



City of Hesperia



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2017



9700 Seventh Avenue | Hesperia, CA 92345 | www.cityofhesperia.us

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CITY OF HESPERIA CALIFORNIA

Russell Blewett, Mayor (Term Expires November 2018)

Bill Holland, Mayor Pro Tem (Term Expires November 2018)

Larry Bird, Council Member (Term Expires November 2020)

Paul Russ, Council Member (Term Expires November 2018)

Rebekah Swanson, Council Member (Term Expires November 2020)

(At Date of Issuance)

Nils Bentsen, City Manager

PREPARED BY THE CITY OF HESPERIA MANAGEMENT SERVICES DEPARTMENT

Anne M. Duke, Acting Finance Department Head

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YEAR ENDED JUNE 30, 2017

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City of Hesperia CALIFORNIA

December 20, 2017

To the Honorable Mayor, City Council, City Manager and Citizens of the City of Hesperia:

It is a pleasure to present the City of Hesperia's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2017. This report provides a broad view of the City's financial activities for the 2016-17 Fiscal Year and its financial position as of June 30, 2017. Although addressed to the elected officials and citizens of the City, this report has a number of other users. Foremost among these other users are bondholders of the city, financial institutions, credit rating agencies, educational institutions, and other governmental entities.

This report consists of management's representations concerning the finances of the City of Hesperia. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hesperia has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the City of Hesperia's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Hesperia's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The CAFR consists of three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of principal officials and administrative personnel, the City's organizational chart, and the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the City's Fiscal Year Ended June 30, 2016 CAFR. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, fund financial statements, notes to the basic financial statements, required supplementary information, other supplementary information, and combining and individual fund financial schedules. The statistical section provides relevant financial and non-financial data depicting the City's historical trends and other significant facts.

The City of Hesperia's financial statements have been audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hesperia for the Fiscal Year ended June 30, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Hesperia's financial statements for the Fiscal Year ended

June 30, 2017 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Hesperia was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Hesperia's separately issued Single Audit of Federally Assisted Grant Programs report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Hesperia's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Adorned by the San Bernardino Mountain Range along its southern border, the City of Hesperia is located in the High Desert area of San Bernardino County, approximately 35 miles north of the City of San Bernardino and 90 miles northeast of Los Angeles. The City encompasses nearly 75 square miles and is home to an estimated 94,100 residents.

The City was incorporated on July 1, 1988, under the laws of the State of California and enjoys all the rights and privileges afforded to a general law city. The City is governed by a five member City Council under the Council-Manager form of government. Policy-making and legislative authority are vested in the governing council, consisting of the mayor and four other members. All Council Members are elected to a four-year term and the City does not have term limits. Regular elections are conducted in November of even numbered years. The current Council Members were elected at-large and do not represent any one district or area within the City; however beginning with the general municipal election to be held in November 2018, a by-district system of elections will be implemented. Beginning November 2018, members of the City Council will be elected in districts Two, Three, and Four, with an election to be held in November 2020 for members of the City Council in districts One and Five. The Mayor is appointed annually by and among the City Council. The governing council is responsible, among other things, for passing ordinances and resolutions, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and resolutions of the governing council and for overseeing the day-to-day operations of the government.

The City of Hesperia, including its component districts, employs approximately 311 full-time employees (including contract police and fire staff). Services provided include police protection; fire protection; the construction and maintenance of streets and other infrastructure; as well as water, wastewater, and community services. In addition to general government activities, the City Council also serves as the Board of Directors for the Hesperia Fire Protection District, Hesperia Water District, Hesperia Housing Authority, Hesperia Community Development Commission, Hesperia Public Financing Authority, Hesperia Public Facilities Corporation, and the Hesperia Joint Public Finance Authority. Therefore, these activities have been included as an integral part of the City of Hesperia's financial statements where appropriate. Additional information on these entities can be found in Note 1 in the notes to the financial statements.

The City of Hesperia contracts with the San Bernardino County Sheriff's Department for its police services, which for FY 2016-17 included a captain, lieutenant, 7 sergeants, 5 detectives, 44 deputies, and 20 non-sworn employees that handle various administrative, clerical and technical duties.

Fire protection for the City of Hesperia is provided by the San Bernardino County Fire Department through a contractual agreement with the Hesperia Fire Protection District (HFPD). The County Fire Department is a full service department, providing to the community: fire suppression, fire prevention and planning, disaster preparedness, hazardous materials management and emergency medical services. For FY 2016-17, staffing included 53 safety personnel, along with 6 non-safety personnel who perform clerical, administrative, and fire prevention services. During the reporting period, services were provided from three manned stations and one unmanned (reserve) station that serves as the City's hazardous disposal facility.

The annual budget serves as the foundation for the City of Hesperia's financial planning and control. Each year the budget development guidelines, for use in preparing the next year's budget, are reviewed and updated. These guidelines are structured to reflect the City Council's goals and objectives and to provide the framework in which the budget is prepared. Annually, the proposed budget is submitted to the City Council and a public hearing is conducted to obtain citizen comments. Prior to the beginning of the new fiscal year, the City Council adopts the annual budget at a public meeting.

The City's budget policy is that all appropriations lapse at fiscal year-end. Outstanding encumbrance balances at fiscal year-end require re-approval by the City Council. The City Council may amend the budget at any time during the fiscal year. The City Manager may authorize budget transfers between line items and programs within a fund, as long as the total budget for each fund has not exceeded the amount approved by the City Council. The level of budgetary control is set at the fund level to ensure compliance with the budget as approved by the City Council; therefore, any budgetary changes at the fund level require City Council approval.

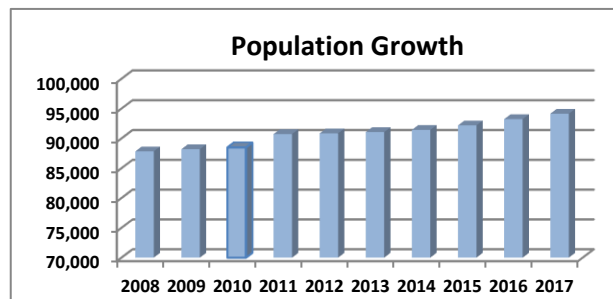
Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Hesperia operates.

Local economy

The City of Hesperia is located in the northern region of the Inland Empire, an area which, prior to the recession, had been recognized as being one of the fastest growing parts of Southern California, due in large part to its affordable undeveloped land along multiple transportation corridors. Including the 17 miles of prime freeway frontage along the I-15 Freeway corridor at the top of the Cajon Pass, Hesperia is strategically positioned to derive key benefits from development in the future.

The City of Hesperia is home to approximately 94,133 residents. Current and projected growth in Hesperia provides the City with a large and expanding workforce. Over the last ten years, Hesperia has experienced moderate growth in its population, growing approximately 6.5%. This 10-year growth is lower than that of the county at 7.5%, state 7.7%, and



nation 7.0% for the same time period. Hesperia's 6.5% population growth over the last decade is in addition to the substantial growth Hesperia experienced over the previous decade of 44.8%. Over the last few years, however, Hesperia's growth trend has significantly slowed, with the most recent year increasing by one percent.

The demographics of Hesperia indicate a strong and growing ability to meet the workforce demands of employers. Currently, a large portion of the labor pool commutes daily into the Los Angeles basin due to the lack of available employment in the High Desert. While some progress has been made attracting new businesses and expanding existing businesses, as addressed in the next section of this letter, the overall high desert is in need of additional job opportunities for its residents. This long-term need was further exacerbated by the "Great Recession" of late 2007 through 2009, from which the High Desert continues to recover, as evidenced in the decline of the City's unemployment rate. According to data released by the California Employment Development Department (EDD), the City of Hesperia's unemployment rate in November 2017 was 6.2%, down from the 12.1% rate reported four years prior. Although definite progress is being made, Hesperia's 6.2% unemployment rate remains stubbornly higher than the 4.5% rate experienced for the overall County of San Bernardino County.

The City of Hesperia has 74 square miles of space to accommodate residential, commercial, and industrial development. Hesperia's previously strong housing market was not immune to the housing downturn resulting from the Great Recession. As the housing boom stalled and values began free-falling in late 2007, Hesperia saw its median home sales price return to 2002 levels. Since the economic downturn, four of the last eight years resulted in decreases in assessed valuations amounting to more than a 30% decline. However more recently, the housing market has picked up pace, with many recent sales benefiting from multiple offers. Newly released data from the County of San Bernardino for 2017 reflects an increase in Hesperia's assessed valuation of 6.5%, demonstrating that Hesperia is clearly making progress on its path toward recovery. Even with the recent increases in assessed valuation, the High Desert region continues to have some of the most affordable housing in California according to the California Association of Realtors.

Eight years after the Great Recession reportedly ended, the local economy has still not fully recovered; however improvement continues in Hesperia. This improvement has been very slow when compared to prior recoveries. The dramatic plunge in single family residential (SFR) building permits that followed the City's FY 2005-06 high of 1,645 permits, resulted in a 100% reduction during the seven years that followed. Since that time, SFR permit activity is steadily returning, with 63 permits issued in FY 2013-14, 86 permits issued in FY 2014-15, 116 permits issued in FY 2015-16, 234 permits issued in FY 2016-17, and 85 through November 2017.

This rise in building activity is commensurate with the progress being made toward the restoration of assessed valuations. However, despite the improving trend, the High Desert residential housing sector still faces challenges from persistently high unemployment compared to the national, state, and county averages, which continues to be a challenge for the City of Hesperia.

Commercial development activity, similar to residential development, acts as a barometer of local economic conditions. Development activity over the last year reflected an increase over the prior year, with the addition of 102,171 square feet of commercial construction in FY 2016-17, compared to the previous year's 33,512 added square footage. During FY 2016-17, the City welcomed the additional square footage provided by such projects as Aldi Market, Planet Fitness, Famous Footwear, Wendy's, Dollar Tree, and Starbucks. Through November 2017, 13,397 of commercial square footage has been added. Attracting business and commerce has been difficult in the years following the dissolution of California Redevelopment Agencies. By working aggressively to foster business growth, Hesperia will benefit from enhanced retail, dining, and employment opportunities. Additional commercial projects are projected for FY 2017-18, as discussed in the Subsequent Goals, Efforts, and Actions section of this letter.

Hesperia has seen a significant improvement in sales tax revenue in the years that have followed the "Great Recession". As the largest General Fund revenue source, the City has experienced an increase of 49% from the economic downturn low of \$5.5 million in FY 2009-10 to \$8.2 million in FY 2016-17. The increases realized during this time are primarily attributed to fuel sales, as the largest sales tax producing sector in the City, as well as the addition of some large consumer retail stores that have opened in recent years, such as Super Target and Super Walmart. The loss of a large sales tax producer in February 2016 resulted in a decline in FY 2016-17 revenue compared to levels seen in recent fiscal years but, even with this loss, overall sales tax revenue has grown well above the FY 2006-07 pre-recession high of \$7,887,031.

Fiscal Year 2016-17 Goals, Efforts, and Actions

Through this slowly recovering economy, the City of Hesperia has worked diligently to provide vital services to citizens, while continuing to prepare for the next growth cycle waiting on the horizon. Leveraging the City's limited resources to derive the greatest benefit for the good of the entire community, is at the heart of the City Council's commitment to its citizens. This management philosophy has made it possible for the City Council to further their goals toward building a strong community and improving the quality of life for Hesperia residents, businesses, and visitors.

During the Fiscal Year Ended June 30, 2017, the City not only continued to provide the normal level of municipal services expected by its citizens, but also made substantial progress in accomplishing a variety of goals and projects, all of which will benefit the Hesperia community. Some of the more significant accomplishments were:

- ❖ The Fiscal Year 2017-18 Budget was adopted with a General Fund cash reserve of approximately 16% of budgeted expenditures.
- ❖ The Hesperia City Council provided an additional \$1.9 million of funding within the Fiscal Year 2016-17 for its annual Residential Road Improvement Program. These funds are used to enhance streets throughout the City and are in addition to the ongoing Street Maintenance Program.
- ❖ For the fifteenth consecutive year, the City has earned the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2016.
- ❖ To recognize and honor the contributions of Hesperia military service members and veterans, in February 2017 the City Council voted to approve a personalized military banner program which prominently displays the names of active-duty service members in selected areas of the City, and a perpetual recognition banner, including the names of former and current service members, which will be installed in City Hall and will be updated each year.
- ❖ To address the City Council's Future Vision Priority, the City participated in the Hesperia 2034 Visioning Memorandum of Understanding (MOU), a joint-agency community visioning project with the Hesperia Chamber of Commerce, Hesperia Unified School District, and Hesperia Recreation and Park District.
- ❖ In Spring 2017, the City unveiled a new online mapping program, making public access to property information much easier. In an effort to promote the exchange of information and increase transparency, the City's Public Viewer provides access to zoning information, construction plans, and utility locations. Other features include access to Caltrans traffic cameras, bus stop locations, as well as the locations of Hesperia's parks and schools. This information is accessible from mobile devices or personal computers and is available 24 hours a day, seven days a week on the City's website.

- ❖ The City hosted its eleventh annual Youth in Government Day event for 25 high school seniors with a job shadowing exercise, City facility tour, questions and answers session with the Mayor, and a mock City Council meeting which resulted in the funding of a bicycle helmet and pedestrian safety program and a spay and neuter voucher program.
- ❖ A new digital platform was unveiled, OpenGov, which provides information about the City's budget in an interactive digital format, making it easy to explore how taxpayer monies are collected and spent. Residents can access historical expenditure and revenue data and review trends over time, with 12 years of data available on the platform.
- ❖ The City launched a new Neighborhood Beautification Program, aimed at providing citizens with an additional opportunity to dispose of their unwanted large and bulky items, appliances, carpet, and furniture free of charge. The event will continue to be offered once per quarter at locations around the City to make traveling with larger items more convenient, to aid in the proper disposal of these items for recycling. With the assistance of Advance Disposal and the City's Restoring the Environment for a Cleaner Hesperia (REACH) crew, more than 54,000 pounds, or 27 tons, of material has been collected for recycling, removal, and disposal since February 2017.
- ❖ Residents have seen a variety of great businesses open in our community during the year, including Famous Footwear, Planet Fitness, Firehouse Subs, Leslie Pool Supply, and America's Best Eye Glasses.

Subsequent Goals, Efforts, and Actions

- ❖ The Hesperia City Council provided an additional \$1.9 million of funding within the Fiscal Year 2017-18 Budget for its annual Residential Road Improvement Program. These funds are used to enhance streets throughout the City and are in addition to the ongoing Street Maintenance Program. Over the last seventeen years, this program has reconstructed over 310 miles of roads and 97 miles of slurry sealed roads, amounting to over \$75.6 million.
- ❖ To further the City Council's Public Safety Priority, the police Department's Budget will increase by approximately \$350,000, or 2% from the FY 2016-17 Budget. Included in Hesperia's ongoing law enforcement contract with San Bernardino County is a highly successful six-deputy Gang Team, which handles gang-related investigations and coordinates efforts with City of Hesperia Code Enforcement staff to reduce incidents of property crimes and graffiti within the City.
- ❖ Water conservation continues to be an important issue for California cities. In order to best utilize our water resources, the City of Hesperia is working with Victor Valley Wastewater Reclamation Authority to bring a subregional recycled water facility to the community which will deliver tertiary treated water to recycled water customers in Hesperia. Large irrigation users such as the Hesperia Golf Course, Civic Center, and some parks and schools will be served by this recycled water system. In September 2016, the City received notification of award of a \$4.7 million Proposition 1 Grant and a \$9.9 million low interest loan from the California Water Resources Control Board. This funding, along with a \$2 million Proposition 84 Drought Grant, will be used to construct approximately 8 miles of purple pipe, a storage reservoir, and a boost station to use reclaimed water in lieu of potable water for irrigation. This will serve two important purposes; 1) reduce the flow of wastewater to the treatment plant and 2) lessen the demand for potable water for landscape irrigation purposes, thereby saving financial resources as well as precious water resources. The project was awarded in October 2017 and construction is expected to begin in early 2018.



- ❖ Design work continues for the final phase of the three-phase Ranchero Corridor project. Previously completed phases include the much anticipated Ranchero Underpass which was successfully opened in June 2013, as well as the opening of the Ranchero Interchange in February 2015. The first two phases of this corridor project have provided motorists with an additional east-west connector to the freeway. Phase Three is a widening project between the first two phases and is a joint project between the City of Hesperia and San Bernardino County. Project design for the project is complete with right-of-way acquisition nearing completion.
- 
- ❖ Due in large part to a Mobile Source Emission Reduction Grant via the Mojave Desert Air Quality Management District, real-time adaptive traffic signal controllers are being installed at intersections along the Main Street corridor. These signal controllers utilize the latest technology to adjust signal timing based upon existing traffic at and approaching the intersection. Communication equipment was also installed, allowing the controllers to communicate with each other along the corridor and resulting in the efficient movement of traffic through the corridor. Phase I of this project installed real-time adaptive signal controller technology at eight intersections along the Main Street corridor from "I" Avenue to Eleventh Avenue, resulting in east/west travel improvements. Phase II of the project will install the same type of system at an additional seven intersections from Escondido Avenue to Catana Road.
 - ❖ Due to the September 2017 sale of the Eagle Plaza Facility, which served as security for two Water District debt issues, the District's 1992B Certificates of Participation (COPs) and the District's Variable Rate Lease Revenue Refunding Bonds Series 1998B Bonds were defeased using proceeds from the sale. The 1992B COPs were not subject to optional prepayment prior to their maturity, but were defeased in full when the District deposited funds with the trustee in an amount sufficient to pay off the COPs through maturity. The 1998B Bonds were redeemed in full, nearly five years earlier than the stated maturity.
 - ❖ The City Council approved the creation of a new program to assist non-profits in the City of Hesperia. The new Community Assistance Program (CAP) replaced the Housing and Urban Development (HUD) funded Community Development Block Grant (CDBG) sub-recipient program that the City previously used. The CAP was created to enable non-profits to spend more time helping Hesperia residents and less time on administrative paperwork. By utilizing this new program, CDBG funds are now being allocated for street improvement projects within the approved CDBG target areas.
 - ❖ Aemerge RedPak, a cutting edge medical waste treatment facility that sterilizes waste, converts it to clean energy and diverts up to 95% from landfill through recycling, built their first west coast plant in Hesperia. RedPak safely treats medical waste in a manner that utilizes the waste as a medium to produce power and produces recycled treated metals. RedPak is the only facility in California permitted to treat all types of medical waste as regulated by the CA Department of Public Health.
 - ❖ In June 2017, the City Council approved an ordinance to establish a system of by-district elections. Beginning in November 2018, members of the City Council will be elected in districts Two, Three, and Four, with an election to be held in November 2020 for members of the City Council in districts One and Five.

- ❖ The highly successful High Desert Gateway, anchored by Hesperia's Super Target, has broken ground on the first 16,000 square feet of Phase II, where residents will soon enjoy Starbucks, Jimmy John's Gourmet Sandwiches, and Fatburger. A new grocery-anchored center at Main Street and Escondido Avenue features a 20,446 square foot Aldi grocery store, as well as a 10,000 square foot Dollar Tree. The center will include a multi-tenant building, including Les Schwab Tire Center, T-Mobile, and Wendy's.
- ❖ On the multi-family front, Eagle Real Estate Group's 96 low and medium income senior apartments are well underway. Leasing activity is brisk in this gated 55+ community, and already plans for another 96 apartments have been submitted for Phase II. A ribbon cutting ceremony for Phase I was held in August 2017.

Financial Information

Defeasance of Water District 1992B Certificates of Participation and Variable Rate Lease Revenue Refunding Bonds (Water Administration Facilities Acquisition Project) Series 1998B – Over the last twelve years, the City of Hesperia has assembled property, designed and facilitated the development of the downtown area, resulting in the development of a city hall, library, police station, San Bernardino High Desert Government Center, theater, and park. Prior to this development, a facility owned by the Hesperia Water District, the Eagle Plaza facility, was leased by the City for office space. Since moving into a new City Hall facility, the Water District has leased the Eagle Plaza facility to a diverse group of tenants including the Victor Valley Wastewater Reclamation Authority, the Hesperia Unified School District, as well as some local businesses. With the Eagle Plaza facility no longer serving a use to the City or Water District, the decision was made to sell the facility.

The Eagle Plaza Facility served as security for two Water District debt obligations; the Water District's 1992B Certificates of Participation (COPs) and the Variable Rate Lease Revenue Refunding Bonds Series 1998B. In order to sell the facility, it had to be released from being security for both obligations which required specific actions for each debt issue. The sale of Eagle Plaza occurred in September 2017, and proceeds from the sale were used to defease or redeem the two debt obligations as noted below:

While the 1992B COPs were not subject to optional prepayment prior to their maturity date of June 1, 2022, they were able to be defeased in full with proceeds from the sale of the facility. The outstanding principal balance was \$615,000, but the obligation through maturity amounted to \$794,775 because principal and interest were required to be paid through the full maturity. Defeasing the 1992B COPs required the District to deposit with the trustee an amount sufficient to pay off the 1992B COPs through maturity.

The 1998B Bonds were able to be prepaid in full, nearly five years prior to the stated maturity of June 2022, at a redemption price equal to the outstanding principal amount of the bonds (\$705,000) plus accrued interest. The 1998B Bonds were required to be defeased and redeemed with proceeds from a draw on the letter of credit that supported the issue. The draw was immediately reimbursed by the Water District with Eagle Plaza sale proceeds.

Water and Wastewater Rates – In December 2016, the Hesperia Water District Board of Directors authorized the commencement of a Water and Sewer Rate Study, as the previous rate study was performed approximately 10 years ago and it was determined that a current study was needed to ensure that the water and sewer rates adequately cover the cost of providing the service in order to safeguard the sustainability and longevity of the District for its customers. The last of the approved water/sewer rate increases resulting from the 2007 study went into effect in November 2011, and the District has gone six years with no increases in water or sewer rates.

