion	190,050
District Contributions Subsequent to the Measurement Date	303,974
Total Deferred Outflows of Resources	494,024

See accompanying notes to financial statements.

LIABILITIES		
Current Liabilities:		
Accounts payable and other current liabilities	$	15,646
Total Current Liabilities		15,646
Noncurrent Liabilities:		
Claims Payable		142,208
Net OPEB obligation		25,213
Unearned revenue		2,660,000
Long-term debt-due in more than one year		95,224
Net pension liability		6,246,032
Total Noncurrent Liabilities		9,168,677
Total Liabilities		9,184,323
DEFERRED INFLOWS OF RESOURCES		
Difference between Expected and Actual Experience		30,049
Change of Assumptions		148,312
Net Difference between Projected and Actual Earnings on Pension Plan Investments		75,128
Change in Employer's Proportion		176,464
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions		597,434
Total Deferred Inflows of Resources		1,027,387
NET POSITION		
Investment in capital assets		9,015,577
Unrestricted		(3,858,955)
Total Net Position	$	5,156,622

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Position: Governmental Activities
Primary Government					
Governmental activities:					
Public Safety- Fire	$ 11,185,706	$ 3,152,452	$ 29,023	$ 140,000	$ (7,864,231)
Total governmental activities	$ 11,185,706	$ 3,152,452	$ 29,023	$ 140,000	(7,864,231)

General Revenues:	
Property taxes	7,310,005
Income from money and property	67,471
Other revenues	17,800
Total general revenues	7,395,276
Special item - Loss on exchange of capital assets	(178,550)
Change in net position	(647,505)
Net position at beginning of year	5,804,127
Net position at end of year	$ 5,156,622

See accompanying notes to financial statements.

BALANCE SHEET
June 30, 2016

	Fire Operations	Fire Capital	Total Governmental Funds
Assets and Deferred Outflows of Resources			
Assets:			
Cash and cash equivalents	$ -	$ 5,313,771	$ 5,313,771
Accounts receivable	419,829	-	419,829
Accrued interest	-	5,228	5,228
Due from other governmental agencies	119,903	-	119,903
Due from other funds	-	326,373	326,373
Total Assets	539,732	5,645,372	6,185,104
Deferred Outflows of Resources			
Total deferred outflows of resources	-	-	-
Total Assets and Deferred Outflows of Resources	$ 539,732	$ 5,645,372	$ 6,185,104
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 15,646	$ -	$ 15,646
Due to other funds	326,373	-	326,373
Total Liabilities	342,019	-	342,019
Fund Balances:			
Restricted:			
Public safety	197,713	5,645,372	5,843,085
Total Fund Balances	197,713	5,645,372	5,843,085
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 539,732	$ 5,645,372	$ 6,185,104

See accompanying notes to financial statement

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds		$ 5,843,085
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.		9,015,577
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position. This number represents the result of more claims than available funds.		(142,208)
The net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.		(25,213)
The lease agreement between the District and the County provides current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position.		(2,660,000)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.		(95,224)
Net pension liability applicable to the District is not due and payable in the current period and accordingly is not reported as a liability in the fund financial statements.		(6,246,032)
Deferred inflows and outflows of resources are not reported in the fund statements. Balances as of June 30, 2016 are as follows:		
Deferred outflows of resources	494,024	
Deferred inflows of resources	(1,027,387)	(533,363)
Total Net Position		$ 5,156,622

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2016

	Fire Operations	Fire Capital	Total Governmental Funds
Revenues:			
Taxes	$6,583,174	$ 726,831	$ 7,310,005
Use of money and property	48,464	19,007	67,471
Charges for services	3,152,452	-	3,152,452
Grants	29,023	-	29,023
Other revenues	17,800	-	17,800
Total Revenues	9,830,913	745,838	10,576,751
Expenditures:			
Public safety- fire	10,111,830	343	10,112,173
Capital Outlay:			
Vehicles	7,763	544,643	552,406
Total Expenditures	10,119,593	544,986	10,664,579
Excess (Deficiency) of Revenues Over (Under) Expenditures	(288,680)	200,852	(87,828)
Fund balances at beginning of year	486,393	5,444,520	5,930,913
Fund balances at end of year	$ 197,713	$5,645,372	$ 5,843,085