In September 2017, after conducting two public workshops and a public Water District Board meeting, wherein the results of the study were discussed and options presented, the Board of Directors provided direction to staff to move forward with the preparation and dissemination of a Proposition 218 notice for proposed sewer and water rate changes that included funding for District capital projects that are needed in order to continue the reliable delivery of water for Hesperia ratepayers. After conducting a Proposition 218 public hearing in November 2017, the Board of Directors approved new maximum rates for water and wastewater services that will provide funding for: the purchase of water rights, the full cost allocation for services provided by the City's General Fund, an Operating Reserve, a Capital Reserve, a Contamination Mitigation Reserve, and \$10.19 million in needed capital project funding for high priority projects. To provide greater District stability during periods of reduced consumption, as was experienced in the recent California drought, the new rates also begin an incremental transition toward the having District fixed revenue be more in line with District fixed costs. The approved maximum rates provide for a 9% annual increase in total revenue for water service and a 6% annual revenue increase for sewer service. Even with the rate changes, a comparison with other water providers in the area shows that Hesperia's rates for typical consumption of 27 hcf (hundred cubic feet) would still be one of the lowest in the area at year five.

Hesperia Fire Protection District - Due primarily to falling property values, which resulted in the decline of property tax-related revenues, the Hesperia Fire Protection District (HFPD) has experienced ongoing revenue challenges. Despite efforts to reduce expenditures wherever possible and reorganizing positions to minimize increases in the annual contract for fire protection services with the County of San Bernardino, reserves were depleted. A failed parcel tax measure in November 2011 resulted in the need to reduce the contract with San Bernardino County Fire Department by nine positions, and Fire Station 301 was closed in January 2012.

In April 2013, the HFPD accepted a \$2 million two-year Staffing for Adequate Fire & Emergency Response (SAFER) Grant and added 18 limited-term firefighter paramedics to fill a daily three-shift rotation. Due to the limited nature of the grant and the continued revenue challenges of the District, City staff reached out to neighboring cities to discover if an interest was present to fund a joint powers authority (JPA) feasibility study for fire and police services, with the hope of obtaining economies of scale and reducing the costs to provide fire protection services for each agency. In 2014, the results of the study concluded that police services would not be as effectively provided under a JPA but that fire services could be. Interest from the other cities, however, was insufficient to move forward with a JPA.

In June 2015, the two-year SAFER Grant ended and, in an effort to explore an alternative way to streamline fire protection services and provide for orderly growth and development, on November 1, 2016 the Board of Directors of HFPD adopted a resolution to request that the Local Agency Formation Commission (LAFCO) initiate proceedings to analyze the reorganization of HFPD, with San Bernardino County Fire Protection District as the designated successor of a potential annexation. The HFPD continues to work with LAFCO and San Bernardino County Fire in this process and an outcome is expected by June 30, 2018.

Financial Policies

Debt Management – Prudent financial management has placed the City in a better position to handle future unknowns with respect to shifts in the overall economy. For example, policies such as the Council's Debt Management Policy have placed the City in a better position to respond to the most recent economic recession by reducing debt service costs on existing debt issues. Under this policy, debt obligations are evaluated annually to determine if opportunities exist to prepay outstanding principal, thereby lowering the overall cost of borrowing. Variable rate debt instruments have been used in the past with success. The lower interest rate environment associated with variable rate debt has presented the opportunity to prepay additional principal, thus lowering the amount of outstanding debt and reducing the interest rate risk through the term of the issue, as the debt obligation is retired earlier than was identified on the original amortization schedule.

Through consistent monitoring of the City's debt and the evaluation of opportunities to retire obligations in advance of the stated maturity, the City has been able to prepay a total of \$6.3 million on its 2004 Variable Rate Demand Revenue Bonds (resulting in the retirement of the bonds eight years before the stated maturity), \$500,000 on the Water District's 1998A Variable Rate Lease Revenue Refunding Bonds, and \$300,000 on the 1996 Housing and Urban Development (HUD) Section 108 Loan over the past twelve years. Additional information about the long-term debt of the City and its component units can be found in the notes to the financial statements.

Budgeting - Under the City Council's Balanced Budget Policy, operational revenue provides funding for operational expenditures and, as such, ongoing expenditures are not funded by one-time revenue. The General Fund has met this commitment, even throughout the recent recession when revenues dropped to levels not seen since FY 2003-04, reflecting revenue reductions of 27% in FY 2009-10, when the recession's impact upon the City was at its worst. The ability to reduce expenditures commensurate with declining revenues was accomplished in several ways, a few of which are discussed below.

During the years of high residential building activity between Fiscal Year 2003-04 through Fiscal Year 2006-07, the City contracted for building related services such as plan check and building inspection services to deal with the increased activity, as opposed to adding staff. Doing so, allowed the City to very quickly respond to the eventual decline in building activity, by reducing contracts commensurate with the decline in activity.

In addition to reducing and/or eliminating contracts, the City extensively reduced other operating expenditures wherever possible. With all viable non-personnel related cuts made, the remaining significant categories of salaries & benefits were also addressed. In order to minimize the cost of salaries, a freeze on merit step increases was put into place, as well as a 5% reduction in pay for all staff, which was implemented in July 2010. The pay cuts and reduced benefit costs, along with normal attrition, avoided the need for a forced reduction in staff in order to balance the budget. In the eight years since the reported end of the Great Recession, the slow progress toward an economic recovery has enabled the City to slowly return salaries to their pre-recession levels, with the final 1.5% restoration of the 5% pay reduction occurring in July 2013. Merit step increases were unfrozen, and a combined 2.5% salary increase and 1.4% cost of living adjustment (COLA) were provided effective July 2016. Negotiations in Fiscal Year 2016-17 attempted to help address rising health care costs, with an \$84 increase in the City's maximum monthly health insurance contribution, as well as a 1.8% cost of living increase. Because the MOU with the union representing City employees was not approved until December 2017, only the impact for the non-represented employees was included in the Fiscal Year 2017-18 Budget. The Budget will be amended during Fiscal Year 2017-18 to include the recently approved MOU with the union represented City employees.

Benefits were also addressed through changes in the funding of the employee pension plan. The City of Hesperia contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan for its personnel. As a part of the City Council's policy for responsible financial management, the Council gradually but purposefully moved away from the City bearing the cost of the full 8% employee contribution, to placing that cost reasonably with employees. Initiated well before the California Public Employees' Pension Reform Act of 2013, this funding shift began in FY 2007-08, when employees began paying 2% of the 8% employee contribution. In July 2010, the employees' contribution increased to 5%. The remaining 3% went into effect in July 2012, which resulted in employees funding the full 8% employee contribution. Further, beginning July 1, 2015, in addition to paying the full member contribution, employees also began paying 1% of reportable earnings as cost sharing of the City's normal costs pursuant to Government Code sections 7522.30 (e) and 20516 (f). Additional information about the City of Hesperia's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

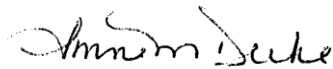
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hesperia for its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016. This was the fifteenth consecutive year that the City has achieved the prestigious award. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a governmental entity and its management. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

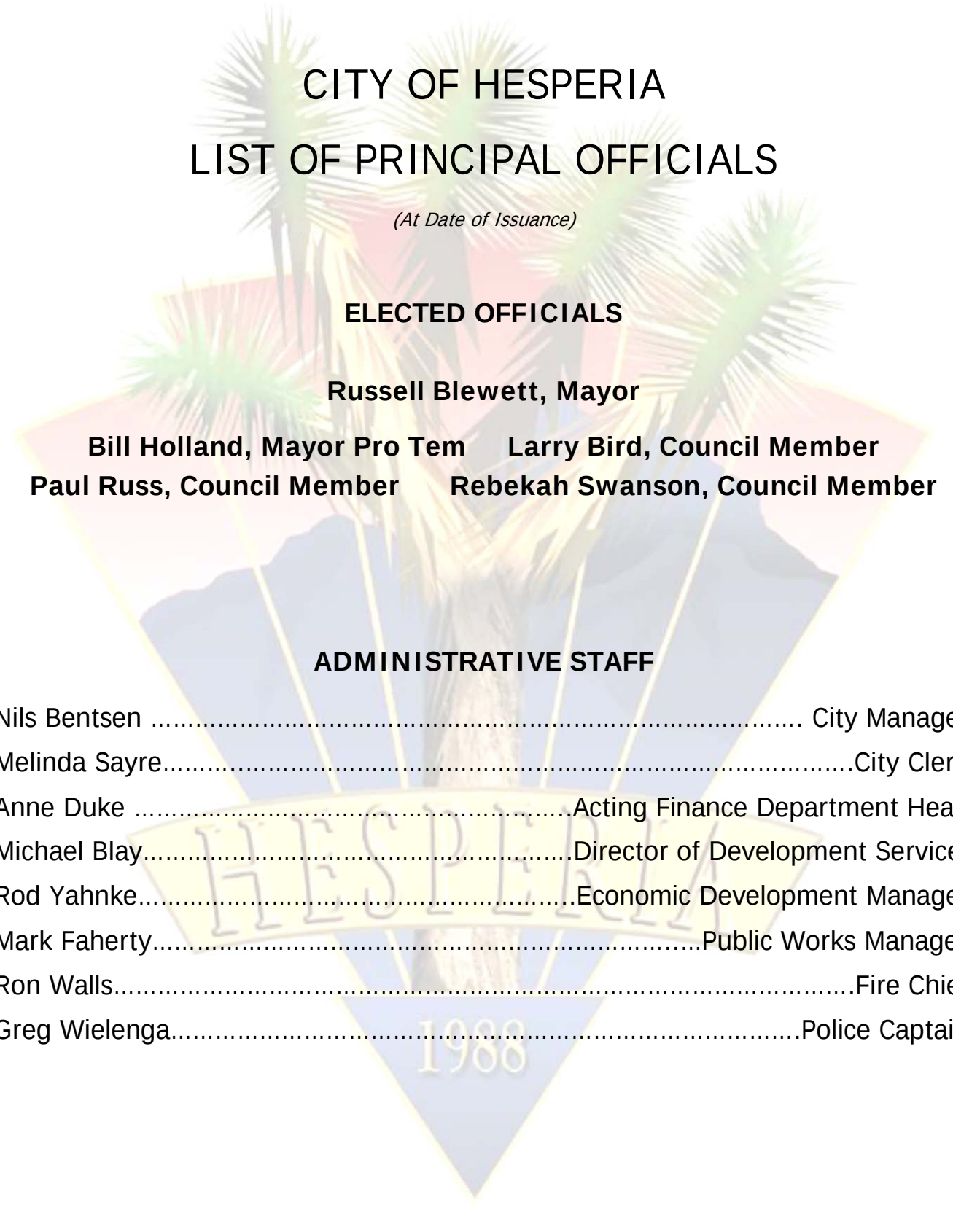
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report could not have been accomplished without the dedicated service of the Finance Division staff. Special recognition is given to all members of the division who assisted and contributed to the preparation of this report. Their efforts made it possible to prepare the comprehensive annual financial report, thereby improving the quality of the information being reported to the citizens, the City Council, and other users on a timely basis. Appreciation is also expressed to all City departments for their assistance and support in planning and conducting the financial operations of the City during the fiscal year. Appreciation is also expressed to the Mayor, City Council, and City Manager for their steadfast support for maintaining the highest standards of professionalism in the management of the City's finances and for conducting the financial activities of the City in a responsible and prudent manner.

Sincerely,

A handwritten signature in dark ink, appearing to read "Anne M. Duke". The signature is fluid and cursive, with the first name "Anne" and last name "Duke" clearly distinguishable.

Anne M. Duke
Acting Finance Department Head



CITY OF HESPERIA

LIST OF PRINCIPAL OFFICIALS

(At Date of Issuance)

ELECTED OFFICIALS

Russell Blewett, Mayor

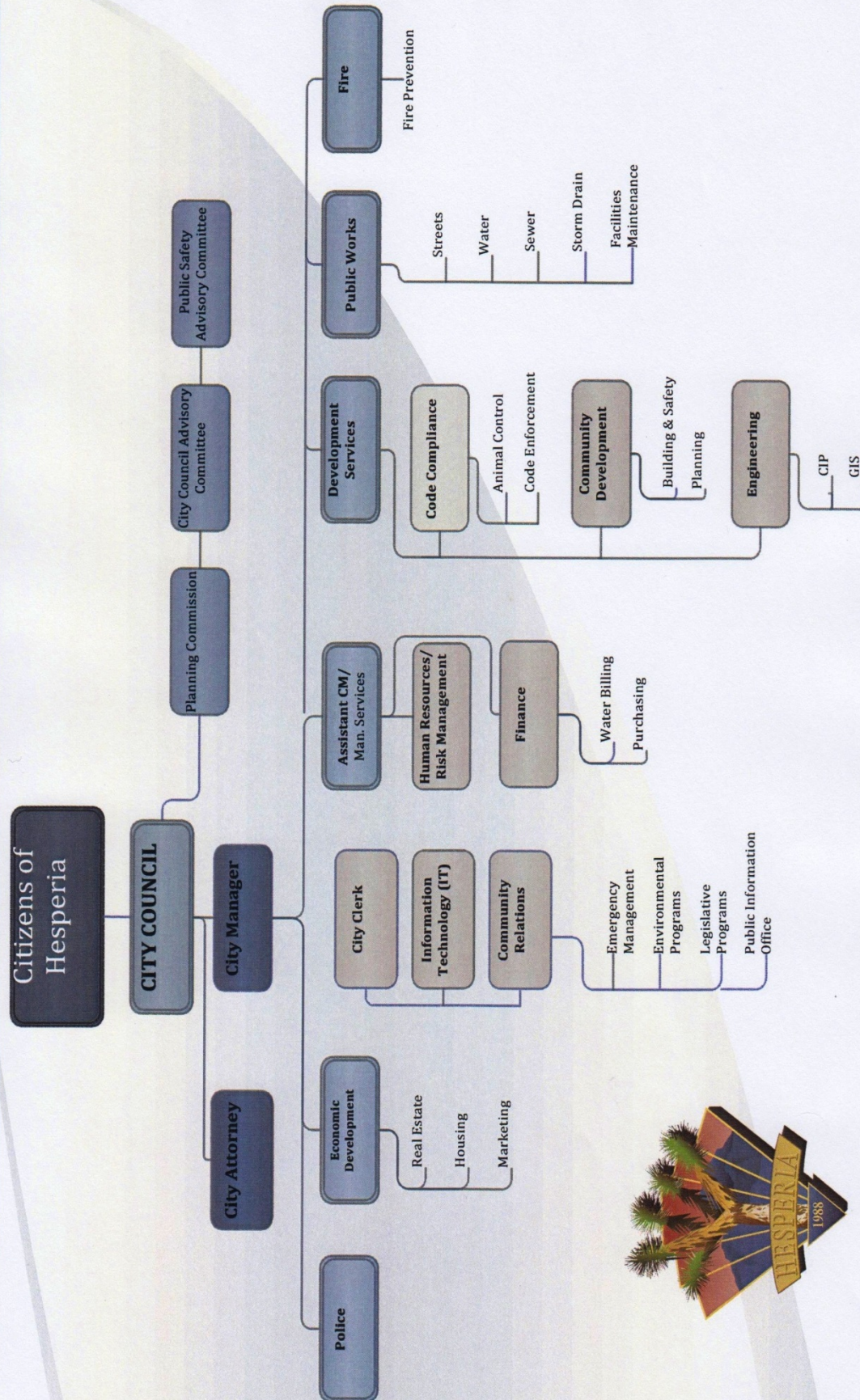
Bill Holland, Mayor Pro Tem Larry Bird, Council Member

Paul Russ, Council Member Rebekah Swanson, Council Member

ADMINISTRATIVE STAFF

Nils Bentsen	City Manager
Melinda Sayre.....	City Clerk
Anne Duke	Acting Finance Department Head
Michael Blay.....	Director of Development Services
Rod Yahnke.....	Economic Development Manager
Mark Faherty.....	Public Works Manager
Ron Walls.....	Fire Chief
Greg Wielenga.....	Police Captain

City of Hesperia Organizational Chart



June 17, 2014



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Hesperia
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill

Executive Director/CEO

INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Hesperia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hesperia (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City'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 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 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 City'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 City'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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hesperia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules for the General Fund and major Special Revenue Funds, Schedule of Funding Progress for DPHP, Schedule of Contributions, and Schedule of Proportionate Share of Net Pension Liability, 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 the 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 our 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017, on our consideration of the City of Hesperia'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 City of Hesperia's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Carlsbad, California
December 20, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hesperia's financial performance provides an overview of the City's financial activities for the Fiscal Year (FY) Ended June 30, 2017. Please read this in conjunction with the accompanying transmittal letter, the accompanying basic financial statements, and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- At June 30, 2017, the City's (including governmental and business-type activities) assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$302.9 million (*net position*). Of this amount, \$41.0 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors. The \$41.0 million unrestricted net position is \$7.7 million or 15.8% less than the \$48.7 million unrestricted net position of June 30, 2016; which is primarily due to a \$5.0 million increase in net pension liability the selling of \$2.1 million in land held for resale, and \$0.6 million in increased Other Post-Employment Benefits (OPEB) obligations. The land sales were comprised of \$1.2 million within the Hesperia Housing Authority (HHA) and another \$0.9 million in the Neighborhood Stabilization fund. These reductions were partially offset by a decrease of \$0.2 million in long-term debt due within one year.
- The City's total net position decreased \$9.4 million. Government Accounting Standards board (GASB) 68 records the City's, and its component units, CalPERS pension liability on the government-wide statements. Net pension liability increased \$5.0 million from June 30, 2016. A large portion of the remainder of the decline in net position can essentially be attributed to land transactions and a decrease in assets within due from other governmental agencies. This decline is primarily a result of the elimination of triple flip revenue, which is no longer accrued, along with timing differences of revenue received in Fiscal Year 2016-17 compared to Fiscal Year 2015-16.
- At June 30, 2017, the City's governmental funds reported combined fund balances of \$64.9 million, a decrease of \$5.7 million or 8.1%, from the \$70.7 million at June 30, 2016. Approximately 7.1% of this amount (or \$4.7 million) is available for spending at the City's discretion (the *unassigned fund balance*). The main reasons for this decrease in combined fund balances is the \$2.1 million in land sales within the HHA and Neighborhood Stabilization funds, \$3.1 million is monies due from other governmental agencies, and a \$0.6 million increase in accounts payable due to timing differences in expenditure payments.
- As of June 30, 2017, unrestricted fund balance (the total of the *assigned* and *unassigned* components of *fund balance*) for the General Fund was \$6.4 million, or approximately 21.4% of total general fund expenditures. Included in the total General Fund expenditures is \$15.5 million for public safety-police.
- The City's (governmental and business-type) total outstanding long-term debt decreased by a net amount of \$1.7 million during the current fiscal year predominately because of scheduled debt service activities.

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 City as a whole and present a longer-term view of the City's finances. Fund financial statements reflect how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE CITY AS A WHOLE

The discussion and analysis provided here is intended to serve as an introduction to the City'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 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 City's finances is, "Is the City 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 City 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 City'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 City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City'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).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the blending of three separate legal entities (component units) with the City—the Community Development Commission, the Hesperia Housing Authority, and the Hesperia Fire Protection District. The business-type activities of the City include water service and sewer service, which are provided by the Hesperia Water District.

The government-wide financial statements can be found on pages 18-21 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements – 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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 City maintains 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire District, HOME Grant, Hesperia Housing Authority, and Community Development Commission which are considered major funds. Data from the other twenty-five (25) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic governmental fund financial statements can be found on pages 24-31 of this report.

The City adopts an annual appropriated budget for each fund. A budgetary comparison statement has been provided to demonstrate compliance with the annual budget and can be found on pages 120-156 of this report.

Proprietary Funds – The City maintains proprietary funds to account for the activities of the Hesperia Water District. These proprietary funds report the same functions presented as *business-type activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Hesperia Water District, which is considered a major fund of the City.

The basic proprietary fund financial statements can be found on pages 33-38 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are not* available to support the City's own programs. Accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 39-41 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 43-86 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension and other post-employment benefits (OPEB) benefits to its employees. Required supplementary information can be found on pages 87-96 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions and OPEB. Combining and individual fund statements and schedules can be found on *pages 98-118 of this report*.

THE CITY AS A WHOLE

Our analysis focuses on the Condensed Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the City's governmental activities and business-type activities. In prior years, the City incurred debt to build some of its infrastructure. The Condensed Statement of Net Position presents capital assets net of the debt incurred to pay for those assets. The City is reporting, under the Governmental Activities - capital assets, the full infrastructure value of the City's streets, storm drains, traffic signals, and other assets.

This decrease of approximately \$8.4 million basically resulted from both a \$5.0 million increase in net pension liability due to GASB 68, which records the City's pension liability on the government-wide statements, a \$2.1 million overall net decline in land held for resale, \$0.7 million rise in accounts payable and other current liabilities, and \$0.6 million in increased OPEB obligations. Of the \$5.0 million net pension liability increase, \$3.9 million was allocated for Governmental Activities and \$1.1 million was apportioned to Business-type Activities.

A brief explanation for the balance change of Table 1 follows below. These explanations communicate the narrative behind the \$8.3 million decrease in net position:

Table 1
Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 73,801,960	\$ 68,898,552	\$ 13,168,980	\$ 13,326,426	\$ 86,970,940	\$ 82,224,978
Capital assets	214,854,547	210,751,556	91,241,888	90,955,335	306,096,435	301,706,891
Total Assets	288,656,507	279,650,108	104,410,868	104,281,761	393,067,375	383,931,869
Total deferred outflows of resources	3,306,618	5,819,987	3,260,500	3,163,774	6,567,118	8,983,761
Current and other liabilities	24,496,779	29,283,367	9,913,400	11,013,117	34,410,179	40,296,484
Long-term debt outstanding	38,316,491	37,475,364	12,492,215	10,938,290	50,808,706	48,413,654
Total Liabilities	62,813,270	66,758,731	22,405,615	21,951,407	85,218,885	88,710,138
Total deferred inflows of resources	1,657,909	985,939	477,408	298,467	2,135,317	1,284,406
Net Position:						
Net investment in capital assets	177,890,141	174,609,141	81,151,492	82,779,673	259,041,633	257,388,814
Restricted	2,603,522	2,605,920	1,888,888	1,888,901	4,492,410	4,494,821
Unrestricted	46,998,283	40,510,364	1,747,965	527,087	48,746,248	41,037,451
Total Net Position	\$ 227,491,946	\$ 217,725,425	\$ 84,788,345	\$ 85,195,661	\$ 312,280,291	\$ 302,921,086

Current and other assets:

- Governmental current and other assets decreased by \$4.9 million, or 6.6% from June 30, 2016. This decline was primarily due to the \$1.4 million decrease in due from other governmental funds, reduction of \$2.1 million in land held for resale and the Eagle Hesperia 55, LP. loan. This \$3.9 million loan was partially offset by increased revenues in the Development Impact Fees-Streets fund and Measure I Renewal fund.
- Business-type current and other assets experienced a marginal gain of \$0.2 million during the fiscal year. Water sales revenue increased from the prior year and this component experienced a slight increase mainly due to a rise in cash of \$0.1 million due to the cash improvement of water and sewer operations, and deposits for self-insurance grew \$0.1 million.

Capital assets:

- Governmental capital assets decreased by \$4.1 million or 1.9% due to several factors including the net of \$10.4 million in FY 2016-17 depreciation, partially offset by \$6.3 million in asset acquisitions, which include construction in progress (CIP) of nearly \$4.9 million. Netting to \$0 was the decrease of CIP and the increase to infrastructure, buildings, and improvements of \$5.9 million for completed capital projects.
- Business-type capital assets decreased by \$0.1 million, net of depreciation, from June 30, 2016. The decrease is largely due to depreciation expense of \$3.6 million in addition to \$2.3 million in completed CIP projects. These were offset by a \$2.3 million increase in construction in progress pertaining to the pipeline replacement program, \$2.2 million water facilities gain, \$0.7 million rise in buildings and improvements, \$0.2 million increase in land, and \$0.1 million rise in water rights, vehicles, machinery, and equipment.

Current and other liabilities:

- Governmental current and other liabilities rose \$4.8 million or 19.5% when compared to June 30, 2016. The gain is principally due to the increase from \$17.3 million to \$21.2 million in net pension liability, required by implementing GASB 68, to the government-wide statements. This \$3.9 million gain is comprised of \$2.2 million assigned for the City while \$1.7 million is for the Fire District. Accounts payable and other current liabilities rose \$0.4 million in addition to the \$0.4 million increase in OPEB obligations.
- Business-type current and other liabilities increased by \$1.1 million or 11.1% from June 30, 2016, which is basically the net result of implementing GASB 68 with the recording of an additional \$1.1 million of net pension liability and \$0.2 million increase in accounts payable and other current liabilities. These were offset by a \$0.3 million decrease in due to other governments for leased water rights.

Long-term debt outstanding:

- Governmental long-term debt outstanding recorded a decrease of \$0.8 million or 2.2% to \$37.5 million. This is mostly attributed to the scheduled debt service activity for the year as detailed in Note 5.
- Business-type long-term debt outstanding activity during the fiscal year resulted in a net decrease of \$1.6 million from June 30, 2016, which is essentially due to the annual debt service activity, as shown in Table 4 in addition to a \$0.7 million decrease in liabilities from derivative instruments.

Net investment in capital assets:

- Governmental net investment in capital assets decreased by \$3.3 million during the fiscal year, which is primarily related to the \$3.1 million reduction in capital assets offset by the \$0.8 million decrease in outstanding debt.
- Business-type net investment in capital assets increased by \$1.6 million or 2.0%, from the year ended June 30, 2016, which is predominantly due to the \$0.3 million decrease in capital assets offset by the \$0.9 million reduction to long-term debt outstanding.

Restricted:

- Governmental restricted net position remained relatively unchanged at \$2.6 million.
- Business-type restricted net position also remained unchanged from the prior year.

Unrestricted net position:

- Governmental unrestricted net position decreased by \$6.5 million or 13.8%, during the fiscal year. This decrease is essentially related to the aforementioned increase in added net pension liability in the current fiscal year, the reduction in due from other governmental agencies and Eagle Hesperia 55, LP. loan.
- Business-type unrestricted net position decreased 70.0% or \$1.2 million. This was primarily a result of the \$1.1 million increase in net pension liability.

As reflected in Table 2, the City's net position decreased by \$8.4 million from the \$312.3 million of the prior fiscal year. The June 30, 2017 total Program Revenues increased by \$5.0 million with business-type charges for services comprising \$1.0 million of the rise. CDBG reimbursements made up another \$1.8 million. Program revenue comprised 53.2% of total revenues and funded 48.2% of total expenses. During the fiscal year, expenses increased by \$9.9 million, or 13.5% from June 30, 2016. This increase consisted of \$4.8 million attributed to the HHA for title insurance expenses and loss on disposal of assets, \$1.0 million in depreciation expense and \$1.4 million was increased within public safety.

Table 2
Changes in Net Position

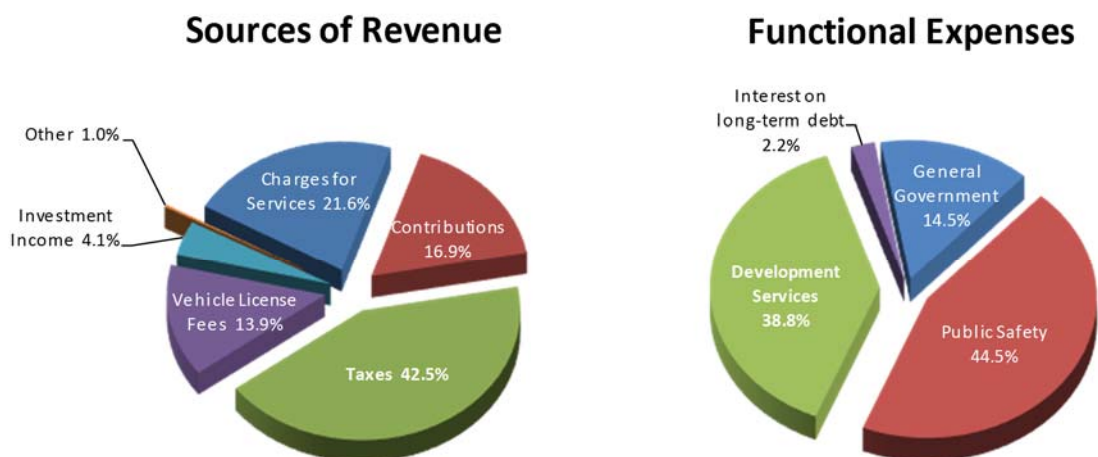
	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Revenues						
Program revenues:						
Charges for services	\$ 9,800,424	\$ 11,511,486	\$ 18,455,581	\$ 19,406,624	\$ 28,256,005	\$ 30,918,110
Operating contributions and grants	6,697,290	8,680,855	-	-	6,697,290	8,680,855
Capital contributions and grants	172,319	327,181	-	213,722	172,319	540,903
Total program revenues	16,670,033	20,519,522	18,455,581	19,620,346	35,125,614	40,139,868
General revenues:						
Taxes:						
Property taxes	7,136,879	7,657,562	320,590	357,298	7,457,469	8,014,860
Sales and use tax	10,455,912	10,390,005	-	-	10,455,912	10,390,005
Transient occupancy tax	1,148,212	1,101,101	-	-	1,148,212	1,101,101
Franchise tax	3,257,019	3,231,198	-	-	3,257,019	3,231,198
Document transfer tax	209,218	269,704	-	-	209,218	269,704
Motor vehicle in-lieu	7,044,997	7,417,786	-	-	7,044,997	7,417,786
Unrestricted investment earnings	1,936,799	2,274,694	28,609	59,224	1,965,408	2,333,918
System improvement and replacement	-	-	575,453	1,321,835	575,453	1,321,835
Other	302,988	133,435	454,234	506,371	757,222	639,806
Total general revenues	31,492,024	32,475,485	1,378,886	2,244,728	32,870,910	34,720,213
Total revenues	48,162,057	52,995,007	19,834,467	21,865,074	67,996,524	74,860,081
Expenses						
General government	7,867,596	8,943,760	-	-	7,867,596	8,943,760
Public safety	25,512,637	27,464,389	-	-	25,512,637	27,464,389
Transportation	5,521,302	6,211,787	-	-	5,521,302	6,211,787
Development services	12,037,629	18,734,712	-	-	12,037,629	18,734,712
Interest on long-term debt	1,453,069	1,406,880	-	-	1,453,069	1,406,880
Water	-	-	17,886,564	18,142,253	17,886,564	18,142,253
Wastewater	-	-	3,039,080	3,315,505	3,039,080	3,315,505
Total expenses	52,392,233	62,761,528	20,925,644	21,457,758	73,317,877	84,219,286
Increase (decrease) in net position	(4,230,176)	(9,766,521)	(1,091,177)	407,316	(5,321,353)	(9,359,205)
Extraordinary gain/(loss)	(4,061,284)	-	-	-	(4,061,284)	-
Special item - Loss on exchange of capital assets	(303,550)	-	-	-	(303,550)	-
Change in net position	(8,291,460)	(9,766,521)	(1,091,177)	407,316	(9,382,637)	(9,359,205)
Net position at July 1	236,422,911	227,491,946	85,879,522	84,788,345	322,302,433	312,280,291
Restatement of net position at July 1,	(335,955)	-	-	-	(335,955)	-
Net position at July 1, as restated	236,086,956	227,491,946	85,879,522	84,788,345	321,966,478	312,280,291
Net position at June 30	\$ 227,491,946	\$ 217,725,425	\$ 84,788,345	\$ 85,195,661	\$ 312,280,291	\$ 302,921,086

GOVERNMENTAL ACTIVITIES

Fiscal Year 2016-17 revenues increased \$4.8 million with \$3.8 million in higher general revenues combining with a \$1.0 million rise in general revenues. The cost of all governmental activities this year was \$61.8 million; however, as shown in Table 2, the amount that the taxpayers ultimately financed for these activities was \$42.3 million (\$62.8 million of total expenses less \$20.5 million of total program revenues). The \$20.4 million of program revenues includes about \$11.5 million of costs paid by those who directly benefited from the programs, \$8.7 million by other governments and organizations that partially funded certain programs with operating grants and contributions, and \$0.2 million of capital contributions.

The City paid for the remaining “public benefit” portion of governmental activities with the \$32.5 million of general revenues and \$8.9 million of reserves. The general revenues included taxes (some of which could only be used for certain programs) and other revenues, such as vehicle license fees and general entitlements.

Fiscal Year 2017 Governmental Activities
(see Table 2)



The City's programs for governmental activities include General Government, Public Safety (Fire and Police), Development Services, and Interest on Long-Term Debt. The programs for the business type activities include the water and wastewater utilities.

BUSINESS-TYPE ACTIVITIES

The June 30, 2017 net position of \$85.2 million increased \$0.4 million or 0.5% from the June 30, 2016 net position of 84.8 million. The cost of all Water District activities this year increased slightly by \$0.5 million or 2.5% from \$20.9 million during FY 2015-16 to \$21.4 million during FY 2016-17. This \$0.5 million is comprised primarily of \$0.3 million in increased utilities-wastewater expenditures in sewer and another \$0.2 million rise in utilities-electric in water due to increased water sales. These rises in water sales result in additional electricity costs for water pumping and dispersal. Total revenues rose \$2.0 million from \$19.8 million to \$21.8 million primarily due to a continually improving local economy resulting in more development in conjunction with the reduction in mandated water conservation requirements. As shown in the

Changes in Net Position (Table 2), the amount paid by users of the systems was \$19.4 million, which is an increase of nearly \$1.0 million or 9.4% from the June 30, 2016 total of \$18.5 million. This is directly attributable to the rise in water sales in all areas including residential, business, construction, and water rate surcharges. Non-operating revenues of about \$2.5 million made up the remainder of the \$19.8 million total revenues.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The June 30, 2017 fund balance for governmental funds \$5.8 million or 8.3% less than the June 30, 2016 balance of \$70.7 million. At year-end, the City's governmental funds reported combined fund balances, found on pages 24-25, of \$64.9 million.

- At year-end, the fund balance for the General Fund decreased \$2.8 million or 26.2% from \$10.8 million in FY 2015-16 to \$8.0 million in FY 2016-17. Expenditures exceeded revenues by over \$1.0 million and the General Fund transferred out a net amount slightly less than \$1.8 million to other funds (primarily to pay the debt service of the 2012 Water Rights Acquisition debt). Revenues increased approximately \$0.6 million and expenditures rose \$3.4 million compared to FY 2015-16, however, net transfers decreased \$0.1 million including a transfer to the CDC to cover operations.

Included in the General Fund expenditures of \$30.0 million are increased Police costs of \$1.0 million that maintained the same level of service of the prior year without adding any additional personnel. Compared to the prior year, General Fund expenditures increased by \$3.4 million also due to additional capital outlay of \$0.7 million, \$0.6 million in cash returned to CDBG for land purchases, and \$0.1 million in additional PERS expenditures. General Fund revenues of \$28.9 million increased by \$0.6 million mostly by an increase in sales and use tax (\$0.9 million) and vehicle license fees (\$0.3 million). In addition, residential permit related revenues reflect the increase from 116 single-family residential (SFR) permits in FY 2015-16 to 234 SFR permits in FY 2016-17. All of these gains were enough to more than offset the elimination of the triple flip tax revenue.

- At year-end, the Fire District's operating fund reported a fund balance of negative \$0.1 million, which is a significant decrease of \$0.3 million from the June 30, 2016 ending fund balance of \$0.2 million. The San Bernardino County Fire Department contract increased by over \$0.3 million for the same level of service without adding any additional personnel. At the November 1, 2016 Board Meeting, the Board approved a resolution requesting the Local Agency Formation Commission to annex the Fire District to the San Bernardino County Fire Protection District. More detail is found within Note 19.
- The Development Impact Fees-Streets fund balance increased to \$9.8 million from \$8.2 million at June 30, 2016. This rise of \$1.6 million was primarily attributable to the \$1.7 million received in charges for services for various fees related to residential and commercial permits, 60.4% or \$0.7 million higher than in Fiscal Year 2015-16.
- The HHA reported a fund balance of \$14.1 million from the June 2016 fund balance of \$19.2 million. The \$5.1 million decrease was essentially the result of operating administrative expenditures exceeding operating revenues (rental income and other revenue) including \$3.8 for the Eagle 55 loan and \$1.0 million resulting in a loss on disposal of an asset due to a sale of land.
- The CDC fund balance at June 30, 2017 was \$11.7 million, a \$0.1 million or 1% decrease from the fund balance of nearly \$11.7 million June 30, 2016. This gain resulted from an increase of transfers in from the General Fund described in Note 6.

CAPITAL ASSETS

For governmental activities, the capital assets of the City are those assets that are used in the performance of the City's functions including infrastructure assets (See Table 3 on the following page). For more detailed information about the City's assets, see Note 4 Capital Assets. At June 30, 2017, capital assets, net of depreciation, of the governmental activities totaled \$210.7 million, which reflects a decrease of \$4.1 million, from the prior year. The decrease is primarily due to the addition to accumulated depreciation of \$10.4 million netted against asset acquisitions. The \$4.9 million construction in progress had a net \$1.0 million decrease.

For business-type activities, capital assets are those assets that are used in the performance of the Hesperia Water District's functions including infrastructure assets. At June 30, 2017, capital assets, net of depreciation, totaled \$91.0 million, which is a decrease of nearly \$0.3 million. This decrease is primarily due to depreciation expense of \$3.6 million and offset by a \$2.2 million increase to water facility infrastructure, \$1.1 million in asset acquisitions, and \$0.2 million increase in construction in progress.

The City has elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting for the streets. Using the Basic Approach, the City depreciates the value of the streets over a twenty (20) year period. As repaving of street segments is done (overlays must be at least one inch thick), the value of that work will be added and any remaining book value of that segment will be reduced from the streets infrastructure class.

Nonproprietary (governmental activities) infrastructure includes: paved streets, sidewalks, traffic signals, storm drains, and flood control channels. The Hesperia Water District (business-type activities) continues to maintain the water and sewer infrastructure which includes water storage tanks, water pumping equipment, water transmission lines, and sewer lines.

	Balance at June 30, 2016 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2017 Net of Accumulated Depreciation
Governmental Activities:					
Land	\$ 8,042,151	\$ 75,711	\$ -	\$ -	\$ 8,117,862
Water rights	36,413,793	-	-	-	36,413,793
Construction in progress	37,527,723	4,858,658	(5,863,096)	-	36,523,285
Land improvements	5,006,316	-	-	(148,642)	4,857,674
Vehicles	1,235,377	300,122	-	(290,510)	1,244,989
Buildings and improvements	49,037,673	425,837	-	(2,156,801)	47,306,709
Machinery and equipment	1,348,539	1,003,454	(14,662)	(336,152)	2,001,179
Infrastructure	76,242,975	5,496,698	-	(7,453,608)	74,286,065
	<u>\$ 214,854,547</u>	<u>\$ 12,160,480</u>	<u>\$ (5,877,758)</u>	<u>\$ (10,385,713)</u>	<u>\$ 210,751,556</u>
Business-type Activities:					
Land	\$ 3,173,877	\$ 191,498	\$ (3,440)	\$ -	\$ 3,361,935
Water rights	13,520,460	51,600	-	-	13,572,060
Land improvements	121,260	-	-	(19,117)	102,143
Vehicles	244,284	86,885	-	(46,692)	284,477
Buildings and improvements	559,682	701,702	(15,600)	(138,148)	1,107,636
Machinery and equipment	616,070	43,694	-	(165,331)	494,433
Infrastructure:					
Water facilities	68,129,658	2,472,415	(247,433)	(3,066,101)	67,288,539
Sewer facilities	3,076,537	-	-	(178,264)	2,898,273
Construction in progress	1,800,060	2,314,455	(2,268,676)	-	1,845,839
	<u>\$ 91,241,888</u>	<u>\$ 5,862,249</u>	<u>\$ (2,535,149)</u>	<u>\$ (3,613,653)</u>	<u>\$ 90,955,335</u>

DEBT ADMINISTRATION

Debt issued by the City of Hesperia and component governmental entities is not the responsibility of the Hesperia Water District (business-type activities); in like manner the debt

issued by the Hesperia Water District is not the responsibility of the City of Hesperia and its component governmental entities. Outstanding debt is presented within Table 4 on the following page. For more detailed information about debt, see note 5 Long-Term Debt.

Debt, considered a liability of government activities, decreased in FY 2016-17 by a net of \$0.8 million, which was fundamentally due to normal debt service during the year.

Business-type activities debt experienced a decline by a net amount of \$0.9 million in FY 2016-17. The decline is primarily due to the decrease from scheduled 1998 A&B Lease Revenue refunding Bond and 1992B Certificate of Participation payments.

Table 4
Outstanding Debt, at Year-end

	Principal Balance at June 30, 2016	Additions	Deductions	Principal Balance at June 30, 2017	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 37,140,000	\$ -	\$ (830,000)	\$ 36,310,000	\$ 875,000
Less deferred amounts:					
Bond premiums	98,954	-	(3,746)	95,208	-
Bond discounts	(274,548)	-	11,755	(262,793)	-
Compensated absences	476,208	510,423	(431,884)	554,747	551,538
Claims payable	875,877	21,050	(118,725)	778,202	200,000
	<u>\$ 38,316,491</u>	<u>\$ 531,473</u>	<u>\$ (1,372,600)</u>	<u>\$ 37,475,364</u>	<u>\$ 1,626,538</u>
Business-type Activities:					
Certificates of participation	\$ 615,000	\$ -	\$ (80,000)	\$ 535,000	\$ 90,000
Revenue bonds	9,545,000	-	(885,000)	8,660,000	920,000
Less: deferred amounts:					
Bond discounts	(69,604)	-	7,305	(62,299)	-
Compensated absences	177,446	183,209	(150,609)	210,046	201,644
Claims payable	538,998	70,222	(2,823)	606,397	100,000
	<u>\$ 10,806,840</u>	<u>\$ 253,431</u>	<u>\$ (1,111,127)</u>	<u>\$ 9,949,144</u>	<u>\$ 1,311,644</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the FY 2017-18 Budget, the estimated revenues budgeted of \$82.9 million are a 6.3% or \$4.9 million increase over the FY 2016-17 Budget of \$78.0 million. The increase can be primarily attributed to \$2.3 million in the City's DIF (Development Impact Fee) combined revenues, growth in sales and use tax revenues, gains in Streets related revenues, a gain in Water District revenues related to development activity.

The City Council opted to extend the Development Impact Fee (DIF) reduction period for an indefinite period during Fiscal Year 2016-17. This reduction is for 25% of the DIF which means that residential permits will not contribute to Fire, Police, and Public Services DIF along with a 73% reduction to the water capital DIF. This reduction is scheduled to end when a new rate study is approved and takes effect during Fiscal Year 2017-18.

The following is a discussion of budgeted expenditures for FY 2017-18:

Transportation: \$7.4 million is budgeted toward transportation projects for FY 2017-18, which includes:

- \$2.4 million is budgeted toward Ranchero Road related projects.
- \$0.4 million is designated to complete the FY 2016-17 Street Improvement Program, which paves and repairs approximately 10 miles of roads within the City.
- \$1.5 million is allotted for the FY 2017-18 Street Improvement Program, which is planned to pave and repair approximately 2 miles of roads within the City.
- \$0.4 million is earmarked for the 2017-18 CDBG Street Improvement Program, which includes construction of 26-foot wide asphalt concrete pavement within the middle of each street's existing right of way and adding a new layer of asphalt pavement.
- \$2.7 million is budgeted toward eight (7) other street projects for Fiscal Year 2017-18 including various street improvements, traffic signal synchronizations, and crossing improvements at the aqueduct.

Facilities: \$1.2 million is budgeted toward facilities projects for FY 2017-18, which includes:

- \$0.5 million is planned for the design and remodel of the Animal Control building.
- \$0.7 million is allocated toward the expansion of a Park and Ride facility.

Storm Drainage: \$1.2 million is allotted toward storm drainage projects for FY 2017-18, which includes:

- \$1.2 million is earmarked for retention basins at three separate streets.

General Fund: Budgeted expenditures for the General Fund are expected to remain relatively unchanged. There was a \$0.4 million increase to the police service contract and \$0.5 million carried forward from Fiscal Year 2016-17 for a Development Agreement related to the reimbursement of offsite improvements. These expenditures were offset by the completion of projects budgeted for during Fiscal Year 2016-17.

Police: It is expected that the cost for police service will increase by \$0.4 million, for a total of \$15.9 million during FY 2017-18. The \$0.4 million increase includes a \$0.2 million contract increase to maintain the same level of service and \$0.3 million for vehicle costs.

Fire: FY 2017-18 will see the proposed revenue budget in 2017-18 expected to increase 3% or \$0.3 million primarily due anticipated increases in Redevelopment (RDA) pass-through revenues, offset by FY 2017-18 budgeted expenditures, expected to be approximately \$0.6 million higher. This total is comprised mainly of a \$0.7 million increase in the contract for the fire and medical emergency response services provided by the County of San Bernardino Fire Department. There is no earmarked capital outlay during FY 2017-18. Any excess expenditures over revenues that do occur will be funded from District reserves.