See accompanying notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds		$ (87,828)
The governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlays	$ 569,656	
Depreciation expense	(547,291)	
Disposal of capital assets	(195,800)	(173,435)
Decrease in long-term deposits are included in governmental activities in the government-wide Statement of Activities.		(201,588)
OPEB expense is recognized when paid in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized in the period when incurred in the Statement of Activities.		(1,904)
Increase in claims payable are included in governmental activities in the government-wide Statement of Activities.		78,685
The revenue for the lease agreement between the District and the County is being recognized and deferred on the Statement of Activities over the life of the lease, and was previously recognized as a current financial resource on the governmental funds. This was previously recognized on the Statement of Revenues, Expenditures, and Changes in Fund Balances.		140,000
Contributions to the pension plan in the current year are not included in the statement of activities.		(401,435)
Change in net position of governmental activities.		$ (647,505)

See accompanying notes to financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

a. Description of Reporting Entity:

The Hesperia Fire Protection District (the District) is a subsidiary district of the City of Hesperia. It was originally organized, circa 1957, as a subsidiary district under San Bernardino County, and later, on July 1 1988, became a subsidiary district of the City. Its mission is to protect the health and safety of the people who reside, visit, or work in the community. The District is the City of Hesperia's lead agency for dealing with natural disasters such as earthquakes, floods, storms, and other emergencies related to fire, explosion, hazardous materials, rescue, and medical services.

The District is an integral part of the reporting entity of the City of Hesperia (the City). The accounts of the District have been included within the scope of the basic financial statements of the City because the City Council has financial accountability over the operations of the District. Only the accounts of the District are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Hesperia. Upon completion, the financial statements of the City can be obtained at City Hall.

b. Basis of Presentation:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Hesperia Fire Protection District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Hesperia Fire Protection District has no business-type activities.

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. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Basis of Presentation (Continued):

Governmental Fund Financial Statements:

The accounting system of the Hesperia Fire Protection District is organized and operated on the basis of two funds, each of which is considered to be a complete accounting entity. The funds are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Pursuant to Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, the fund balance reported on the fund statements now consist of the following categories:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District Board. The District Board has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. The District Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the District’s fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance in other governmental funds is limited to any negative residual fund balance after fund balance has been classified as restricted, committed, or assigned.

In the government-wide statements, the District considers restricted funds to be spent first, then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the District uses the most restrictive funds first. The District would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

The District has two major funds described below:

Fire Operations – is used to accounts for the District’s operational activities.

Fire Capital – is used to account for the District’s capital acquisition activities.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement Focus:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

In the Statement of Net Position, net position is classified in the following categories:

- Investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets.
- Restricted net position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position – This amount is all net position that do not meet the definition of "investment in capital assets" or "restricted net position".

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources and then from unrestricted resources.

d. Basis of Accounting:

Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange like transactions are recognized when the exchange takes place.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

   d. Basis of Accounting (Continued):

   In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

   Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

   e. New Accounting Pronouncements:

   Current Year Standards:

   In Fiscal Year 2015-16, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application" GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy or inputs used to measure fair value consisting of three levels. Level 1 inputs arc quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included with in Level l that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

   GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", was required to be implemented in the current fiscal year, except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016, and did not impact the District.

   GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was required to be implemented in the current fiscal year and did not impact the District at June 30, 2016.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. New Accounting Pronouncements (Continued):

GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants", was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

Pending Accounting Standards:

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", effective for periods beginning after June 15, 2016.
- GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for periods beginning after June 15, 2017.
- GASB Statement No. 77 - "Tax Abatement Disclosures", the requirements of this Statement are effective for reporting periods beginning after December 15, 2015.
- GASB Statement No. 78 - "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", effective for periods beginning after December 15, 2015.
- GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants", the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015.
- GASB Statement No. 80 - "Blending Requirements for Certain Component Units", effective for periods beginning after June 15, 2016.
- GASB Statement No. 81 – "Irrevocable Split-In Interest Agreements ", effective for periods beginning after December 15, 2016.
- GASB Statement No. 82 – "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73", effective for periods beginning after June 15, 2016.