Water: The District's overall revenue budget is anticipated to grow \$6.0 million or 27.9% from the Fiscal year 2016-17 Revised total of \$21.4 million primarily from receipts anticipated for the Proposition 84 Drought Grant (\$2.0 million), Proposition 1 Grant (\$2.7 million), and expected rise of \$0.7 million in water sales. The District's total expenses are expected to increase \$5.2 million from the \$30.8 million FY 2016-17 Budget basically because of the aforementioned additional \$2.5 million being allocated towards the Reclaimed Water Distribution Systems project, \$0.8 million for the purchase of an additional 181 acre-feet of base annual production (permanent) water rights at \$4,200 per acre-feet, and increases of \$0.6 million for water makeup leases, and the final 7% rate increase from the Victor Valley Wastewater Reclamation Authority increasing the Sewer Operating fund \$0.4 million.

As reflected in the FY 2017-18 Budget, the District's revenue for the water and sewer operating funds is expected to increase about \$0.6 million or 2.9% from the FY 2016-17 Revised of \$20.2 million. Water sales revenues are projected to increase \$1.5 million or 20.3% from the FY 2016-17 Budget due to growth in development and a continually improving local economy.

Water Operating expenses are estimated to rise by 10.6% or \$2.1 million from the Fiscal Year 2016-17 Budget of \$20.1 million. The reasons for this increase are primarily due to an additional \$2.5 million being allocated towards the Reclaimed Water Distribution Systems project, \$0.8 million for the purchase of an additional 181 acre-feet of base annual production (permanent) water rights at \$4,200 per acre-feet, increases of \$0.6 million for water makeup leases, and the final 7% rate increase from the Victor Valley Wastewater Reclamation Authority increasing the Sewer Operating fund \$0.4 million.

The District's revenue budgets for the water and sewer capital funds excluding the Proposition 84 Drought Grant and the Proposition 1 Grant are expected to increase to \$1.9 million from the FY 2016-17 Budget of \$0.5 million essentially a result of increased development activity requiring new meter installations and additional commercial construction connecting to sewer. Expenditures for Sewer Capital are expected to rise over \$0.5 million for sewer replacement and improvements. Water District expenses are expected to grow by 16.9% or \$5.2 million from the FY 2016-17 Budget of \$30.8 million.

On November 21, 2017, the Board of Directors for the Water District approved rate design changes and rate increases amounting to a 9% annual increase in total revenue for water service and a 6% annual revenue increase for sewer service beginning January 1, 2018 and on each December 1 thereafter until December 1, 2021.

Due to the September 2017 sale of the Eagle Plaza Facility, which served as security for two Water District debt issues, the District's 1992B Certificate of Participation (COPs) and the District's Variable Rate Lease Revenue Refunding Bonds Series 1998B Bonds were defeased using proceeds from the sale. The 1992B COPs were not subject to optional prepayment prior to their maturity, but were defeased in full when the District deposited funds with the trustee in an amount sufficient to pay off the COPs through maturity. The 1998B Bonds were redeemed in full, nearly five years earlier than the stated maturity.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



CITY OF HESPERIA

STATEMENT OF NET POSITION
June 30, 2017

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 27,473,382	\$ 6,142,570	\$ 33,615,952
Receivables			
Accounts	1,710,580	3,207,655	4,918,235
Accrued interest	46,692	13,593	60,285
Due from other governmental agencies	4,404,706	8,391	4,413,097
Land held for resale	31,744,375	-	31,744,375
Inventories	-	1,108,219	1,108,219
Deposits	-	3,315	3,315
Restricted assets:			
Cash and investments with fiscal agent	-	1,888,901	1,888,901
Cash held for bondholders	-	415,094	415,094
Cash held for bond reserves	2,605,920	-	2,605,920
Total Current Assets	67,985,655	12,787,738	80,773,393
Noncurrent Assets:			
Other Noncurrent Assets:			
Notes receivable	35,238,951	-	35,238,951
Allowance for notes receivable	(35,238,951)	-	(35,238,951)
Prepaid expenses	7,380	35,126	42,506
Deposits for self-insurance	905,517	503,562	1,409,079
Total Other Noncurrent Assets	912,897	538,688	1,451,585
Capital Assets:			
Not being depreciated:			
Land	8,117,862	3,361,935	11,479,797
Water rights	36,413,793	13,572,060	49,985,853
Construction in progress	36,523,285	1,845,839	38,369,124
Being depreciated:			
Land improvements	6,274,252	790,727	7,064,979
Buildings and improvements	57,836,345	7,453,300	65,289,645
Equipment and vehicles	16,245,881	8,043,027	24,288,908
Infrastructure	164,177,641	-	164,177,641
Water and sewer facilities	-	131,921,850	131,921,850
Less: Accumulated depreciation	(114,837,503)	(76,033,403)	(190,870,906)
Total Capital Assets	210,751,556	90,955,335	301,706,891
Total Noncurrent Assets	211,664,453	91,494,023	303,158,476
Total assets	279,650,108	104,281,761	383,931,869
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	-	657,039	657,039
Deferred asset from derivative instrument	-	989,146	989,146
Deferred pension outflows	5,819,987	1,517,589	7,337,576
Total deferred outflows of resources	5,819,987	3,163,774	8,983,761

See accompanying notes to financial statements.

CITY OF HESPERIA

LIABILITIES	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable and other current liabilities	\$ 2,457,675	\$ 3,073,596	\$ 5,531,271
Accrued interest payable	338,810	49,465	388,275
Deposits	18,100	594,458	612,558
Due to other governments	-	1,317,161	1,317,161
Current liabilities payable from restricted assets - due to bondholders	-	415,094	415,094
Liability from derivative instrument	-	989,146	989,146
Compensated absences	551,538	201,644	753,182
Claims payable	200,000	100,000	300,000
Long-term debt-due within one year	875,000	1,010,000	1,885,000
Total Current Liabilities	4,441,123	7,750,564	12,191,687
Noncurrent Liabilities:			
Net OPEB obligation	2,685,966	1,057,458	3,743,424
Unearned revenue	2,525,433	24,537	2,549,970
Compensated absences	3,209	8,402	11,611
Claims payable	578,202	506,397	1,084,599
Long-term debt-due in more than one year	35,267,415	8,122,702	43,390,117
Net pension liability	21,257,383	4,481,347	25,738,730
Total Noncurrent Liabilities	62,317,608	14,200,843	76,518,451
Total liabilities	66,758,731	21,951,407	88,710,138
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	985,939	298,467	1,284,406
Total deferred inflows of resources	985,939	298,467	1,284,406
NET POSITION			
Net investment in capital assets	174,609,141	82,779,673	257,388,814
Restricted for debt service	2,605,920	1,888,901	4,494,821
Unrestricted	40,510,364	527,087	41,037,451
Total net position	\$ 217,725,425	\$ 85,195,661	\$ 302,921,086

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 8,943,760	\$ 5,706,695	\$ 48,840	\$ 148,642
Public safety	27,464,389	3,605,671	1,362,084	140,000
Transportation	6,211,787	2,724	4,492,106	38,539
Development services	18,734,713	2,196,396	2,777,825	-
Interest on long-term debt	1,406,880	-	-	-
Total governmental activities	62,761,529	11,511,486	8,680,855	327,181
Business-type activities:				
Water	18,142,253	15,727,618	-	-
Sewer	3,315,505	3,679,006	-	213,722
Total business-type activities	21,457,758	19,406,624	-	213,722
Total primary government	\$ 84,219,287	\$ 30,918,110	\$ 8,680,855	\$ 540,903

General Revenues:

Taxes:

Property taxes

Sales and use tax

Transient occupancy tax

Franchise tax

Document transfer tax

Motor vehicle in lieu

Unrestricted investment earnings

Unrestricted system improvement and replacement

Other

Gain on disposal of capital assets

Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

See accompanying notes to financial statements.

CITY OF HESPERIA

Net (Expense)/Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,039,583)	\$ -	\$ (3,039,583)
(22,356,634)	-	(22,356,634)
(1,678,418)	-	(1,678,418)
(13,760,492)	-	(13,760,492)
(1,406,880)	-	(1,406,880)
(42,242,007)	-	(42,242,007)
-	(2,414,635)	(2,414,635)
-	577,223	577,223
-	(1,837,412)	(1,837,412)
(42,242,007)	(1,837,412)	(44,079,419)
7,657,562	357,298	8,014,860
10,390,005	-	10,390,005
1,101,101	-	1,101,101
3,231,198	-	3,231,198
269,704	-	269,704
7,417,786	-	7,417,786
2,274,695	59,224	2,333,919
-	1,321,835	1,321,835
133,435	462,646	596,081
-	43,725	43,725
32,475,486	2,244,728	34,720,214
(9,766,521)	407,316	(9,359,205)
227,491,946	84,788,345	312,280,291
\$ 217,725,425	\$ 85,195,661	\$ 302,921,086





CITY OF HESPERIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Fire District	Development Impact Fees- Streets
Assets and Deferred Outflows of Resources			
Assets			
Cash and cash equivalents	\$ 4,929,900	\$ -	\$ 2,372,248
Restricted investments	-	-	-
Accounts receivable	1,309,212	400,153	-
Prepaid items	-	7,380	-
Accrued interest	7,753	-	3,737
Notes receivable	-	-	-
Allowance for notes receivable	-	-	-
Due from other governmental agencies	1,436,816	104,472	-
Land held for resale	-	-	7,501,637
Due from other funds	595,968	-	-
Advance to other funds	1,520,637	-	-
Total Assets	9,800,286	512,005	9,877,622
Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 9,800,286	\$ 512,005	\$ 9,877,622
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable and other current liabilities	\$ 1,222,840	\$ 5,817	\$ 40,677
Deposits	6,000	-	-
Advances from other funds	-	-	-
Due to other funds	-	601,639	-
Total Liabilities	1,228,840	607,456	40,677
Deferred Inflows of Resources			
Unavailable revenues	600,341	3,595	-
Total Deferred Inflows of Resources	600,341	3,595	-
Fund Balances:			
Nonspendable:			
Prepaid items	-	7,380	-
Advances to other funds	1,520,637	-	-
Restricted:			
Debt Service	-	-	-
Transportation	-	-	9,836,945
Public safety	-	-	-
Grants	-	-	-
Economic development	-	-	-
Other purposes	-	-	-
Assigned:			
Self Insurance	150,000	-	-
Unassigned	6,300,468	(106,426)	-
Total Fund Balances	7,971,105	(99,046)	9,836,945
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,800,286	\$ 512,005	\$ 9,877,622

See accompanying notes to financial statements.

CITY OF HESPERIA

Hesperia Housing Authority	Community Development Commision	Other Governmental Funds	Total Governmental Funds
\$ 2,677,190	\$ -	\$ 17,494,044	\$ 27,473,382
-	-	2,605,920	2,605,920
-	-	1,215	1,710,580
-	-	-	7,380
4,931	-	30,271	46,692
21,876,374	278,144	13,084,433	35,238,951
(21,876,374)	(278,144)	(13,084,433)	(35,238,951)
-	25,471	2,837,947	4,404,706
11,468,003	12,102,122	672,613	31,744,375
-	-	601,639	1,197,607
-	-	-	1,520,637
14,150,124	12,127,593	24,243,649	70,711,279
-	-	-	-
\$ 14,150,124	\$ 12,127,593	\$ 24,243,649	\$ 70,711,279
\$ 7,691	\$ 4,805	\$ 1,175,845	\$ 2,457,675
1,000	10,000	1,100	18,100
-	-	1,520,637	1,520,637
-	375,270	220,698	1,197,607
8,691	390,075	2,918,280	5,194,019
-	-	-	603,936
-	-	-	603,936
-	-	-	7,380
-	-	-	1,520,637
-	-	2,722,207	2,722,207
-	-	7,945,026	17,781,971
-	-	7,150,570	7,150,570
-	-	355,389	355,389
14,141,433	11,737,518	1,886,782	27,765,733
-	-	2,822,390	2,822,390
-	-	-	150,000
-	-	(1,556,995)	4,637,047
14,141,433	11,737,518	21,325,369	64,913,324
\$ 14,150,124	\$ 12,127,593	\$ 24,243,649	\$ 70,711,279

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$ 64,913,324
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet.	210,751,556
Accrued interest on long-term debt is not due and payable in the current period, and, therefore, is not reported in the governmental funds balance sheet.	(338,810)
Revenues receivable from outside agencies are unavailable on the fund statements, but recognized on the government-wide statements.	598,503
The lease agreement between the City and the County only provides current financial resources to the governmental funds. These amounts are deferred and amortized in the statement of net position.	(2,520,000)
Deposits with insurance providers to pay for long-term liabilities are not current financial resources and, therefore, are not recorded on the governmental funds balance sheet.	905,517
The Net OPEB Obligation is not due and payable in the current period, and, therefore, is not reported in the governmental funds balance sheet.	(2,685,966)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported in the governmental funds balance sheet.	(37,475,364)
Net pension liability applicable to the City governmental activities is not due and payable in the current period and accordingly is not reported as a fund liability. Additionally, related deferred inflows and outflows of resources are not reported in the fund statements. Balances as of June 30, 2017 are as follows:	
Deferred outflow - pension contributions	\$ 5,819,987
Deferred inflow from pension	(985,939)
Net pension liability	(21,257,383)
Net position of governmental activities	(16,423,335) \$ 217,725,425

See accompanying notes to financial statements.



CITY OF HESPERIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General Fund	Fire District	Development Impact Fees- Streets
Revenues:			
Taxes	\$ 13,723,774	\$ 7,038,738	\$ -
Licenses and permits	202,800	-	-
Fines and forfeits	692,958	-	-
Use of money and property	31,203	46,740	9,047
Intergovernmental	9,414,116	-	-
Charges for services	2,325,288	3,050,502	1,777,451
Grants	71,487	29,964	-
Other revenues	2,463,136	-	-
Total Revenues	28,924,762	10,165,944	1,786,498
Expenditures:			
Current:			
General government:			
City council	950,517	-	-
City manager	2,367,625	-	-
Management services	3,707,727	-	-
Public safety-police	15,530,193	-	-
Public safety-fire	-	10,462,703	-
Development services	6,035,782	-	46,085
Debt service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital outlay:			
Land	-	-	10,247
Buildings and improvements	241,515	-	-
Equipment and vehicles	651,338	-	-
Infrastructure	505,667	-	59,732
Total Expenditures	29,990,364	10,462,703	116,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,065,602)	(296,759)	1,670,434
Other Financing Sources (Uses):			
Transfers in	216,271	-	-
Transfers out	(1,993,985)	-	-
Total Other Financing Sources (Uses)	(1,777,714)	-	-
Net Change in Fund Balances	(2,843,316)	(296,759)	1,670,434
Fund balances at beginning of year	10,814,421	197,713	8,166,511
Fund balances at end of year	\$ 7,971,105	\$ (99,046)	\$ 9,836,945

See accompanying notes to financial statements.

CITY OF HESPERIA

Hesperia Housing Authority	Community Development Commission	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 4,801,080	\$ 25,563,592
-	-	-	202,800
-	-	-	692,958
84,979	74,904	132,225	379,098
-	-	2,539,600	11,953,716
-	40,501	370,085	7,563,827
-	-	3,400,050	3,501,501
87,399	455	72,381	2,623,371
<u>172,378</u>	<u>115,860</u>	<u>11,315,421</u>	<u>52,480,863</u>
-	-	-	950,517
-	-	41,168	2,408,793
-	-	-	3,707,727
-	-	-	15,530,193
-	-	-	10,462,703
5,144,804	511,656	4,981,853	16,720,180
-	-	1,401,158	1,401,158
-	-	830,000	830,000
-	-	4,450	4,450
-	-	65,464	75,711
-	-	184,322	425,837
-	-	566,641	1,217,979
-	-	3,926,861	4,492,260
<u>5,144,804</u>	<u>511,656</u>	<u>12,001,917</u>	<u>58,227,508</u>
<u>(4,972,426)</u>	<u>(395,796)</u>	<u>(686,496)</u>	<u>(5,746,645)</u>
-	453,588	6,065,642	6,735,501
<u>(114,487)</u>	<u>-</u>	<u>(4,627,029)</u>	<u>(6,735,501)</u>
<u>(114,487)</u>	<u>453,588</u>	<u>1,438,613</u>	<u>-</u>
<u>(5,086,913)</u>	<u>57,792</u>	<u>752,117</u>	<u>(5,746,645)</u>
<u>19,228,346</u>	<u>11,679,726</u>	<u>20,573,252</u>	<u>70,659,969</u>
<u>\$ 14,141,433</u>	<u>\$ 11,737,518</u>	<u>\$ 21,325,369</u>	<u>\$ 64,913,324</u>

CITY OF HESPERIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds.		\$ (5,746,645)
Decrease in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.		70,549
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	\$ 6,211,787	
Depreciation expense	(10,385,713)	
Unrestricted capital contribution	<u>70,935</u>	(4,102,991)
Interest Expense is recognized when paid on the statement of revenues, expenditures, and changes in fund balances and recognized when incurred on the statement of activities.		6,737
Grant that was cancelled accounted for as deferred revenue on the fund statements but not recognized in the government-wide statements.		(111,457)
OPEB expense is recognized when paid in the statement of revenues, expenditures, and changes in fund balances and recognized when incurred in the statement of activities.		(402,518)
Administrative fines received after the availability period are recognized in the government-wide statements and unavailable in the fund statements.		304,450

(Continued)

See accompanying notes to financial statements.

CITY OF HESPERIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017 (Continued)

The revenue for the lease agreement between the City 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. (764,533)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments on long-term debt	\$ 830,000	
Amortization of premiums and discounts	(8,009)	
Changes to compensated absences	(78,539)	
Changes to claims payable	97,675	841,127

Change in net position of governmental activities		<u>\$ (9,766,521)</u>
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Proprietary Funds

Proprietary funds are represented by two fund types: Enterprise funds and Internal Service funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City Council is that the costs of providing goods or services to the general public, on a continuing basis, be financed or recovered primarily through user charges. Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and to other government units, on a cost reimbursement basis. The City does not have any Internal Service Funds at year ending June 30, 2017.

Individual Enterprise funds are as follows:

Water Operations and Capital - To account for the operation, maintenance, and system construction of the City's water operations, which is funded by user charges and other fees.

Sewer Operations and Capital - To account for the operation, maintenance, and system construction of the City's sewer system, which is funded by user charges and other fees.

HESPERIA WATER DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2017

	Water Operations & Capital	Sewer Operations & Capital	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 6,142,570	\$ 6,142,570
Receivables:			
Accounts	2,672,032	535,623	3,207,655
Accrued interest	3,708	9,885	13,593
Due from other governmental agencies	2,623	5,768	8,391
Deposits	-	3,315	3,315
Inventories	1,108,219	-	1,108,219
Due from other funds	-	8,392,481	8,392,481
Restricted Assets:			
Cash and investments with fiscal agent	1,888,901	-	1,888,901
Cash held for bondholders	415,094	-	415,094
Total Current Assets	<u>6,090,577</u>	<u>15,089,642</u>	<u>21,180,219</u>
Noncurrent Assets:			
Other Noncurrent Assets:			
Prepaid expenses	35,126	-	35,126
Deposits for self-insurance	458,325	45,237	503,562
Total Other Noncurrent Assets	<u>493,451</u>	<u>45,237</u>	<u>538,688</u>
Capital Assets:			
Land	1,557,398	1,804,537	3,361,935
Water rights	13,572,060	-	13,572,060
Construction in progress	1,413,079	432,760	1,845,839
Land improvements	790,727	-	790,727
Vehicles	2,393,084	214,005	2,607,089
Machinery and equipment	4,695,962	739,976	5,435,938
Buildings and improvements	7,453,300	-	7,453,300
Water and sewer facilities	124,784,442	7,137,408	131,921,850
Less: Accumulated depreciation	<u>(71,520,481)</u>	<u>(4,512,922)</u>	<u>(76,033,403)</u>
Total Capital Assets	<u>85,139,571</u>	<u>5,815,764</u>	<u>90,955,335</u>
Total Noncurrent Assets	<u>85,633,022</u>	<u>5,861,001</u>	<u>91,494,023</u>
Total Assets	<u>91,723,599</u>	<u>20,950,643</u>	<u>112,674,242</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	657,039	-	657,039
Deferred outflow from derivative instrument	989,146	-	989,146
Deferred pension outflows	1,419,780	97,809	1,517,589
Total Deferred Outflows of Resources	<u>3,065,965</u>	<u>97,809</u>	<u>3,163,774</u>

See accompanying notes to financial statements.

HESPERIA WATER DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2017 (Continued)

LIABILITIES	Water Operations & Capital	Sewer Operations & Capital	Total
Current Liabilities:			
Accounts payable	\$ 3,034,345	\$ 39,251	\$ 3,073,596
Accrued interest payable	49,465	-	49,465
Deposits	594,458	-	594,458
Due to other funds	8,392,481	-	8,392,481
Due to other governments	-	1,317,161	1,317,161
Current liabilities payable from restricted assets - due to bondholders	415,094	-	415,094
Liability from derivative instrument	989,146	-	989,146
Long term debt due within one year	1,275,925	28,413	1,304,338
Total Current Liabilities	<u>14,750,914</u>	<u>1,384,825</u>	<u>16,135,739</u>
Noncurrent Liabilities:			
Net OPEB obligation	1,057,458	-	1,057,458
Net pension liability	4,195,122	286,225	4,481,347
Unearned revenue	24,537	-	24,537
Compensated absences	7,218	1,184	8,402
Claims payable	452,103	54,294	506,397
Revenue bonds (net of unamortized discounts)	7,685,008	-	7,685,008
Certificates of participation	445,000	-	445,000
Total Noncurrent Liabilities	<u>13,866,446</u>	<u>341,703</u>	<u>14,208,149</u>
Total Liabilities	<u>28,617,360</u>	<u>1,726,528</u>	<u>30,343,888</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	281,119	17,348	298,467
Total Deferred Inflows of Resources	<u>281,119</u>	<u>17,348</u>	<u>298,467</u>
NET POSITION			
Investment in capital assets	75,349,830	5,815,764	81,165,594
Restricted for debt service	1,888,901	-	1,888,901
Unrestricted	(11,347,646)	13,488,812	2,141,166
Total Net Position	<u>\$ 65,891,085</u>	<u>\$ 19,304,576</u>	<u>\$ 85,195,661</u>

See accompanying notes to financial statements.

HESPERIA WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

	Water Operations & Capital	Sewer Operations & Capital	Total
OPERATING REVENUES			
Water sales	\$ 14,962,795	\$ -	\$ 14,962,795
Water services	678,891	-	678,891
Sewer services	-	3,679,006	3,679,006
Other	85,932	-	85,932
Total Operating Revenues	<u>15,727,618</u>	<u>3,679,006</u>	<u>19,406,624</u>
OPERATING EXPENSES			
General and administrative	3,576,850	-	3,576,850
Engineering	868,833	-	868,833
Production	5,740,711	-	5,740,711
Distribution	1,093,541	-	1,093,541
Wastewater collection	-	3,093,235	3,093,235
Customer service	2,582,109	-	2,582,109
Depreciation and amortization	3,406,983	222,270	3,629,253
Total Operating Expenses	<u>17,269,027</u>	<u>3,315,505</u>	<u>20,584,532</u>
OPERATING INCOME (LOSS)	<u>(1,541,409)</u>	<u>363,501</u>	<u>(1,177,908)</u>
NONOPERATING REVENUES (EXPENSES)			
Unrestricted system improvement and replacement	1,321,835	-	1,321,835
Property taxes	357,296	-	357,296
Property taxes - debt service	2	-	2
Rent income	462,646	-	462,646
Interest income	26,081	33,144	59,225
Interest expense	(873,227)	-	(873,227)
Gain on disposal of capital assets	43,725	-	43,725
Total Nonoperating Revenues (Expenses), Net	<u>1,338,358</u>	<u>33,144</u>	<u>1,371,502</u>
Income (Loss) Before Capital Contributions	<u>(203,051)</u>	<u>396,645</u>	<u>193,594</u>
CONTRIBUTED CAPITAL	-	213,722	213,722
Change In Net Position	<u>(203,051)</u>	<u>610,367</u>	<u>407,316</u>
Net position at beginning of year	<u>66,094,136</u>	<u>18,694,209</u>	<u>84,788,345</u>
Net position at end of year	<u><u>\$ 65,891,085</u></u>	<u><u>\$ 19,304,576</u></u>	<u><u>\$ 85,195,661</u></u>

See accompanying notes to financial statements.

HESPERIA WATER DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2017

	Water Operations & Capital	Sewer Operations & Capital	Total
Cash Flows from Operating Activities:			
Cash received from water and sewer customers	\$ 15,559,217	\$ 3,676,044	\$ 19,235,261
Cash received from other operating receipts	85,932	-	85,932
Cash payments for water purchases	(5,203,982)	-	(5,203,982)
Cash payments for sewer collection and maintenance	-	(1,994,245)	(1,994,245)
Cash payments for services and supplies	(1,087,756)	-	(1,087,756)
Cash payments to employees for services	(8,309,769)	15,094	(8,294,675)
Net Cash Provided by Operating Activities	1,043,642	1,696,893	2,740,535
Cash Flows from Noncapital and Related Financing Activities:			
Property taxes received	357,298	-	357,298
Cash received to/from other funds	985,432	(985,432)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	1,342,730	(985,432)	357,298
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(2,482,497)	(860,203)	(3,342,700)
Capital Contribution	-	213,722	213,722
Unrestricted system improvement and replacement receipts	1,321,835	-	1,321,835
Proceeds from sale of assets	43,725	-	43,725
Interest payments on long-term debt	(791,758)	-	(791,758)
Principal payments on long-term debt	(965,000)	-	(965,000)
Net Cash Used by Capital and Related Financing Activities	(2,873,695)	(646,481)	(3,520,176)
Cash Flows from Investing Activities:			
Rents received	462,646	-	462,646
Interest received	24,691	28,164	52,855
Net Cash Provided by Investing Activities	487,337	28,164	515,501
Net Increase (Decrease) in Cash and Cash Equivalents	14	93,144	93,158
Cash and cash equivalents at beginning of year	2,303,981	6,049,426	8,353,407
Cash and cash equivalents at end of year	<u>\$ 2,303,995</u>	<u>\$ 6,142,570</u>	<u>\$ 8,446,565</u>

(Continued)

See accompanying notes to financial statements.

HESPERIA WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	Water Operations & Capital	Sewer Operations & Capital	Total
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:			
Operating income (Loss)	\$ (1,541,409)	\$ 363,501	\$ (1,177,908)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3,406,983	222,270	3,629,253
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(82,469)	(2,962)	(85,431)
(Increase) decrease in deposits	(73,466)	(7,232)	(80,698)
(Increase) decrease in inventory	5,785	-	5,785
(Increase) decrease in prepaid expenses	101,132	-	101,132
(Increase) decrease in due from other governments	1,292	-	1,292
(Increase) decrease in deferred outflows on pension	(632,470)	(43,969)	(676,439)
Increase (decrease) in accounts and claims payable	435,597	(212,012)	223,585
Increase (decrease) in customer deposits	(24,977)	-	(24,977)
Increase (decrease) in due to other governments	(1,631,512)	1,317,161	(314,351)
Increase (decrease) in net OPEB obligation	179,982	-	179,982
Increase (decrease) in deferred revenue	18,052	-	18,052
Increase (decrease) in net pension liability	1,016,904	70,694	1,087,598
Increase (decrease) in compensated absences	31,527	1,073	32,600
Increase (decrease) in deferred inflows	(167,309)	(11,631)	(178,940)
Total Adjustments	2,585,051	1,333,392	3,918,443
Net Cash Provided (Used) by Operating Activities	\$ 1,043,642	\$ 1,696,893	\$ 2,740,535
Supplemental Disclosures:			
Noncash Capital and Financing Activities			
Amortization Related to Long-Term Debt	\$ 84,243		

See accompanying notes to financial statements.

Fiduciary Fund Types

Fiduciary Fund types include trust and agency funds and private-purpose trust funds. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

Individual Agency funds are as follows:

Special Deposits - To account for various deposits that are held by the City as collateral, guarantee of work to be done, or for code compliance. The monies in this fund are returned to the depositor upon completion of projects and/or fulfillment of purpose.

Assessment District 91-1 - To account for the Joshua/West Main Street Assessment District special taxes received and the payment of debt service related to bonds issued.

Community Facilities District 2005 - To account for the restructuring of the Community Facilities District #91-3 debt used to finance the infrastructure of the Belgate development.

Branch Library - To account for donations that are held by the City, to assist in the financing of the future expansion of the community library.

Summit Valley HCP - To account for deposits that are held by the City to offset the costs for establishing the Summit Valley Habitat Conservation Plan.

Plan Review Trust - To account for deposits that are held by the City to offset the costs incurred by large developer projects.

Individual Private-Purpose funds are as follows:

Successor Agency to the Former Hesperia Community Redevelopment Agency - To account for various deposits and debt obligations of the former Hesperia Community Redevelopment Agency that are now under the authority of the Oversight Board.

CITY OF HESPERIA

STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2017

	Total Agency Funds	Successor Agency To The Former Hesperia Community Redevelopment Agency Private Purpose Fund
ASSETS		
Current Assets:		
Cash and investments	\$ 3,459,532	\$ 8,649,998
Cash and investments with fiscal agent	1,454,104	13,034,212
Accounts receivable	1,203,386	-
Accrued interest	4,037	17,501
Notes receivable, net of allowance	-	1,121,108
Land held for resale	-	3,595,015
Total Current Assets	<u>6,121,059</u>	<u>26,417,834</u>
Noncurrent Assets:		
Capital Assets:		
Vehicles and equipment, net of depreciation	-	10,667
Total Noncurrent Assets	<u>-</u>	<u>10,667</u>
Total Assets	<u><u>\$ 6,121,059</u></u>	<u><u>26,428,501</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 107,642	-
Due to bondholders	3,156,613	-
Deposits payable	2,856,804	-
Accrued interest	-	2,408,922
Tax revenue bonds, current portion	-	4,530,000
Total Current Liabilities	<u>6,121,059</u>	<u>6,938,922</u>
Long -Term Liabilities:		
Tax revenue bonds, long-term portion	-	138,070,551
Total Long -Term Liabilities	<u>-</u>	<u>138,070,551</u>
Total Liabilities	<u><u>\$ 6,121,059</u></u>	<u><u>145,009,473</u></u>
NET POSITION		
Held in trust for private purpose		(118,580,972)
Total Net Position		<u><u>\$ (118,580,972)</u></u>

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2017

	Successor Agency To The Former Hesperia Community Redevelopment Agency Private Purpose Fund
Additions:	
Taxes	\$ 11,174,048
Investment and rental	75,630
Total Additions	<u>11,249,678</u>
Deductions:	
Development services	1,885
Interest and fiscal expense	7,265,453
Total Deductions	<u>7,267,338</u>
Change in Net Position	<u>3,982,340</u>
Total Net Position at Beginning of Period	<u>(122,563,312)</u>
Total Net Position at End of Year	<u><u>\$ (118,580,972)</u></u>

See accompanying notes to financial statements.



June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Hesperia (Hesperia) was incorporated on July 1, 1988, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city.

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

a. Description and Scope of the Reporting Entity:

As required by generally accepted accounting principles, these financial statements present the City of Hesperia and its component units (entities for which the City is considered to be financially accountable). The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body, and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent upon the City (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The following component units are controlled by common governing boards, which are substantively the same as the City's. In addition, these component units provide services or other benefits almost entirely to the City, and there is potential for these component units to impose financial burdens on the City. Therefore, these component units have been included in the reporting entity.

1. Hesperia Fire Protection District – Originally organized as a subsidiary District circa 1957 under San Bernardino County, and later, on July 1, 1988, became a subsidiary district of the City.
2. Hesperia Water District – Formed on March 28, 1975, and later on April 30, 1990, became a subsidiary district of the City.
3. Hesperia Public Facilities Corporation – Established as a separate legal entity on May 4, 1990, to provide financing for various projects of the Hesperia Water District.
4. Hesperia Public Financing Authority – Established as a separate legal entity in March 1993, to provide financing for various City capital projects.
5. Hesperia Housing Authority – On April 5, 2011, the City of Hesperia adopted Resolution No. 2011-022, establishing the Hesperia Housing Authority, pursuant to California Housing Authority Law, to carry out the future housing function which was relinquished from the former Hesperia Community Redevelopment Agency.
6. Community Development Commission – On April 5, 2011, the City adopted Resolution No. 2011-023 for the purpose of establishing a Community Development Commission (CDC) to transact business and exercise powers within the City, including economic development, redevelopment, housing, and community development.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

a. Description and Scope of the Reporting Entity (Continued):

7. Hesperia Joint Public Financing Authority – On October 2, 2012 the City of Hesperia and the Hesperia Water District adopted Resolution 2012-068 (City) and Resolution 2012-09 (Water) for the purpose of establishing the Hesperia Joint Public Financing Authority to provide assistance to the City with its financing programs.

Since the City Council serves as the governing board for these component units, all of the City's component units are considered to be blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations, and so data from these units are reported with the interfund data of the primary government. Only the Hesperia Fire Protection District, the Hesperia Water District, the Hesperia Housing Authority, and Community Development Commission issue separate component unit financial statements. Upon their completion, the financial statements of these component units can be obtained at City Hall. On April 5, 2011, the City Council authorized the creation of two 501(c)(3) charitable trusts (non-profit corporation). One non-profit corporation will support affordable housing, while the second non-profit corporation will support economic development. As of June 30, 2017, non-profit corporation to support economic development has not been legally formed.

b. Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government. 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 to a significant extent, rely on user fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses for given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures, or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Government-Wide and Fund Financial Statements (Continued):

In the government-wide financial statements and proprietary fund statements, net position is reported in three categories:

- Net 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 does not meet the definition of “net investment in capital assets” or “restricted net position”.

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:

- The nonspendable fund balance category 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. On the Governmental Funds Balance Sheet, the Other Purposes consist of the following:

Fund	Amount	Purpose
Neighborhood Stabilization Program (Other Governmental Funds)	\$2,697,131	Federal housing program
Environmental Programs (Other Governmental Funds)	125,259	Recycling efforts / illegal disposal
	<u>\$2,822,390</u>	

- The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment by adoption of a resolution. Resolutions designate that the City Administrator or designee is to carry out the action authorized by the resolution.
- The assigned fund balance category is intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. The City Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment through adoption of a resolution authorized by the Council. The Council may delegate to an employee or committee the ability to assign the use of specific funds for specific purposes by approving a resolution.
- Unassigned fund balance is the residual classification for the City's General 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 City 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 City uses the most restrictive funds first. The City would use the appropriate funds in the following order: nonspendable, restricted, committed, assigned, and unassigned amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement focus, basis of accounting, and financial statement presentation:

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. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. Private Purpose trust funds are reported using the economic resources measurement focus. The accounting objectives of the economic measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Proprietary fund equity is classified as net position.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. Revenues are recognized as soon as they are both measurable and available. Revenues considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. For revenues of the Gas Tax Fund, revenues are considered to be available if collected within 90 days of the end of the current fiscal period. For revenues of the Article 8 Fund, revenues are considered to be available if they are collected within 180 days of end of the current fiscal period. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting; however, debt service payments (principal and interest), unpaid vacation, compensatory time, and claims and judgments are recorded only when payment is due.

Property taxes, sales tax, transient occupancy tax, franchise taxes, vehicle license fees, highway users tax, interest associated with the current period, and some grants are all susceptible to accrual and have been recognized as revenue in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. The City reports the following major governmental funds:

The **General Fund** is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Fire District Special Revenue Fund** is used to account for revenues from special tax assessments and for expenditures relating to the City's fire prevention and protection.

The **Development Impact Fees – Streets Fund** is used to account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's streets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement focus, basis of accounting and financial statement presentation (Continued):

The **Hesperia Housing Authority Fund** is used to account for Low and Moderate Housing activity.

The **Community Development Commission Fund** is used to account for the development, management, and promotion of economic development.

The City reports the following major proprietary funds:

The **Water Operations and Capital Fund** is used to account for the operation and maintenance of the City's water operations which, is funded by user charges and other fees.

The **Sewer Operations and Capital Fund** is used to account for the operation and maintenance of the City's sewer systems, which is funded by user charges and other fees.

The City's fund structure also includes the following fund types:

The **Special Revenue Funds** are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

The **Debt Service Funds** are used to account for the accumulation of resources and the payment of general obligation bond principal and interest from governmental resources, and special assessment bond principal and interest from special assessment levies, when the government is obligated in some manner for the payment.

The **Capital Projects Funds** are used to account for financial resources used for the acquisition or construction of major capital facilities.

The **Fiduciary Funds** include private-purpose, trust and agency funds. The Private-purpose trust fund is used to account for the assets and liabilities of the former Redevelopment Agency. Trust and Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments, and/or other funds. Fiduciary statements, even though excluded from the government-wide financial statements, represent Trust and Agency Funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Agency Special Deposits Fund – This fund is used to account for various deposits that are held by the City as collateral, guarantee of work to be done, or for code compliance. The monies in this fund are returned to the depositor upon completion of projects and/or fulfillment of purpose.

Assessment District 91-1 Fund – This fund accounts for the Joshua/West Main Street assessment district special taxes received and the payment of debt service related to bonds issued.

Community Facilities District 2005-1 Fund – This fund accounts for the restructuring of the Community Facilities District 91-3 debt used to finance the infrastructure of the Belgate Development.

Summit Valley HCP Fund – This fund accounts for deposits held by the City to offset the costs for establishing the Summit Valley Habitat Conservation Plan.

Plan Review Fund – This fund accounts for deposits held by the City to offset the costs incurred by large developer projects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement focus, basis of accounting, and financial statement presentation (Continued):

The Successor Agency Private-Purpose Trust Fund – This fund holds assets and accumulates resources to pay enforceable obligations and administrative costs of the former Hesperia Community Redevelopment Agency after the date of dissolution.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this rule are the charges between the water operations fund and sewer operations fund and the other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the funds principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*New Accounting Pronouncements:*Current Year Standards:

- 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 City.
- GASB Statement No. 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016 and did not impact the City.
- GASB Statement No. 77 - "Tax Abatement Disclosures", the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 and did not impact the City.
- GASB Statement No. 78 - "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", effective for periods beginning after December 15, 2015 and did not impact the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement focus, basis of accounting, and financial statement presentation (Continued):

*New Accounting Pronouncements (Continued):*Current Year Standards (Continued):

- 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, and did not impact the City.
- GASB Statement No. 80 – "Blending Requirements for Certain Component Units", effective for periods beginning after June 30, 2016 and did not impact the City.

Pending Accounting Standards:

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

- 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. 81 – "Irrevocable Split-In Interest Agreements ", effective for periods beginning after December 15, 2016.
- GASB Statement No. 83 - "Certain Asset Retirement Obligations", effective for periods beginning after June 15, 2018.
- GASB Statement No. 84 - "Fiduciary Activities", effective for periods beginning after December 15, 2018.
- GASB Statement No. 85 - "Omnibus 2017", effective for periods beginning after June 15, 2017.
- GASB Statement No. 86 - "Certain Debt Extinguishment Issues", effective for periods beginning after June 15, 2017.
- GASB Statement No. 87 - "Leases ", effective for periods beginning after December 15, 2019.

d. Cash and Cash Equivalents:

For purposes of the statements of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Investments:

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings, changes in fair value, any gains or losses realized upon liquidation, maturity, or sale of investments. No significant differences between fair value and cost exist at June 30, 2017.

The City pools investments of all funds, except assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as investments. Investment income earned by the pooled investments is allocated to the various funds on a quarterly basis, based on each fund's average cash and investment balance.

f. Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Management estimates all receivables at June 30, 2017 to be collectible, as any receivables deemed uncollectible have been written off. The City's fiscal year end falls in the middle of a billing cycle for water and sewer. In order to accrue the amount of the year end receivables, the City estimates the amount of unbilled receivables based on that portion of the billing cycle that has elapsed as of the fiscal year end.

g. Inventory:

Inventories are valued at cost, which approximates market, in a first in first out basis. The inventory consists of meters, pipes, and other parts required providing water and wastewater services to customers.

h. Claims and Judgements:

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 City records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2017, in the opinion of the City's Attorney, the City had no material unrecorded claims that 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. Payments are typically paid from the General Fund, Fire District fund, and the Proprietary funds. The various amounts are based on information provided by the City's claims administrators.

i. Compensated Absences:

Vacation pay is payable to employees at the time used or upon termination of employment. In the government-wide financial statements (i.e. Statement of Net Position and Statement of Activities) the cost of vacation is recorded as a liability when incurred for both governmental and business-type activities. Compensated absences, once exercised, are paid out of the same fund, as they were originally accrued in including the following governmental funds: General Fund, Street Maintenance Fund, Community Development Block Grant Fund; and the following enterprise funds: Water Fund and Sewer Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

j. Interest Charges:

The City incurs interest charges on long-term debt. Interest expense for the year ended June 30, 2017 was \$2,280,107. In FY 2016-17, interest expense was \$1,406,880 for governmental transactions and \$873,227 for business-type postings. No amounts were capitalized as a cost of construction projects.

k. Capital Assets:

Capital assets, which include land, buildings, building improvements, infrastructure, and equipment are depreciated and are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. City policy has set the capitalization threshold for reporting capital assets at \$5,000 that have a useful life of more than one year.

Capital assets include additions to public domain (infrastructure), certain improvements including pavement, curb and gutter, sidewalks, traffic control devices, streetlights, storm drains, bridges, and right of way corridors within the City.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets 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. Construction in progress costs are capitalized and transferred to their respective fixed asset category upon completion of the project.

Depreciation is charged to operations using the straight-line method, based on the estimated useful life of an asset. Land and construction-in-progress are not depreciated:

Buildings	30-50 Years
Improvements	20 Years
Machinery and Equipment	5-30 Years
Vehicles	8-20 Years
Water and Sewer Facilities	40 Years
Infrastructure	20 Years

l. Long-Term Obligations:

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. 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. Long-term obligation payments are typically paid from the same fund as they originated, including Marks-Roos Revenue Bonds and City Debt Service.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Property Taxes:

Real property taxes are levied on October 15 against owners of record on 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. 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 year.

n. 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, 2016 and reported in fiscal year ending June 30, 2017. 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.

o. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Specifically, the City has made certain estimates and assumptions relating to the collectability of its receivables (including accounts receivable, loans receivable, and amounts due from other governments), the ultimate outcome of claims and judgments, estimated useful lives of capital assets for depreciation purposes, annual required contribution for the other post-employment benefit plan, annual pension costs, and related items including the pension liabilities for the defined benefit plans. Actual results could differ from those estimates and assumptions.

p. Restricted Assets:

The primary government reports assets that are restricted for customer deposits, contributions designated for specific purposes, and funds held in trust that are restricted for debt service payments.

q. Land Held for Resale:

Land held for resale is carried at the lower of cost or estimated realizable value.

r. 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 City has the following items that qualify for reporting in this category:

- Deferred Charges on Refunding - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

- Deferred Outflow from Derivative Investment - The deferred asset from derivative investment relates to the swap agreement between the Hesperia Water District and Bank of America, N.A.
- 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 Differences between Expected and Actual Experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred Outflow Related to Pensions for the Changes in Employer's Proportion and Differences between Employer Contributions and the Employer's Proportionate Share of Contributions – 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.
- Deferred Outflow Related to Pensions - For the difference in projected and actual earnings on investments of the pension plan, changes in assumptions and differences between the City's contributions and proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees provided with pensions through the plans, which is 3.8 years.

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 City has the following items that qualify for reporting in this category:

- Unavailable Revenue - This item arises only under a modified accrual basis of accounting. Accordingly, the item, *unavailable revenues*, is reported only in the governmental funds balance sheet.
- Deferred Inflow Related to Pensions - For the difference in projected and actual earnings on investments of the pension plan, difference between expected and actual experience, changes in assumptions, and differences between the City's contributions and proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees provided with pensions through the plans, which is 3.8 years.