f. Property Taxes:

Real property taxes are levied on October 15 against owners of record at January 1. The taxes are due in two installments, on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Tax liens attach annually as of 12:01 a.m. on the first day of January in the fiscal year for which the taxes are levied. Under the provisions of NCGA interpretation 3, property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided it is collected within 60 days of the end of the fiscal year.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

g. Cash and Investments:

Investments are stated at fair value (quoted market price or best available estimate thereof, see Note 2).

h. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2016, in the opinion of the District's Attorney, the District had no material unrecorded claims, which would require loss provision in the financial statements, including losses for claims, which are incurred but Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

i. Capital Assets:

Capital assets, which include land, buildings, building improvements, and equipment are depreciated and are reported in the government-wide financial statements. District policy has set the capitalization threshold for reporting capital assets at $5,000.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land is not depreciated.

Buildings	30-50 Years
Improvements	20 Years
Machinery and Equipment	5-30 Years
Vehicles	8-20 Years

j. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District has the following items that qualify for reporting in this category both related to the implementation of GASB 68:

- Deferred Outflow Related to Pensions – This amount is equal to employer contributions made after the measurement date of the net pension liability.

- Deferred Outflow Related to Pensions for the Changes in Employer's Proportion – This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans, which is 3.8 years.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

j. Deferred Outflows/Inflows of Resources (Continued):

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred Inflow Related to Pensions - This item is the difference in projected and actual earnings on investments of the pension plan, and is amortized over five years.
- Unavailable Revenue - This item arises only under a modified accrual basis of accounting.
- Deferred Inflows Related to Pensions - These items are the change in assumptions, change in employer proportion and difference between the employee’s contribution and the employer’s proportionate share.

k. Pensions:

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) Financial Office for the measurement period ended June 30, 2015 and reported in fiscal year ending June 30, 2016. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

l. Receivables:

All accounts, taxes, and service receivables are shown net of an allowance for uncollectibles.

m. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows on the following page:

STATEMENT OF NET POSITION:	
Current Assets:	June 30, 2016
Cash and cash equivalents	$ 5,313,177
Total cash and investments	$ 5,313,177

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	100%	None
U.S. & State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

Disclosures Related to Interest Rate Risk, Credit Risk, Custodial Credit Risk and Fair Value Measurements:

Equity in the Cash and Investment Pool of the City of Hesperia

The District has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Hesperia. The District is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Hesperia. The District has not adopted an investment policy separate from that of the City of Hesperia. The fair value of the District's investment in this pool is reported in the accompanying financial statements of amounts based upon the District's pro-rata share of the fair value calculated by the City for the entire City's portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value. Additional disclosures regarding $5,313,177 pooled investments related to interest rate risk, credit risk, custodial credit risk and fair value measurements are available in the City of Hesperia's Comprehensive Annual Financial Report.

3. LEASE AGREEMENT:

During the fiscal year ended June 30, 2010, the Fire District entered into an agreement with the County of San Bernardino for the joint use of fire station 305. The lease agreement is for a term of twenty-five (25) years, with a total County contribution of the fire station and related improvements of $3,500,000. During the year ended June 30, 2008, the County paid the Fire District the entire $3,500,000, which is being reported as unearned revenue on the Statement of Net Position. Revenue is being recognized for the amount paid by the County to the Fire District on a straight line basis over the life of the lease of twenty-five (25) years. The construction of the fire station was completed on June 30, 2010. The Fire District is responsible for major structural repairs and seventy percent (70%) of the maintenance and utilities, while the County is responsible for thirty percent (30%) of the maintenance and utilities. In the event that the lease is terminated, there are provisions in the agreement that dictate the fiscal impact upon each party. Through June 30, 2016, the remaining balance of the unearned revenue is $2,660,000.