2. 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's expense to the County for these services during the fiscal year ending June 30, 2017 was \$9,808,986. The County will also provide various administrative duties for the District, including billing and collecting of advanced life support and ambulance transportation fees. 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.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and investments at June 30, 2017 are classified in the accompanying financial statements as follows:

STATEMENT OF NET POSITION:

Current Assets:

Cash and cash equivalents	\$ 33,615,952
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Restricted assets:

Cash and investments with fiscal agent	1,888,901
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Cash held for bondholders	415,094
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Cash held for bond reserves	2,605,920
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STATEMENT OF NET POSITION - FIDUCIARY FUNDS:

Current Assets:

Cash and investments	12,109,530
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Cash and investments with fiscal agent	14,488,316
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Total cash and investments	<u>\$ 65,123,713</u>
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Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 15,855
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Deposits with financial institutions	12,468,446
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Investments	52,639,412
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Total cash and investments	<u>\$65,123,713</u>
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Investments Authorized by the California Government Code and the City of Hesperia's Investment Policy:

The table on the next page identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

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

Investments Authorized by the California Government Code and the City of Hesperia's Investment Policy (Continued):

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of *Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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%	10%
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None
Supranational Obligations	5 years	30%	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements:

Investments authorized for funds held by bond trustees include U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, Certificates of Deposits, Commercial Paper, Local Agency Bonds, Bankers' Acceptances, Money Market Mutual Funds, Repurchase Agreements, Investment Contracts, and any other investments permitted by bond insurer and are legal investments under State laws. There were no limitations on the maximum amount that can be invested in one issuer or maximum percentage allowed.

Disclosures Relating to Interest Rate Risk:

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

Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity.

		Remaining Maturity (in months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
State investment pool	\$ 35,536,321	\$ 35,536,321	\$ -	\$ -	\$ -
Held by fiscal agent:					
Money market funds	17,103,091	17,103,091	-	-	-
Total	<u>\$ 52,639,412</u>	<u>\$ 52,639,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year ended for each investment type.

Investment Type		Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
State investment pool	\$ 35,536,321	N/A	\$ -	\$ 35,536,321
Held by fiscal agent:				
Money market funds	17,103,091	AAA	17,103,091	-
Total	<u>\$ 52,639,412</u>		<u>\$ 17,103,091</u>	<u>\$ 35,536,321</u>

Concentration of Credit Risk:

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2017, there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pool) that represent 5% or more of the City'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 custodial credit for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental entities 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, \$11,798,449 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

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 financial statements at 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.

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

Credit Enhancement:

The City invested \$7,500,000 with Bank of the West in September 2013 to use for a letter of credit to provide additional security for the payment of debt service. This was done through a competitive process developed by the Finance Department. This credit enhancement was created to improve the credit rating on City debt, provide supplemental security for debt service, and meets the City's debt financing goals and objectives. \$7,568,264 was held June 30, 2017.

Fair Value Measurements:

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The City's investments in LAIF and money market mutual funds are not subject to the fair value hierarchy.

4. CAPITAL ASSETS:

Depreciation expense was allocated as follows for the year ended June 30, 2017:

Governmental activities:

General government	\$ 1,634,947
Public safety	503,939
Development services	<u>8,246,827</u>
Total depreciation expense - governmental activities	<u><u>\$ 10,385,713</u></u>

Business-type activities:

Water	\$ 3,391,383
Sewer	<u>222,270</u>
Total depreciation expense - business-type activities	<u><u>\$ 3,613,653</u></u>

4. CAPITAL ASSETS (Continued):

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Governmental activities:				
Capital Assets, not being depreciated:				
Land	\$ 8,042,151	\$ 75,711	\$ -	\$ 8,117,862
Water rights	36,413,793	-	-	36,413,793
Construction in progress	37,527,723	4,858,658	(5,863,096)	36,523,285
Total capital assets, not being depreciated	81,983,667	4,934,369	(5,863,096)	81,054,940
Capital Assets being depreciated:				
Land Improvements	6,274,252	-	-	6,274,252
Vehicles	8,720,577	300,122	-	9,020,699
Buildings and improvements	57,410,508	425,837	-	57,836,345
Machinery and equipment	6,236,390	1,003,454	(14,662)	7,225,182
Infrastructure	158,680,943	5,496,698	-	164,177,641
Total capital assets, being depreciated	237,322,670	7,226,111	(14,662)	244,534,119
Less accumulated depreciation for:				
Land improvements	(1,267,936)	(148,642)	-	(1,416,578)
Vehicles	(7,485,200)	(290,510)	-	(7,775,710)
Buildings and improvements	(8,372,835)	(2,156,801)	-	(10,529,636)
Machinery and equipment	(4,887,851)	(336,152)	-	(5,224,003)
Infrastructure	(82,437,968)	(7,453,608)	-	(89,891,576)
Total accumulated depreciation	(104,451,790)	(10,385,713)	-	(114,837,503)
Total capital assets, being depreciated, net	132,870,880	(3,159,602)	(14,662)	129,696,616
Governmental-type activities capital assets, net	\$ 214,854,547	\$ 1,774,767	\$ (5,877,758)	\$ 210,751,556

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,173,877	\$ 191,498	\$ (3,440)	\$ 3,361,935
Water rights	13,520,460	51,600	-	13,572,060
Construction in progress	1,800,060	2,314,455	(2,268,676)	1,845,839
Total capital assets, not being depreciated	18,494,397	2,557,553	(2,272,116)	18,779,834
Capital assets being depreciated:				
Land improvements	790,727	-	-	790,727
Vehicles	2,520,204	86,885	-	2,607,089
Machinery and equipment	4,734,236	701,702	-	5,435,938
Buildings and improvements	7,425,206	43,694	(15,600)	7,453,300
Water facilities	122,806,893	2,224,982	(247,433)	124,784,442
Sewer facilities	7,137,408	-	-	7,137,408
Total capital assets, being depreciated	145,414,674	3,057,263	(263,033)	148,208,904
Less accumulated depreciation for:				
Land improvements	(669,467)	(19,117)	-	(688,584)
Vehicles	(2,275,920)	(46,692)	-	(2,322,612)
Machinery and equipment	(4,118,166)	(138,148)	-	(4,256,314)
Buildings and improvements	(6,865,524)	(165,331)	-	(7,030,855)
Water facilities	(54,677,235)	(3,066,101)	247,433	(57,495,903)
Sewer facilities	(4,060,871)	(178,264)	-	(4,239,135)
Total accumulated depreciation	(72,667,183)	(3,613,653)	247,433	(76,033,403)
Total capital assets, being depreciated, net	72,747,491	(556,390)	(15,600)	72,175,501
Business-type activities capital assets, net	\$ 91,241,888	\$ 2,001,163	\$ (2,287,716)	\$ 90,955,335

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2017:

	Principal Balance at June 30, 2016	Additions	Deductions	Principal Balance at June 30, 2017	Due Within One Year
Governmental Activities:					
Revenue Bonds	\$ 37,140,000	\$ -	\$ (830,000)	\$ 36,310,000	\$ 875,000
Less deferred amounts:					
Bond premiums	98,954	-	(3,746)	95,208	-
Bond discounts	(274,548)	-	11,755	(262,793)	-
Total Revenue Bonds	36,964,406	-	(821,991)	36,142,415	875,000
Compensated absences	476,208	510,423	(431,884)	554,747	551,538
Claims payable	875,877	71,832	(169,507)	778,202	200,000
Total governmental activity	\$ 38,316,491	\$ 582,255	\$ (1,423,382)	\$ 37,475,364	\$ 1,626,538
Business-type activities:					
Revenue Bonds	\$ 9,545,000	\$ -	\$ (885,000)	\$ 8,660,000	\$ 920,000
Less deferred amounts:					
Bond discounts	(69,604)	-	7,306	(62,298)	-
Total Revenue Bonds	9,475,396	-	(877,694)	8,597,702	920,000
Certificates of Participation	615,000	-	(80,000)	535,000	90,000
Compensated absences	177,446	183,209	(150,609)	210,046	201,644
Claims payable	538,998	134,798	(67,399)	606,397	100,000
Total business-type activity	\$ 10,806,840	\$ 318,007	\$ (1,175,702)	\$ 9,949,145	\$ 1,311,644
Entity-wide total	\$ 49,123,331	\$ 900,262	\$ (2,599,084)	\$ 47,424,509	\$ 2,938,182

Governmental long-term debt June 30, 2017 is comprised of:

2012 Lease Revenue Bonds Water Rights Acquisition:

Balance at
June 30, 2017

On December 13, 2012, the Hesperia Joint Public Financing Authority (Authority) issued the 2012 Lease Revenue Bonds in the amount of \$26,735,000 to finance the acquisition of certain water rights. The issue initially bears interest at 0.500% to 3.625% fixed rate. The issue matures through the year 2042, with principal payments ranging from \$435,000 to \$1,400,000. A reserve fund for the 2012 Lease Revenue Bonds was established at \$1,452,131 to be equal to the least of: 1) 10% of the original principal amount of the bonds; 2) 125% of the average annual debt service on the bonds; or 3) the maximum annual debt service. Some of the tranches of the bonds were issued at a premium of \$112,377 and the remainder were issued at a discount of \$196,400 both of which are being netted against the bonds and amortized over the life of the bonds. At June 30, 2017, a total of \$1,454,304 was held in reserve. The 2012 Lease Revenue Bonds are secured by and paid from a lien on revenues, consisting primarily of rental payments made by the City to the Authority under a property lease between the Authority as lessor and the City as lessee beginning on December 1, 2012 and ending on October 1, 2042. The pledged rental payments equaled the debt service of \$1,439,375 during fiscal year ended June 30, 2017.

\$24,600,000

5. LONG-TERM DEBT (Continued):

Governmental long-term debt June 30, 2017 is comprised of (Continued):

	Balance at <u>June 30, 2017</u>
<u>2013 Refunding of the 2005 Variable Certificates of Participation:</u>	
On October 10, 2013, the Hesperia Joint Public Financing Authority issued the 2013 Refunding Lease Revenue Bonds in the amount of \$12,445,000 to refund the 2005 Civic Plaza Financing bonds in the amount of \$12,200,000, which resulted in a current refunding. The 2013 Refunding bonds were issued at a discount of \$114,570, which is being amortized over the life of the 2013 Refunding bonds. The issue bears interest at fixed rates ranging from 2.000% to 5.000%. The issue matures through the year 2035, with principal payments ranging from \$230,000 to \$1,095,000. The 2005 bonds were called on November 1, 2013. A reserve fund for the 2013 Refunding Lease Revenue Bonds was established to be equal to the least of: 1) 10% of the original principal amount of the bonds; 2) 125% of the average annual debt service payments; or 3) the maximum annual debt service payments assuming available rate of 0.35% on the outstanding certificates. The pledged rental payments equaled the debt service of \$782,150 during fiscal year ended June 30, 2017 and a total of \$1,151,470 was held in reserve at year-end.	11,710,000
Compensated absences	554,747
Claims payable	<u>778,202</u>
Subtotal Governmental Long-Term Debt	37,642,949
Less: Net deferred amounts on bonds	<u>(167,585)</u>
Total Governmental Long-Term Debt Before Current Portion	37,475,364
Less: Current Portion – Due Within One Year	<u>(1,626,538)</u>
Total Long-Term Portion of Governmental Debt	<u>\$35,848,826</u>

5. LONG-TERM DEBT (Continued):

The business-type long-term debt as of June 30, 2017 is as follows:

	Balance at June 30, 2017
<u>1992 B Certificates of Participation:</u>	
The District issued 30-year Certificates of Participation on June 1, 1992, for \$1,405,000 for the Administration Facilities Acquisition Project. The issue bears interest at a rate of 9% over its remaining life and matures through the year 2022, with principal payments ranging from \$20,000 to \$125,000. The Certificates will be financed by revenues generated by the District through set rates and charges for water and sewer services.	\$ 535,000
<u>1998A Variable Rate Lease Revenue Refunding Bonds:</u>	
The District issued 28-year variable rate lease revenue refunding bonds on July 2, 1998 for \$18,040,000 to refund a 1991, \$17,675,000 Certificate of Participation issue. The 1991 Certificate of participation is considered defeased; therefore, the issue is not included in the District's financial statements. The bonds require the District to collect gross revenues, as defined in the agreement, of at least 125% of the annual debt service of the bonds and any parity debt of the District. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998A issue has an initial interest rate of 5.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2026, ranging from \$435,000 to \$1,105,000. The 1998A bonds were issued at a discount of \$180,400, which is being amortized over the life of the 1998A Bonds. The difference between the reacquisition price and the net carrying value of the 1991 Certificate of Participation, \$1,906,482, has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense. In June 2004, the District entered into a variable-to-fixed-interest rate swap with Bank of America, N.A. The swap requires Bank of America, N.A. to pay the variable rate while fixing the District rate at 5.96%. The agreement provides up to \$10,000,000 which is fixed at 5.96%. The amount fixed with the counterparty decreases over time to \$6,910,000 at June 20, 2020. At June 30, 2017, the amount fixed was \$8,060,000.	8,060,000

5. LONG-TERM DEBT (Continued):

The business-type long-term debt as of June 30, 2017 is as follows (Continued):

	Balance at June 30, 2017
<u>1998B Variable Rate Lease Revenue Refunding Bonds:</u>	
The District issued 24-year variable rate lease revenue refunding bonds on July 2, 1998 for \$2,070,000 to refund a 1992, \$1,855,000 Certificate of Participation issue. The 1992A Certificate of Participation is considered defeased; therefore, the issue is not included in the District's financial statements. The bonds require the District to collect gross revenues, as defined in the agreement, of at least 125% of the annual debt service of the bonds and any parity debt of the District. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998B issue has an initial interest rate of 3.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2022, ranging from \$55,000 to \$130,000. The difference between the reacquisition price and the net carrying value of the 1992A Certificate of Participation, \$212,358, has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense.	600,000
Compensated absences	210,046
Claims payable	<u>606,397</u>
Subtotal Business-Type Long-Term Debt	10,011,443
Less: Bond Discounts	<u>(62,298)</u>
Total Business-Type Long-Term Debt Before Current Portion	9,949,145
Less: Current Portion – Due Within One Year	<u>(1,311,644)</u>
Total Long-Term Portion of Business-Type Debt	<u>\$ 8,637,501</u>

5. LONG-TERM DEBT (Continued):

The annual debt service requirements by year for Revenue Bonds are as follows:

Governmental				Business-Type			
Fiscal Year Ending	Principal	Interest	Total	Fiscal Year Ending	Principal	Interest	Total
2018	\$ 875,000	\$ 1,360,325	\$ 2,235,325	2018	\$ 920,000	\$ 107,530	\$ 1,027,530
2019	930,000	1,324,225	2,254,225	2019	955,000	96,162	1,051,162
2020	985,000	1,285,925	2,270,925	2020	995,000	84,363	1,079,363
2021	1,040,000	1,245,425	2,285,425	2021	955,000	72,069	1,027,069
2022	1,095,000	1,202,725	2,297,725	2022	995,000	60,282	1,055,282
2022-2026	6,380,000	5,299,868	11,679,868	2022-2026	3,840,000	122,500	3,962,500
2027-2031	8,180,000	4,095,288	12,275,288	2027-2031	-	-	-
2032-2036	9,130,000	2,390,484	11,520,484	2032-2036	-	-	-
2037-2041	6,295,000	840,548	7,135,548	2037-2041	-	-	-
2042-2043	1,400,000	25,375	1,425,375	2042-2043	-	-	-
	<u>\$36,310,000</u>	<u>\$ 19,070,188</u>	<u>\$ 55,380,188</u>		<u>\$ 8,660,000</u>	<u>\$ 542,906</u>	<u>\$ 9,202,906</u>

The 2012 Revenue Bonds are at a fixed rate.

Variable interest rate used for the 1998A Variable Rate Lease Revenue Refunding Bonds was 1.25%. However, this series has an interest rate swap agreement with the Bank of America, N.A. Please refer to Note 16 for the discussion of the swap agreement and the swap interest calculation.

Variable interest rate used for the 1998B Variable Rate Lease Revenue Refunding Bonds was 1.13%.

The annual debt service requirements by year for the Certificates of Participation are as follows:

Business-Type			
Fiscal Year Ending	Principal	Interest	Total
2018	\$ 90,000	\$ 48,150	\$ 138,150
2019	100,000	40,050	140,050
2020	105,000	31,050	136,050
2021	115,000	16,425	131,425
2022	125,000	16,425	141,425
	<u>\$ 535,000</u>	<u>\$ 152,100</u>	<u>\$ 687,100</u>

6. INTERFUND TRANSACTIONS:

a. Due From/Due To:

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of current interfund balances as of June 30, 2017. The interfund balances listed below represent the advancement of cash to cover operating expenses:

General Fund	\$ 595,968	Article 8	\$ 206,686
		Development Impact Fees - Streets	3,497
		Community Development Commission	375,270
		City Projects	10,515
Fire Capital	\$ 601,639	Fire Fund	601,639
Total due from other funds	<u>\$ 1,197,607</u>	Total due to other funds	<u>\$ 1,197,607</u>

Due to grant funds having to spend prior to submitting for reimbursement, the General Fund provided temporary cash advances, which will be reimbursed in the subsequent fiscal year, of \$3,497 from Development Impact Fees-Streets and \$10,515 from City Projects.

The General Funds provided temporary cash advances of \$206,686 to the Article 8 fund. This is due to grant funds having to spend prior to submitting for reimbursement from other government agencies. These will be repaid to the General Fund in the next fiscal period.

The receivable of \$601,639 in the Fire District from Fire Capital is temporary cash advances that will be repaid in the next fiscal period.

The Community Development Commission (CDC) had to borrow cash for \$375,270 as sales of land did not materialize in Fiscal Year 2016-17 but are anticipated to occur in FY 2017-18.

b. Current Interfund Transfers:

Transfers out	Amount	Transfers in	Amount
General Fund	\$ 1,439,780	2012 Water Rights Acquisition	\$ 1,439,780
Mark Roos Revenue Bonds	180,768	Gas Tax	32,719
		Gas Tax Swap	1,085
		Article 8	146,964
General Fund	100,617	2013 Refunding of Lease Revenue Bonds	789,150
Developer Impact Fees-Public Services	688,533		
Developer Impact Fees-Storm Drain	111,457	City Projects	111,457
General Fund	453,588	Community Development Commission	453,588
Hesperia Housing Authority	114,487	Community Development Block Grant	114,487
Disaster Preparedness Grant	76,271	General Fund	76,271
Measure I Renewal	170,000	Streets Maintenance	3,430,000
Gas Tax	1,630,000		
Gas Tax Swap	180,000		
Article 8	1,450,000		
AB 3229 State COPS Program	140,000	General Fund	140,000
Total transfers out	<u>\$ 6,735,501</u>	Total transfers in	<u>\$ 6,735,501</u>

6. INTERFUND TRANSACTIONS (Continued):

b. Current Interfund Transfers (Continued):

The transfer of \$1,439,780 between the General Fund and the 2012 Water Rights Acquisition fund was for debt service of the 2012 Water Rights Acquisition bonds.

The transfer of \$789,150 between the General Fund (\$100,617) and Development Impact Fees-Public Services fund (\$688,533) to the 2013 Refunding of Lease Revenue Bonds fund was for the debt service pertaining to the refunding of the 2005 Variable Rate Certificates of Participation.

The transfer of \$180,768 from the Mark Roos Revenue Bonds (\$180,768) to the Gas Tax fund (\$32,719), the Gas Tax Swap fund (\$1,085), and Article 8 fund (\$146,964) resulted from the closure of the Mark Roos Revenue fund. The funds were returned to the supplying funds in the same percentage they were initially provided.

The transfer of \$111,457 from Developer Impact Fees-Storm Drain to the City Projects fund was to close the fund as the FEMA grant that was to fund the project was cancelled.

The transfer of \$453,588 from the General Fund to the Community Development Commission for a retail site study and to assist with daily operations.

The transfer of \$114,487 from the Hesperia Housing Authority to the Community Development Block Grant fund was to zero out the fund at the end of the fiscal year, as all grants funds should experience equal revenues and expenditures.

The transfer of \$76,271 from the Disaster Preparedness Grant fund to the General Fund was to offset some of the costs associated with the City's Emergency Services Coordinator, which was budgeted in the General Fund within the City Manager department.

The transfer of \$3,430,000 is funded by the Measure I Renewal fund (\$170,000), Gas Tax fund (\$1,630,000), Gas Tax Swap fund (\$180,000), and Article 8 (\$1,450,000) to the Streets Maintenance fund was for local street maintenance costs.

The transfer of \$140,000 between the AB 3229 State COPS Program fund and the General Fund was to offset some of the cost for 1.5 Deputy Sheriffs.

c. Committed Loan Interfund Transfers:

The 2013 Refunding of the 2005 Variable Certificates of Participation requires that the Development Impact Fees – Public Services Fund (DIF – Public Services) contribute 87.25% of the annual debt service, with the remaining 12.75% coming from the General Fund. To meet this requirement, the General Fund loaned \$688,533 to the DIF – Public Services fund during the fiscal year ending on June 30, 2017. This loan is ongoing until there is sufficient funding in the DIF – Public Services fund. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2017 had a rate of 0.92%. Through June 30, 2017, the DIF – Public Services fund has paid \$12,454 of interest to the General Fund. The total June 30, 2017 is \$1,520,637.

7. FUND DISCLOSURES

Due to the timing of grant reimbursements, the Community Development Block Grant fund has a year ending deficit of \$89,747, which will be eliminated during FY 2017-18. The City Projects fund has a deficit of \$8,205 at year-end from a project that will be reimbursed when completed. Development Impact Fees – Public Services has a year ending negative fund balance of \$1,459,453, which will be corrected by future developer impact fee revenue. The Fire District has a deficit of \$99,046 and is responsible for the District's operations. The Local Agency Formation Commission (LAFCO) is currently beginning the proceedings of San Bernardino County reorganizing the District through annexation giving full control to County Fire.

7. FUND DISCLOSURES (Continued):

<u>Individual Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
General Fund			
City Council	\$754,835	\$950,517	(\$195,682)

General Fund City Council expenditures exceeded appropriations primarily due to legal services within the City Attorney division.

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM:

a. General Information about the Pension Plans:

Plan Descriptions:

The City's employees participate in the Miscellaneous and Safety Risk Pool Plans of CalPERS. The Plans are 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, 2016 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2015 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 and the City 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, 2015 actuarial valuation report and 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.

The City had a total of 168 active employees in the miscellaneous plans as of the 06/30/2016 measurement date. The City has no safety members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

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.

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Benefits Provided (Continued):

The City has two retirement formulas for the miscellaneous members as defined by the California Public Employees' Pension Reform Act of 2013 (PEPRA): formula 2.7% at 55 ("Classic" members) and formula 2.0% at 62 ("PEPRA" members). The required employer contribution into the plan for the fiscal year ended June 30, 2017 was 11.634% for the Classic members and 6.555% for the PEPRA members. Employees' required contribution into the plan was 8% for the Classic and 6.25% for the PEPRA members. 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:

At June 30, 2017, the City reported a liability of \$25,738,730 for its proportionate share of the miscellaneous and safety net pension liability, which was measured as of June 30, 2016 (the measurement date). This total is comprised of \$13,359,519 for the City, \$7,897,864 for the Fire District, and \$4,481,347 for the Water District. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the total pension liability as of June 30, 2013. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At the June 30, 2016 measurement date, the City's proportion of net pension liability was 0.30%.

For the fiscal year ended June 30, 2017, the City recognized pension expense of \$3,320,751 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Combined		City		Fire		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 44,416	\$ (16,371)	\$ 29,633	\$ 9,689	\$ -	\$ (22,673)	\$ 14,783	\$ (3,387)
Changes of Assumptions	-	(726,842)	-	(482,604)	-	(104,372)	-	(139,866)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	3,753,711	-	2,511,795	-	513,961	-	727,955	-
Change in Employer's Proportion	1,193,819	(113,748)	732,979	12,825	146,849	(113,441)	313,991	(13,132)
Differences between District Contributions and Proportionate Share of Contributions	21,631	(427,445)	18,944	348,236	-	(633,599)	2,687	(142,082)
District Contributions Subsequent to the Measurement Date	2,323,999	-	1,501,636	-	364,190	-	458,173	-
Total	\$ 7,337,576	\$ (1,284,406)	\$ 4,794,987	\$ (111,854)	\$ 1,025,000	\$ (874,085)	\$ 1,517,589	\$ (298,467)

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

\$2,323,999 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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 Year Ended June 30:	Deferred Outflows/(Inflows) of Resources	City	Fire	Water
		Miscellaneous	Miscellaneous & Safety	Miscellaneous
2018	\$ 624,212	797,795	(299,723)	126,140
2019	546,907	639,501	(220,313)	127,719
2020	1,585,147	1,093,616	172,990	318,541
2021	972,905	650,585	133,771	188,549
2022	-	-	-	-
Thereafter	-	-	-	-

A summary of the City and all its component units' Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources is as follows:

	Net Pension Liability	Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Hesperia	\$13,359,519	\$ (1,298,616)	\$ 4,794,987	\$ (111,854)
Fire District	7,897,864	(1,331,744)	1,025,000	(874,085)
Water District	4,481,347	(690,391)	1,517,589	(298,467)
Total	<u>\$25,738,730</u>	<u>\$ (3,320,751)</u>	<u>\$ 7,337,576</u>	<u>\$ (1,284,406)</u>

The following is a breakdown of the net pension liability by function:

City Manager	\$ 2,137,790
Management Services	2,538,042
Total General Government	<u>4,675,832</u>
Public Safety	
Hesperia Fire District	7,897,864
Total Public Safety	<u>7,897,864</u>
Development Services	
Economic Development	781,532
Community Development	2,257,759
Code Compliance	2,344,595
Public Works - General Fund	781,532
Public Works - Streets Maintenance	2,518,269
Total Development Services	<u>8,683,687</u>
Business-Type Activities (Hesperia Water District)	
Water Operations	4,190,059
Sewer Operations	291,288
Total Business-Type Activities	<u>4,481,347</u>
Total Pension Liability	<u>\$25,738,730</u>

8. 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:

At June 30, 2017, total pension liabilities were based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
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

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, 2015 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.

Change of Assumptions:

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate:

The discount rate used to measure the total pension liability was 7.65 percent for each Plan. 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 of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Discount Rate (Continued):

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds, 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 short term and long term returns, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter one percent.

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.

	Assumed Asset Allocation	Real Return Years 1-10¹	Real Return Years 11+²
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	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	1.00%	-0.55%	-1.05%

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Sensitivity of the City's, Fire District, and Water District Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the component proportionate share of 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%)
Proportionate Share of Net Pension Liability			
City	\$ 19,805,057	\$ 13,359,519	\$ 8,032,603
Fire	\$ 11,773,788	\$ 7,897,864	\$ 4,715,700
Water	\$ 7,040,333	\$ 4,481,347	\$ 2,366,472
Total	\$ 38,619,178	\$ 25,738,730	\$ 15,114,775

8. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Pension Plan Fiduciary Net Position:

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Subsequent Events:

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will result in an increase to employer's total pension liabilities.

- c. Payables to the Pension Plan:

At June 30, 2017, the City had no outstanding contributions payable to the pension plan.

9. OTHER POST-EMPLOYMENT BENEFITS:

Plan Description:

The City pays the minimum health premium contribution, as established by the California Government Code 22892 of the Public Employees' Medical and Hospital Care Act (PEMHCA), for the participating active employees. The minimum health premium contribution for 2016 was \$125 a month in post-employment health care benefits for each retiree until age 65. The City's defined benefit post-employment healthcare plan, (DHP), provides medical benefits to eligible retired City employees and beneficiaries. The Hesperia Water District and the Hesperia Fire Protection District are included in the City of Hesperia's DHP as all one plan. DHP 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. The DHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City 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.

Funding Policy:

The contribution requirements of plan members and the City are established and may be amended by the City Council. The DHP members receiving benefits contribute based on their selected plan options. The City makes all contributions of the plan members.

Annual OPEB Cost and Net OPEB Obligation:

The City'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 (currently 5.0% of the annual covered payroll) that, if paid on an ongoing basis, is projected to cover normal annual costs. Unfunded actuarial liability (or funding excess) is amortized over no more than thirty years.

The table on the following page shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

9. OTHER POST-EMPLOYMENT BENEFITS (Continued):

Annual OPEB Cost and Net OPEB Obligation (continued):

Annual Required Contribution (ARC)	\$ 670,800
Interest on net OPEB asset	118,800
Adjustment to Annual Required Contribution (ARC)	<u>(161,100)</u>
Annual OPEB cost (expense)	628,500
Contributions made	<u>(46,000)</u>
Increase in net OPEB obligation	582,500
Net OPEB obligation - beginning of year	3,160,924
Net OPEB obligation - end of year	<u><u>\$3,743,424</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2017, 2016, and 2015 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 628,500	6.9%	\$ 3,743,424
6/30/2016	522,000	8.8%	3,160,924
6/30/2015	491,000	5.7%	2,684,924

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2016, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 4,811,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>4,811,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Members)	<u>9,832,000</u>
UAAL as a Percentage of Covered Payroll	48.9%

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.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between 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.

9. OTHER POST-EMPLOYMENT BENEFITS (Continued):

Actuarial Methods and Assumptions (Continued):

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

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	22 Years as of the Valuation Date
Asset Valuation method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	3.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	2.75%
PEMHCA Minimum Growth	4.25%
Individual Salary Growth	CalPERS 1997-2007 Experience Study

10. SELF-INSURANCE RISK POOL:

The City and Fire Protection District are members of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 32 California cities and districts, for the purpose of pooling the City's risk for workers' compensation 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, and Workers' Compensation premiums are paid quarterly. Estimated premiums for claims to be paid and a reserve are advanced upon joining PERMA. Each year PERMA adjusts its premiums based on City payroll figures, claims paid, and claims incurred but not reported. PERMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. The City receives audited financial statements of PERMA each year that have been audited by other auditors.

Workers' Compensation and Employers' Liability:

The City is self-insured for the first \$250,000 of each Workers' Compensation and Employers Liability claim, and PERMA will assume each claim's liability between \$250,000 and \$500,000. Excess liability insurance coverage is obtained from the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) by PERMA on behalf of the City. LAWCX will assume each claims liability between \$500,000 and \$5,000,000 for employer's liability and Statutory for each workers' compensation claim.

General Liability:

The City is self-insured for General Liability including errors and omissions and auto liability up to the first \$50,000 for each occurrence, and the difference between the City's \$50,000 self-insurance retention and \$1,000,000 is covered by PERMA. Excess liability insurance coverage is obtained from CSAC Excess Insurance Authority (CSAC-EIA) by PERMA on behalf of the City. CSAC-EIA will assume each claim liability between \$1,000,000 and \$50,000,000.

10. SELF-INSURANCE RISK POOL (Continued):

Employment Practices:

The City is self-insured for Employment Practices up to the first \$25,000 for each occurrence, and the difference between the City's \$50,000 self-insurance retention and \$1,000,000 is covered by Employment Risk Management Authority (ERMA). Excess insurance coverage is obtained from CSAC Excess Insurance Authority (CSAC-EIA) by PERMA on behalf of the City.

Property:

The City is self-insured for the first \$5,000 for each occurrence (with the exception of \$100,000 flood), and the difference between the City's self-insurance retention and the lesser of \$100,000,000 (\$2,500,000 Flood) or the insurable value is covered by Lexington Insurance Co.

Auto Physical Damage:

The City is self-insured for the first \$2,500 for each occurrence for all vehicles and \$10,000 on all fire trucks valued over \$200,000, and the difference between the City's \$2,500 (\$10,000 for fire trucks) self-insurance retention and the lesser of \$100,000 or the insurable value is covered by AIG/Lexington Insurance Co.

Special Events:

The City is insured up to \$1,000,000 for each occurrence covered by Alliant Insurance Services, Inc.

Cyber Liability:

The City is self-insured up to \$50,000 for each occurrence for information security and privacy liability, privacy notification costs, regulatory defense and penalties, website media content liability, cyber extortion, first party data protection and business interruption losses and the difference between the City's \$50,000 self-insurance retention and the lesser of \$2,000,000 (\$250,000 for privacy notification costs) is covered by PERMA as insured by Alliant Insurance Services, Inc.

Other:

The City is self-insured for Employee Dishonesty, Forgery & Alteration, Theft, Disappearance, Destruction, Robbery & Safe Burglary, Money Orders and Counterfeit Paper Currency up to the first \$2,500 for each occurrence, and the difference between the City's self-insurance retention and \$1,000,000 for is covered by National Union Fire Insurance Company.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. 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.

10. SELF-INSURANCE RISK POOL (Continued):

Other (Continued):

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

	Year Ended June 30, 2016	Year Ended June 30, 2017
Unpaid Claims, Beginning of Fiscal Year	\$ 1,222,525	\$ 1,414,875
Incurred Claims	634,153	206,630
Claim Payments	(441,803)	(236,906)
Unpaid Claims, End of Fiscal Year	<u>\$ 1,414,875</u>	<u>\$ 1,384,599</u>

The Unpaid claims of \$1,384,599 above are a component of long-term debt (Note 5). It is anticipated that \$300,000 will be due within one year.

11. PARTICIPATION IN JOINT VENTURES:

Victor Valley Wastewater Reclamation Authority:

The City is a member of the Victor Valley Wastewater Reclamation Authority (VWRA), a joint powers agreement between local governments and special districts, for the purpose of construction, operation, and maintenance of sewer collection, transmission, and treatment facilities within the high desert region. The governing body of VWRA is made up of representatives from each significant participant in VWRA. Budgeting and financing are the responsibility of VWRA. The audited financial statements of VWRA can be obtained by request from P.O. Box 1481, Victorville, California 92393.

Victor Valley Transit Authority:

The City is a member of the Victor Valley Transit Authority (VVTa), a joint powers agreement between local governments and the County of San Bernardino, for the purpose of implementing a public transit system to serve the Victor Valley and to provide connecting services to all other areas. The governing body of VVTa is made up of representatives from each significant participant in VVTa. Budgeting and financing are the responsibility of VVTa. The City has agreed to sell monthly bus passes issued by VVTa and to remit, between the first and tenth day of each month, the previous month's sales receipts, and proceeds. The audited financial statements of VVTa can be obtained by request from P.O. Box 5001, Victorville, California 92393.

Victor Valley Economic Development Authority:

The City is a member of the Victor Valley Economic Development Authority (VVEDA), a joint powers authority along with the City of Victorville, Town of Apple Valley, City of Adelanto and the County of San Bernardino. Its purpose was to coordinate the transition of George Air Force Base from military to civilian use.

Effective February 1, 2012, the Victor Valley Economic Development Authority (VVEDA) was dissolved, pursuant to ABx1 26 & AB 1484, and "wind down" procedures were implemented. A Successor Agency was designated to oversee the wind down process and an Oversight Board was appointed to govern the Successor Agency. The City receives its pass-through payment, generated from the VVEDA Project Area within the City, directly from the San Bernardino County Auditor Controller. The audited financial statements of VVEDA can be obtained by request from 18374 Phantom Street, Victorville, California 92394.

12. SPECIAL ASSESSMENT BONDS WITHOUT GOVERNMENT COMMITMENT:

Community Facilities District (CFD 2005-1):

On December 18, 2014, the Community Facilities District No. 2005-1 (Belgate Development Restructuring) issued the Special Tax Refunding Bonds, Series 2014 for \$18,450,000. The bonds were issued for the purpose of refunding the private Special Tax Bond Series A. The bonds are secured by and payable solely from the proceeds of special taxes levied annually on the taxable property in the District. The bonds are not secured by a legal or equitable pledge of or charge, lien, or encumbrance upon any of the property or revenues of the City, and the payment of the interest on or principal of or redemption premiums, if any, on the District Bonds, is not a general debt, liability or obligation of the City. The bonds carry an average coupon rate of 4.606%, with maturities through 2035 ranging from \$350,000 to \$2,025,000. The bonds require a reserve fund be established equal to the least of: i) 10% of the principal amount of the original bonds; ii) 125% of average annual debt service of the bonds, or iii) 85% maximum annual debt service of the bonds. At June 30, 2017, the reserve funds equal \$1,431,253. At June 30, 2017 principal amounts due on the bonds is \$17,225,000.

For the bond issuance noted above, the City is not obligated in any manner for the payment of debt service in the event of default by the property owners, but is only acting as agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. Accordingly, no liability for these bonds has been recorded in the financial statements.

13. CONTINGENCIES:

Litigation:

The City is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from these actions will not result in a material adverse effect on the City's financial position.

Grant Audit Contingencies:

Under the terms of federal and state grants, periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Construction Commitments:

The City has entered into contracts for the engineering and construction of additions to capital assets as follows:

Total Open Contracts	\$23,942,708
Less: costs incurred in 2016-17	(5,207,933)
Remaining Contractual Obligations	<u>\$18,734,775</u>

13. CONTINGENCIES (Continued):

On April 3, 2012, the City Council approved entering into a cooperative loan agreement with the San Bernardino Associated Governments (SANBAG) for funding the construction of the Ranchero Road / I-15 interchange. Since then, SANBAG was reorganized and is now San Bernardino County Transportation Authority (SBCTA). After the project was accepted by SBCTA for use by the public, in FY 2014-15, the City would be responsible to begin repaying the loan over a ten-year period, with the first payment being due two years after SBCTA acceptance. The loan is to be repaid to SBCTA from the City's Development Impact Fees (DIF)-Streets fund. If the DIF-Streets fund does not have sufficient funds, the loan agreement states that SBCTA will withhold the funds due from the City's Measure I – Renewal funds. As of June 30, 2017, the current City obligation is \$18,762,403 with interest accruing from the project acceptance date at the Local Agency Investment Fund (LAIF) rate in equal principal payments over a ten-year period. The lender will send borrower an invoice for the annual payment by January 31 of each year beginning in January 31, 2019, not later than March 15, 2019, and each year thereafter.

On December 13, 2016, the California State Controller's Office (SCO) released an audit report of the City of Hesperia's *Special Gas Tax Street Improvement Fund* covering the period of FY 2005-06 through FY 2013-14. The report identified three findings, the largest of which indicated that \$3,820,462 in Gas Tax Transfers that were made from FY 2005-06 through FY 2013-14 for debt service payments on the 2004 Variable Rate Demand Revenue Bonds (1993 Street Improvement Project Refinancing), referred to as the "1993 Streets Bonds". The report indicated the reason for the finding was the SCO's contention that there isn't a provision in the Streets and Highways Code for debt service payments. This was never a SCO audit finding in prior SCO Gas Tax audits.

There were two additional findings; one for \$968,502 that is the direct result of a funding adjustment required by the FY 2005-06 Measure I audit, and one for \$62,589 related to the former Traffic Congestion Relief fund. While the City does not concur with the finding that was the result of another auditor, the State representative suggested a fix to the smaller findings that we can reasonably accommodate. The City of Hesperia intends to vigorously contest the results of the SCO audit.

On November 1, 2016, the Board of Directors of the Fire District approved Resolution Number HFPD 2015-14 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.

14. LEASE AGREEMENT:

During the fiscal year ended June 30, 2010, the Hesperia Fire Protection 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 the 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 reported as deferred 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, and 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, 2017, the remaining balance of the unearned revenue is \$2,520,000.

15. NOTES RECEIVABLE:

Notes receivable, totaling \$35,238,951 at June 30, 2017, consists of loans provided for low and moderate-income housing, with interest of 1% and 3% and maturity of 55 years; a non-housing note with interest of 6.7% and maturity of 7 years; a non-housing land payment note with interest of 5.505% and maturity of 10 years; and a forgivable low-moderate income job creating five year \$150,000 maximum loan. Due to the terms of the notes, an offsetting allowance for notes receivable of \$35,238,951 has been established.

Notes receivable at June 30, 2017 include the following:

	June 30, 2016	Additions	Deductions	June 30, 2017
KDF VAH I, L.P.	\$ 6,768,175	\$ 72,020	\$ (34,170)	\$ 6,806,025
KDF Hesperia, L.P.	6,058,480	126,832	-	6,185,312
KDF Hesperia II, L.P.	7,249,658	145,102	-	7,394,760
PDDC San Remo I Hesperia, L.P.	4,208,686	39,558	-	4,248,244
PDDC San Remo II Hesperia, L.P.	6,361,888	61,050	(108,722)	6,314,216
Sultan Financial Hesperia, LLC	278,185	-	(41)	278,144
Verma Petroleum, INC.	128,363	11,620	(34,857)	105,126
Eagle Hesperia 55, L.P.	-	3,907,124	-	3,907,124
Totals	<u>\$ 31,053,435</u>	<u>\$ 4,363,306</u>	<u>\$ (177,790)</u>	<u>\$ 35,238,951</u>

a. KDF VAH I, L.P.:

In July, 2006, the former Redevelopment Agency entered into an Owner Participation Agreement (OPA) with KDF VAH I, L.P., (a California limited partnership) for the development, construction and operation of a 68-unit apartment complex of which certain units shall be available to very low-income tenants, low-income tenants, and moderate income tenants. Under the terms of the OPA, the City and Hesperia Community Redevelopment Agency (HCRA) loaned \$6,334,000 of its HOME grant and low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. There are three loans for terms of not more than fifty-five years: (1) a \$2.9 million loan bearing an interest rate of one percent (1%); (2) a \$3.0 million bearing an interest rate of one percent (1%); and (3) a \$0.4 million loan bearing an interest rate of three percent (3%). The agreements are secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Interest on the notes through June 30, 2017 is \$644,999 and payments received on the note through June 30, 2017 are \$172,975. The balance of the loans outstanding at June 30, 2017 was \$6,806,025.

15. NOTES RECEIVABLE (Continued):

b. KDF Hesperia, L.P.:

In December 2005, the former Redevelopment Agency entered into an Owner Participation Agreement (OPA) with KDF Hesperia, L.P. (a California limited partnership) for the development, construction and operation of a 110-unit apartment complex of which certain units shall be available to very low-income tenants, low-income tenants, and moderate income tenants. Under the terms of the OPA, the City and Hesperia Community Redevelopment income tenants. Under the terms of the OPA, the City and Hesperia Community Redevelopment Agency (HCRA) loaned \$4,662,500 of its HOME grant and low and moderate income housing funds toward the actual cost for the development, construction and operation of the project. There are two loans for terms of not more than fifty-five years: (1) a \$1.3 million loan bearing an interest rate of one percent (1%), and (2) a \$3.4 million loan bearing an interest rate of three percent (3%). Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of \$398,589 to assist with converting the construction loan to a permanent loan. The agreements are secured by a deed of trust on the property. Accrued interest on the notes through June 30, 2017 is \$1,124,223. The balance of the loans outstanding at June 30, 2017 was \$6,185,312.

c. KDF Hesperia II, L.P.:

In March 2006, the former Redevelopment Agency entered into an Owner Participation Agreement (OPA) with KDF Hesperia II, L.P., (a California limited partnership) for the development, construction and operation of a 72-unit apartment complex of which certain units shall be available to very low-income tenants, low-income tenants, and moderate income tenants. Under the terms of the OPA, the City and Hesperia Community Redevelopment Agency (HCRA) loaned \$5,900,000 of its HOME grant and low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. There are two loans for terms of not more than fifty-five years: (1) a \$2.0 million loan bearing an interest rate of one percent (1%), and (2) a \$3.9 million bearing an interest rate of three percent (3%). Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of \$270,070 to assist with converting the construction loan to a permanent loan. The agreements are secured by a deed of trust on the property. Accrued interest on the notes through June 30, 2017 is \$1,224,689. The balance of the loans outstanding at June 30, 2017 was \$7,394,760.

d. PDDC San Remo Hesperia, L.P.:

In November 2007, the former Redevelopment Agency entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, and a California limited partnership) for the development, construction, and operation of a 65-unit apartment complex of which certain units shall be available to very low-income tenants and low-income tenants. Under the terms of the OPA, the Agency loaned \$3,955,711 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years, and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2017 is \$326,697 and payments received on the note through June 30, 2017 are \$34,164. The balance of the loan outstanding at June 30, 2017 was \$4,248,244.