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital Assets, not being depreciated				
Land	$ 855,329	$ 17,250	$ (195,800)	$ 676,779
Total capital assets, not being depreciated	855,329	17,250	(195,800)	676,779
Capital Assets being depreciated:				
Land Improvements	138,813	-	-	138,813
Vehicles	4,934,796	536,951	(49,058)	5,422,689
Machinery and equipment	717,854	15,455	-	733,309
Buildings and improvements	8,660,559	-	-	8,660,559
Total capital assets, being depreciated	14,452,022	552,406	(49,058)	14,955,370
Less accumulated depreciation for:				
Land Improvements	(133,614)	(3,193)	-	(136,807)
Vehicles	(4,149,579)	(313,562)	49,058	(4,414,083)
Machinery and equipment	(452,003)	(54,731)	-	(506,734)
Building and improvements	(1,383,143)	(175,805)	-	(1,558,948)
Total accumulated depreciation	(6,118,339)	(547,291)	49,058	(6,616,572)
Total capital assets, being depreciated, net	8,333,683	5,115	-	8,338,797
Governmental-type activities capital assets,net	$ 9,189,012	$ 22,365	$ (195,800)	$ 9,015,577

Depreciation expense for the year ended June 30, 2016 charged to the Public Safety-Fire function.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2016:

Table 4
Outstanding Debt, at Year-End

	Principal Balance at June 30, 2015	Additions	Deletions	Principal Balance at June 30, 2016	Due Within One Year
Claims Payable	$ 173,909	$ 119,154	$ (197,839)	$ 95,224	$ -
	$ 173,909	$ 119,154	$ (197,839)	$ 95,224	$ -

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM:

a. General Information about the Pension Plans:

Plan Descriptions:

The District's employees participate in the Miscellaneous and Safety Risk Pools of CalPERS. The Plans are a cost-sharing multiple-employer defined benefit pension plans administered by CalPERS. A full description of the pension plans benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2014 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Benefits Provided:

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. The details of the benefits provided can be obtained in Appendix B of the June 30, 2014 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications or from CalPERS Executive Office: 400 P Street, Sacramento, CA 95814.

Effective June 2004 the District had no active employees in the miscellaneous and safety plans. 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.

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

a. General Information about the Pension Plans (Continued):

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contributions for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the contribution amount. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined contribution is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs related to any unfunded accrued liability. The required employer contribution for this year into the plan for the fiscal year ended June 30, 2016 was 0.0%, for both miscellaneous and safety risk plans. 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.

b. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions:

For the fiscal year ended June 30, 2016, the District reported a liability of $6,246,032 for its proportionate share of the net pension liability, which was measured as of June 30, 2015 (the measurement date). The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of the measurement date of June 30, 2015, the District's proportion of net pension liability was 0.09%.

The District recognized pension expense of $705,409 for the fiscal year ended June 30, 2016 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

b. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

FY 2015-16 Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ -	$ (30,049)
Changes of Assumptions	-	(148,312)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(75,128)
Change in Employer's Proportion	190,050	(176,464)
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	-	(597,434)
District Contributions Subsequent to the Measurement Date	303,974	-
Total	$ 494,024	$ (1,027,387)

$303,974 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	$ (340,684)
2016	(333,614)
2017	(255,436)
2018	92,397
2019	-
Thereafter	-

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

b. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Methods and Assumptions Used to Determine Total Pension Liability:

As of the measurement date of June 30, 2015, total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate:

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued):

According to GASB 68, paragraph 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense. The Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate of this report provides information on the sensitivity of the net pension liability to changes in the discount rate.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building- block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

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

Asset Class	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	19.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

[1]An expected inflation of 2.5% used for this period

[2]An expected inflation of 3.0% used for this period

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent as of the measurement date, as well as, what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	**Current Discount Rate (7.65%)**	**Discount Rate + 1% (8.65%)**
District's Proportionate Share of Net Pension Liability	$ 9,968,869	$ 6,246,032	$ 3,192,947

Pension Plan Fiduciary Net Position:

The pension plan's fiduciary net position was calculated based on the ratios provided by CalPERS on its Schedules of Employer Allocations by Rate Plan and Collective Pension Amounts report for Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

c. Payables to the Pension Plan:

The District had no outstanding contributions payable to the pension plan required for the fiscal year ended June 30, 2016.

7. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The District's defined benefit postemployment healthcare plan (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DPHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. 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, California 95814.

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DPHP members receiving benefits contribute based on their selected plan options. The District makes all contributions of the plan members. Effective June 2005 the District had no employees (See Note 8).

Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 3.2% of the annual covered payroll.

This table on the following page shows the components of the District's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual Required Contribution (ARC)	$	2,184
Interest on net OPEB obligation		428
Adjustment to Annual Required Contribution (ARC)		(524)
Annual OPEB cost (expense)		2,088
Contributions made		(184)
Increase in net OPEB obligation		1,904
Net OPEB obligation - beginning of year		23,309
Net OPEB obligation - end of year	$	25,213

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2016, 2015, and 2014 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year	Annual OPEB Cost (AOC)		Percentage of OPEB Cost Contributed	Net OPEB Obligation	
6/30/2016	$	2,088	8.8%	$	25,213
6/30/2015		1,964	5.7%		23,309
6/30/2014		5,935	7.9%		21,457

Funded Status and Funding Progress:

The funded status of the plan as of the most recent actuarial valuation date 6/30/2014 is:

Actuarial Accrued Liability (AAL)	$	48,000
Actuarial Value of Plan Assets		-
Unfunded Actuarial Accrued Liability (UAAL)		48,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0.0%
Covered Payroll (Active Members)		-
UAAL as a Percentage of Covered Payroll		0.0%

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan 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. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision 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 financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

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 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 assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24 Years as of the Valuation Date
Asset Valuation method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	4.00% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
PEMHCA Minimum Growth	4.50%
Individual Salary Growth	CalPERS 1997-2011 Experience Study

8. FIRE PROTECTION SERVICES AGREEMENT:

The Hesperia Fire Protection District entered into a fire protection services agreement with the San Bernardino County Consolidated Fire District (County) effective June 1, 2004. The agreement calls for the County to provide to the District fire prevention, fire investigation, fire suppression, advanced life support services, ambulance transportation service, hazardous materials, and rescue services. The District paid $9,545,062 to the County for these services during the fiscal year ending June 30, 2016. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

9. SELF INSURANCE RISK POOL:

Public Entity Risk Management Authority:

The Fire District is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 31 California cities and districts, for the purpose of pooling the District's risk for worker's compensation and general liability insurance with those of other member cities and districts. The Governing Board of PERMA is comprised of directors nominated and selected by each member city and district. Each governing board member has one vote regarding all financial and management issues coming before the Board.

Each member is billed annually for liability and premiums are paid quarterly for Workers' Compensation. Estimated premiums for claims to be paid and a reserve are advanced upon joining PERMA. Each year PERMA adjusts its premiums based on District payroll figures, claims paid, and claims incurred but not reported. The District receives audited financial statements of PERMA each year which have been audited by other auditors.

The District is self-insured for the first $250,000 of each claim, pertaining to Worker's Compensation Liability Coverage, and PERMA will assume each claim's liability between $250,000 and $500,000. For any Worker's Compensation Liability claim exceeding $500,000, the District is insured by Excess Insurer's Limited Liability for up to $5,000,000 of each claim. For General Liability, the District is self-insured for up to $50,000. PERMA will assume each claim exceeding $50,000 to $1,000,000. For all General Liability claims exceeding $1,000,000, the District is insured by Excess Insurers Limit of Liability for up to $50,000,000. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be estimated reasonably. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. There have been no significant reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Unpaid Claims, Beginning of Fiscal Year	$ 173,909	$ 159,102
Incurred Claims	119,154	32,621
Claim Payments	(197,839)	(17,814)
Unpaid Claims, End of Fiscal Year	$ 95,224	$ 173,909

The Unpaid claims of $95,224 from the chart above are a component of long-term debt (Note 5). Due to the uncertainty of when the claims will be paid none are considered due within one year.

10. SUBSEQUENT EVENT:

On November 1, 2016, the Board of Directors approved Resolution Number HFPD 2016-19 requesting the Local Agency Formation Commission (LAFCO) take proceedings for reorganization to annex the Hesperia Fire Protection District to the San Bernardino County Fire Protection District. As such, an application to LAFCO, along with supporting documentation, must be made to justify the reorganization.

REQUIRED SUPPLEMENTARY INFORMATION

HESPERIA FIRE PROTECTION DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
FIRE DISTRICT OPERATIONS FUND
For the Year Ended June 30, 2016

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	$ 486,393	$ 486,393	$ 486,393	$ -
Resources (Inflows):				
Taxes	6,572,007	6,572,007	6,583,174	11,167
Use of money and property	44,676	44,676	48,464	3,788
Grants	-	-	29,023	29,023
Charges for services	3,378,958	3,378,958	3,152,452	(226,506)
Other revenues	-	-	17,800	17,800
Amount Available for Appropriations	9,995,641	9,995,641	9,830,913	(164,728)
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	9,984,121	10,109,787	10,111,830	(2,043)
Capital Outlay:				
Vehicles	-	16,412	7,763	8,649
Total Charges to Appropriations	9,984,121	10,126,199	10,119,593	6,606
Excess of Resources Over (Under) Charges To Appropriations	11,520	(130,558)	(288,680)	(158,122)
Fund Balance, June 30	$ 497,913	$ 355,835	$ 197,713	$ (158,122)

See note to required supplementary information.

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded (Over Funded) AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B - A / C)
6/30/2014						
Fire	$ -	$ 48,000	$ 48,000	0.0%	$ -	0.0%
Total	$ -	$ 48,000	$ 48,000	0.0%	$ -	0.0%
6/30/2012:						
Fire	$ -	$ 110,000	$ 110,000	0.0%	$ -	0.0%
Total	$ -	$ 110,000	$ 110,000	0.0%	$ -	0.0%
6/30/2010:						
Fire	$ -	$ 109,000	$ 109,000	0.0%	$ -	0.0%
Total	$ -	$ 109,000	$ 109,000	0.0%	$ -	0.0%

The Fire District is only required to perform actuarial valuations biannually. An actuarial valuation will be prepared for the year ending June 30, 2016 that will be available for the financial statements for the year ending June 30, 2017. As seen in the table above, an actuarial valuation was not prepared for the years ending June 30, 2011, June 30, 2013, and June 30, 2015.

SCHEDULE OF THE HESPERIA FIRE PROTECTION DISTRICT CONTRIBUTIONS
CalPERS Pension Plan
Last 10 Fiscal Years[1]

	2016	2015[1]
Contractually Required Contribution	$ 303,974	$ 245,096
Contributions in Relation to the Contractually Required Contribution	(303,974)	(245,096)
Contribution Deficiency (Excess)	$ -	$ -
District's Covered-Employee Payroll[2]	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll[2]	N/A	N/A

[1]Historical information was changed from the actuarial determined contributions to actual contributions for each fiscal year as indicated by GASB 68, paragraph 81(b).

[2]The District has no active members, and, therefore, no covered-employee payroll.

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

SCHEDULE OF THE HESPERIA FIRE PROTECTION DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CalPERS Pension Plan
Last 10 Fiscal Years[1]

	2016	2015
District's Proportion of the Net Pension Liability/(Asset)	0.09%	0.08%
District's Proportionate Share of the Net Pension Liability/(Asset)	$ 6,246,032	$ 5,000,861
District's Covered-Employee Payroll[2]	N/A	N/A
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll2	N/A	N/A
District's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	74.03%	78.46%
District's Proportionate Share of Aggregate Employer Contributions[3'4]	$ 711,616	$ 625,338

[1]Historical information is required only for measurement periods for which GASB 68 is applicable.

[2]The District has no active members, and, therefore, no covered-employee payroll.

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

[4]This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the District's pension expense.

June 30, 2016

1. BUDGETARY DATA:

The District adopts a budget for the special revenue fund each year. The Board approves each year's budget submitted by the Fire Chief and the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Board. Supplemental appropriations, when required during the period, are also approved by the Board. In most cases, expenditures may not exceed appropriations at the fund level. At fiscal year-end, all operating budget appropriations lapse. However, encumbrances at year end are reported as reservations of fund balance. The budget for the operations fund is adopted on a basis consistent with generally accepted accounting principles.

Notes to Required Supplementary Information
for the Year Ended June 30, 2016

Changes of Benefit Terms:

The District did not have any benefit terms changes after June 30, 2014 (Valuation Date).

Changes of Assumptions:

According to GASB 68, paragraph 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.