15. NOTES RECEIVABLE (Continued):

e. PDDC San Remo II Hesperia, L.P.:

On October 5, 2010, the former Redevelopment Agency entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, and a California limited partnership) for the development, construction, and operation of a 58-unit apartment complex of which certain units shall be available to very low-income and low-income tenants. Under terms of the OPA, the Agency loaned \$6,613,620 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2017 is \$425,408 and payments received on the note through June 30, 2017 are \$724,812. The balance of the loan outstanding at June 30, 2017 was \$6,314,216.

f. Sultan Financial Hesperia, LLC.:

In October 2014, the Commission entered into a loan agreement with Sultan Financial Hesperia, LLC. (a California limited liability corporation). This agreement constitutes the sale of land sold by the Commission to Sultan Financial Hesperia, LLC for a loan amount of \$270,000. The agreement is secured by a deed of trust on the property. The term of the note is 10 years at a permanent interest rate of 5.505%. Sultan Financial Hesperia, LLC. will make annual payments of interest only at the end of each of the first nine (9) years. At the end of the tenth (10th) year, Sultan Financial Hesperia, LLC. will make a payment of the outstanding principal and remaining accrued interest, unless there is an occurrence of an Event of Acceleration. The balance of the loan outstanding at June 30, 2017 was \$278,144.

g. Verma Petroleum, Inc.:

In July, 2015, the City approved a forgivable loan agreement with Verma Petroleum, Inc. for an amount not to exceed \$150,000 for the design and development of a 6,385 square foot fuel and convenience store with ancillary retail space of an additional 3,485 square feet located at the northeast corner of Main and Cottonwood, funded through US Department of Housing and Urban Development (HUD) CDBG Section 108 funds. The loan created five (5) full-time jobs and the City has purchased a five-year Operating Covenant through providing this forgivable loan. The balance of this loan at June 30, 2017 was \$105,126.

h. Eagle Hesperia 55, L.P.:

On February 16, 2016, the former HCRA entered into an OPA with Eagle Hesperia 55 L.P. (a California limited partnership) for the development, construction, and operation of a 96-unit apartment complex of which certain units shall be available to low income senior citizens. Under the terms of the OPA, the Authority loaned \$3,831,975 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of fifty-five years, with the option of extending the term up to twenty-five years; the option must be exercised between the fifty-third year and fifty-fourth year. The loan shall bear interest at a rate of two percent (2%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2017 is \$75,149. The balance of the loan outstanding at June 30, 2017 was \$3,907,124. Any unpaid balance is due and payable at the maturity date.

16. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENT:

The Hesperia Water District executed an interest rate swap agreement on June 1, 2005, with swap provider Bank of America, N.A (counterparty) in connection with the issuance of the \$18,040,000 Variable Rate Lease Revenue Refunding Bonds, Taxable Series 1998A (Federally Taxable). The Swap Agreement is a 15-year swap agreement scheduled to terminate on June 1, 2020. The swap establishes a fixed interest rate of 5.96%.

Details on the swap agreement are as follows:

Notional Amount	Interest Rate	Issue	Date	Date
\$ 8,560,000	5.96%	Bank of America	6/1/2020	6/1/2005

Terms:

Under the swap agreement, the Water District will make a monthly interest payment at the fixed rate of 5.96%. The Water District will receive a variable rate interest payment for those variable interest rates in excess of the 5.96% cap and makes a payment if the variable rate is less than 5.96%. The rate is adjusted weekly, every Wednesday, at the 1-Month USD-LIBOR-BBA rate. The swap is for a total notional amount of \$10,000,000 and will terminate on June 1, 2020.

Summary of Activities in Cash Flow Hedging Derivative Instrument:

Notional Amount	Fair Value At June 30, 2016	Change In Fair Value	Fair Value At June 30, 2017
\$ 8,560,000	\$ (1,685,374)	\$ 696,228	\$ (989,146)

Objective:

As of June 30, 2017, the negative fair value of \$989,146 is reported as a deferred outflow of resources in the Statement of Net Position. In previous years, prior to the implementation of GASB 63, the fair value of the derivative instrument was reported as a deferred asset from derivative instrument in the Statement of Net Position.

Credit Risk:

As of June 30, 2017, the Water District was exposed to credit risk because the swap had a negative fair value; however, should interest rates change and the fair value of the swap becomes positive, the Water District would not be exposed to credit risk in the amount of the derivative's fair value.

The swaps counterparty, Bank of America N.A., have the following credit ratings:

	Standards & Poor	Moody's
Bank of America N.A.	A	A1

Basis Risk:

The swaps do expose the Water District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payments to be made on the debt. The Water District pays the counterparty a fixed interest rate of 5.96% and receives a variable rate in excess of the 5.96% cap, based on the 1-month UDS-LIBOR-BBA. The Water District is at risk that the variable interest rate calculated on the debt is less than the 5.96%.

16. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENT (Continued):

Termination Risk:

The swaps may be terminated by the Water District or the counterparty if the other party fails to perform under the terms of the swap agreements. In addition, the Water District has the option to terminate the swaps upon proper notification to the counterparty. If the swaps are terminated, the Water District would prospectively pay the variable rates on the portion of the outstanding bonds related to the swap agreements. The termination of the swap agreements could therefore increase the Water District's total debt service. Also, if at the time of the termination, the swaps have a negative fair value, the Water District would be liable to the counterparty for a payment equal to such negative fair value. As of June 30, 2017, the swap had a negative fair value of \$1,511,496.

Swap Payments and Associated Debt:

Using a fixed rate of 5.96% related to a swap agreement for \$10,000,000, which has a remaining balance of \$8,560,000, of the \$18,040,000 Variable Rate Lease Revenue Refunding Bonds, Taxable Series 1998A, as of June 30, 2017, debt service requirements of the Bonds and the swap payments through the swap termination date of June 1, 2020, assuming a current variable interest rate of 1.38% are as follows. As rates vary, the variable rate interest payments and net swap payments will vary.

Year Ending June 30,	Variable Rate Debt			Interest Rate Swap, Net	Fixed Interest Debt Service
	Outstanding Swap Balance	SWAP Reduction	Interest		
2018	7,750,000	(810,000)	116,785	389,424	506,208
2019	6,910,000	(840,000)	105,613	352,172	457,786
2020	-	(6,910,000)	10,781	367,205	377,986

17. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 28, 2011, Assembly Bills x1 26 (the Dissolution Act) and x1 27 was enacted as part of the fiscal year 2011-12 state budget package which dissolved Redevelopment.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

On September 22, 2015, as part of the fiscal year 2015-16 state budget package, the Legislature passed and the Governor signed SB 107, which made technical and substantive amendments to the existing Dissolution Act.

Under the Dissolution Act, each California redevelopment agency (each Dissolved RDA) was dissolved as of February 1, 2012, and the sponsoring community that formed the Dissolved RDA, together with other designated entities, have initiated the process under the Dissolution Act to unwind the affairs of the Dissolved RDA. A Successor Agency was created for each Dissolved RDA which is the sponsoring community of the Dissolved RDA unless it elected not to serve as the Successor Agency. On February 1, 2012, the City became the Successor Agency of the former redevelopment agency by operation of law in accordance with the Bill.

The Dissolution Act also created oversight boards which monitor the activities of the successor agencies. The roles of the successor agencies and oversight boards is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets) and remitting the unencumbered balances of the Dissolved RDAs to the County Auditor-Controller for distribution to the affected taxing entities.

17. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (Continued):

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The City elected on April 5, 2011 to serve as the Housing Successor Agency.

As of the date of dissolution, the housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Housing Authority Special Revenue Fund in the financial statements of the City. All other assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The Dissolution Act and AB 1484 also establish roles for the County Auditor-Controller (the CAC), the California Department of Finance (the DOF) and the California State Controller's office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

In the current and future fiscal years, the Successor Agency will only be allocated revenue from the County of Orange in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the Dissolved RDA until all enforceable obligations of the Dissolved RDA have been paid in full and all assets have been liquidated.

18. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY:

Cash and investments reported in the accompanying Successor Agency of the Former RDA financial statements consisted of the following:

	<u>June 30, 2017</u>
Cash and cash equivalents	\$ 21,684,210
Total cash and investments	<u>\$ 21,684,210</u>

ASSETS

Notes Receivable:

The Hesperia Recreation and Park District (HRPD) initially borrowed \$2,160,245 for half the construction costs of the Civic Park Plaza. Through June 30, 2017, the amount owed to has been reduced by \$1,039,137 to \$1,121,108.

Land Held For Resale:

Value of land appraised at \$3,595,015 during Fiscal Year 2016-17 described in additional detail within note 19.

Accrued Interest Receivable:

Accrued fiscal agent and LAIF interest totaling \$17,501 at June 30, 2017.

18. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY (Continued):

LIABILITIES

Accrued Interest Payable:

Accrued interest payments on debt totaled \$2,408,922 at June 30, 2017.

Long-term liabilities from the Redevelopment Agency to the Successor Agency (a Private Purpose Trust Fund) as of February 1, 2012, as a result of the dissolution, along with a description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2017, follows:

2005 TAX ALLOCATION BONDS SERIES A & SERIES B

During the fiscal year ending June 30, 2005, the Hesperia Public Financing Authority issued, on behalf of the HCRA, \$49,285,000 Tax Allocation Bonds, Series A and B to refund the Senior Revenue Bonds, Series A, B, and C, repay loans, and provide funds for redevelopment project activity. The refunding of the Senior Revenue Bonds resulted in an economic gain of \$4,602,700 and a reduction of \$1,184,022 in future debt service payments. Series A consists of term current interest bonds and accrue interest at annual rates ranging from 3.0% to 5.0%. Interest and principal is payable on September 1st of each year, with bond principal payments ranging in amounts from \$785,000 to \$2,415,000. A reserve fund for the 2005 Tax Allocation Revenue Bonds was established to be equal to the least of ten percent (10%) of the aggregate original issue price of the respective Series of Bonds, one hundred twenty-five percent (125%) of the average annual debt service on the respective Series of Bonds for that and every subsequent bond year, or the maximum annual debt service on the respective bonds.

Series B was paid in Fiscal Year 2015-16. Remaining principal payments plus premiums totals \$31,480,214 for Series A with a current principal portion amounting to \$1,000,000. Principal, interest, and premiums less discounts amounted to \$2,526,000 during Fiscal Year 2016-17 and \$30,281,393 paid through June 30, 2017.

2005 Tax Allocation Bonds Series A			
Fiscal Year			
Ending	Principal	Interest	Total
2018	\$ 1,000,000	\$ 1,478,680	\$ 2,478,680
2019	1,050,000	1,427,430	2,477,430
2020	1,105,000	1,373,555	2,478,555
2021	1,160,000	1,316,930	2,476,930
2022	1,220,000	1,257,430	2,477,430
2023-2027	7,090,000	5,286,770	12,376,770
2028-2032	9,005,000	3,381,865	12,386,865
2033-2036	8,980,000	926,000	9,906,000
	<u>\$ 30,610,000</u>	<u>\$ 16,448,660</u>	<u>\$ 47,058,660</u>

18. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY
(Continued):

2007 TAX ALLOCATION BONDS SERIES A & SERIES B

During the fiscal year ending June 30, 2008, the Hesperia Public Financing Authority issued, on behalf of the HCRA, \$154,320,000 Tax Allocation Bonds, Series A and B to provide funds for redevelopment project activity. During the fiscal year ending June 30, 2011, \$25,110,000 of Series A bonds were called, resulting in a corresponding principal reduction. Series A bonds consist of term current interest bonds and accrue interest at annual rates ranging from 5.0% to 5.5%. Interest and principal is payable on September 1st of each year, with bond principal payments ranging from \$125,000 to \$8,885,000. The Series B bonds consist of term current interest bonds and accrue interest at 5.864%. Interest is payable on March 1st and September 1st of each fiscal year, with bond principal payments ranging in amounts from \$960,000 to \$1,965,000. The remaining principal payments plus premiums less discounts equal \$111,120,337 with the current combined principal portion totaling \$3,530,000. Future interest payments total \$67,784,389.

2007 Tax Allocation Bonds Series A			
Fiscal Year			
Ending	Principal	Interest	Total
2018	\$ 2,090,000	\$ 5,295,800	\$ 7,385,800
2019	2,200,000	5,180,638	7,380,638
2020	2,315,000	5,062,237	7,377,237
2021	2,440,000	4,937,525	7,377,525
2022	3,110,000	4,792,625	7,902,625
2023-2027	22,385,000	20,725,742	43,110,742
2028-2032	27,885,000	13,950,326	41,835,326
2033-2037	31,895,000	6,578,676	38,473,676
2038	8,885,000	223,625	9,108,625
	<u>\$ 103,205,000</u>	<u>\$ 66,747,194</u>	<u>\$ 169,952,194</u>

2007 Tax Allocation Bonds Series B			
Fiscal Year			
Ending	Principal	Interest	Total
2018	\$ 1,440,000	\$ 387,317	\$ 1,827,317
2019	1,525,000	300,383	1,825,383
2020	1,615,000	208,319	1,823,319
2021	1,710,000	110,830	1,820,830
2022	1,035,000	30,346	1,065,346
	<u>\$ 7,325,000</u>	<u>\$ 1,037,195</u>	<u>\$ 8,362,195</u>

19. SUBSEQUENT EVENTS:

In the upcoming Fiscal Year, the Community Development Commission's (CDC's) budgeted expenditures are expected to exceed the budgeted revenues. Due to the insufficient revenue generated by the Commission's operations, a contribution of \$428,682 from the City of Hesperia's General Fund is anticipated to fund the ongoing operations for FY 2017-18. This contribution to the Commission creates concern of the Commission's ability to generate adequate revenue to fund the continuing activities within the Commission. An assessment of the long-term function of the Commission will be undertaken during FY 2017-18.

The sale of Eagle Plaza was finalized September 21, 2017. It was previously used as collateral for the 1992B and 1998B bond issuances. This collateral is now being switched to infrastructure and the bond issuances are being defeased with the Bank of New York.

Other events occurring after June 30, 2017 have been evaluated for possible adjustments to the financial statements or disclosure as of December 20, 2017, which is the date these financial statements were available to be issued.

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	<u>\$ 10,814,421</u>	<u>\$ 10,814,421</u>	<u>\$ 10,814,421</u>	<u>\$ -</u>
Resources (Inflows):				
Taxes	13,997,544	13,997,544	13,723,774	(273,770)
Licenses and permits	258,729	258,729	202,800	(55,929)
Fines and forfeitures	613,220	613,220	692,958	79,738
Use of money and property	22,039	22,039	31,203	9,164
Intergovernmental	9,464,026	9,464,026	9,414,116	(49,910)
Charges for services	1,766,618	1,766,618	2,325,288	558,670
Grants	130,113	130,113	71,487	(58,626)
Other revenues	2,431,814	2,431,814	2,463,136	31,322
Transfers from other funds	140,000	140,000	216,271	76,271
Amount Available for Appropriations	<u>28,824,103</u>	<u>28,824,103</u>	<u>29,141,033</u>	<u>316,930</u>
Charges to Appropriations (Outflows):				
Current:				
General government:				
City council	735,835	754,835	950,517	(195,682)
City manager	2,496,813	2,519,723	2,367,625	152,098
Management services	4,034,575	4,034,575	3,707,727	326,848
Public safety - police	15,082,280	15,626,715	15,530,193	96,522
Development services	5,969,964	6,149,706	6,035,782	113,924
Transfers to other funds	2,646,018	2,689,113	1,993,985	695,128
Capital Outlay:				
Land	224,200	40,634	-	40,634
Buildings and improvements	-	242,700	241,515	1,185
Equipment and vehicles	796,342	819,180	651,338	167,842
Infrastructure	535,500	598,066	505,667	92,399
Total Charges to Appropriations	<u>32,521,527</u>	<u>33,475,247</u>	<u>31,984,349</u>	<u>1,490,898</u>
Excess of Resources Over (Under) Charges To Appropriations	<u>(3,697,424)</u>	<u>(4,651,144)</u>	<u>(2,843,316)</u>	<u>1,807,828</u>
Fund Balance, June 30	<u>\$ 7,116,997</u>	<u>\$ 6,163,277</u>	<u>\$ 7,971,105</u>	<u>\$ 1,807,828</u>

BUDGETARY COMPARISON SCHEDULE
FIRE DISTRICT SPECIAL REVENUE FUND
For the year ended June 30, 2017

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	\$ 197,713	\$ 197,713	\$ 197,713	\$ -
Resources (Inflows):				
Taxes	6,983,929	6,983,929	7,038,738	54,809
Use of money and property	42,970	42,970	46,740	3,770
Charges for services	3,561,034	3,561,034	3,050,502	(510,532)
Grants	-	-	29,964	29,964
Amount Available for Appropriations	10,587,933	10,587,933	10,165,944	(421,989)
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	10,433,516	10,462,703	10,462,703	-
Total Charges to Appropriations	10,433,516	10,462,703	10,462,703	-
Excess of Resources Over (Under) Charges To Appropriations	154,417	125,230	(296,759)	(421,989)
Fund Balance, June 30	\$ 352,130	\$ 322,943	\$ (99,046)	\$ (421,989)

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES-STREETS
For the year ended June 30, 2017

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	<u>\$ 8,166,511</u>	<u>\$ 8,166,511</u>	<u>\$ 8,166,511</u>	<u>\$ -</u>
Resources (Inflows):				
Use of money and property	501	501	9,047	8,546
Charges for services	<u>1,652,285</u>	<u>1,652,285</u>	<u>1,777,451</u>	<u>125,166</u>
Amount Available for Appropriations	<u>1,652,786</u>	<u>1,652,786</u>	<u>1,786,498</u>	<u>133,712</u>
Charges to Appropriations (Outflows):				
Current:				
General government:				
Development services	110,000	110,000	46,085	63,915
Capital outlay:				
Land	-	-	10,247	(10,247)
Infrastructure	<u>550,000</u>	<u>550,000</u>	<u>59,732</u>	<u>490,268</u>
Total Charges to Appropriations	<u>660,000</u>	<u>660,000</u>	<u>116,064</u>	<u>543,936</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>992,786</u>	<u>992,786</u>	<u>1,670,434</u>	<u>677,648</u>
Fund Balance, June 30	<u><u>\$ 9,159,297</u></u>	<u><u>\$ 9,159,297</u></u>	<u><u>\$ 9,836,945</u></u>	<u><u>\$ 677,648</u></u>

BUDGETARY COMPARISON SCHEDULE
HESPERIA HOUSING AUTHORITY SPECIAL REVENUE FUND
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	<u>\$ 19,228,346</u>	<u>\$ 19,228,346</u>	<u>\$ 19,228,346</u>	<u>\$ -</u>
Resources (Inflows):				
Use of money and property	74,000	74,000	84,979	10,979
Other revenues	87,139	87,139	87,399	260
Proceeds from sale of capital asset	17,000	17,000	-	(17,000)
Amount Available for Appropriations	<u>178,139</u>	<u>178,139</u>	<u>172,378</u>	<u>(5,761)</u>
Charges to Appropriations (Outflows):				
Current:				
Development services	4,478,820	5,144,804	5,144,804	-
Transfers to other funds	-	114,487	114,487	-
Total Charges to Appropriations	<u>4,478,820</u>	<u>5,259,291</u>	<u>5,259,291</u>	<u>-</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>(4,300,681)</u>	<u>(5,081,152)</u>	<u>(5,086,913)</u>	<u>(5,761)</u>
Fund Balance, June 30	<u><u>\$ 14,927,665</u></u>	<u><u>\$ 14,147,194</u></u>	<u><u>\$ 14,141,433</u></u>	<u><u>\$ (5,761)</u></u>

BUDGETARY COMPARISON SCHEDULE
 COMMUNITY DEVELOPMENT COMMISSION SPECIAL REVENUE FUND
 For the year ended June 30, 2017

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	<u>\$ 11,679,726</u>	<u>\$ 11,679,726</u>	<u>\$ 11,679,726</u>	<u>\$ -</u>
Resources (Inflows):				
Use of money and property	74,863	74,863	74,904	41
Charges for services	116,625	116,625	40,501	(76,124)
Other revenues	-	-	455	455
Transfers from other funds	410,493	453,588	453,588	-
Amount Available for Appropriations	<u>601,981</u>	<u>645,076</u>	<u>569,448</u>	<u>(75,628)</u>
Charges to Appropriations (Outflows):				
Current:				
Development services	<u>652,981</u>	<u>696,076</u>	<u>511,656</u>	<u>184,420</u>
Total Charges to Appropriations	<u>652,981</u>	<u>696,076</u>	<u>511,656</u>	<u>184,420</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>(51,000)</u>	<u>(51,000)</u>	<u>57,792</u>	<u>108,792</u>
Fund Balance, June 30	<u><u>\$ 11,628,726</u></u>	<u><u>\$ 11,628,726</u></u>	<u><u>\$ 11,737,518</u></u>	<u><u>\$ 108,792</u></u>

June 30, 2017

1. The City adopts budgets for the general, special revenue, debt service, and capital projects funds on a basis consistent with generally accepted accounting principles each year. The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, when required during the period, are also approved by the Council. Increases in annual expenditures require approval by the Council. Interdepartmental budget changes are approved by the City Manager, and intradepartmental budget changes require department head approval. In most cases, expenditures may not exceed appropriations at the departmental level for the General Fund, and at the fund level for the other funds. At fiscal year-end, all operating budget appropriations lapse. Budgeted amounts are as originally adopted, or as amended, in accordance with prescribed procedures throughout the fiscal year.

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)
6/30/2016						
City	\$ -	\$ 3,151,000	\$ 3,151,000	0.0%	\$ 6,951,000	45.3%
Water	-	1,597,000	1,597,000	0.0%	2,881,000	55.4%
Fire:						
Misc./Safety	-	63,000	63,000	0.0%	-	0.0%
Total	<u>\$ -</u>	<u>\$ 4,811,000</u>	<u>\$ 4,811,000</u>	<u>0.0%</u>	<u>\$ 9,832,000</u>	<u>48.9%</u>
6/30/2014						
City	\$ -	\$ 2,442,000	\$ 2,442,000	0.0%	\$ 7,712,000	31.7%
Water	-	1,088,000	1,088,000	0.0%	2,810,000	38.7%
Fire:						
Misc./Safety	-	48,000	48,000	0.0%	-	0.0%
Total	<u>\$ -</u>	<u>\$ 3,578,000</u>	<u>\$ 3,578,000</u>	<u>0.0%</u>	<u>\$10,522,000</u>	<u>34.0%</u>
6/30/2012:						
City	\$ -	\$ 1,934,000	\$ 1,934,000	0.0%	\$ 7,452,000	26.0%
Water	-	780,000	780,000	0.0%	2,715,000	28.7%
Fire:						
Misc./Safety	-	110,000	110,000	0.0%	-	0.0%
Total	<u>\$ -</u>	<u>\$ 2,824,000</u>	<u>\$ 2,824,000</u>	<u>0.0%</u>	<u>\$10,167,000</u>	<u>27.8%</u>
6/30/2010:						
City	\$ -	\$ 1,610,000	\$ 1,610,000	0.0%	\$ 8,954,000	18.0%
Water	-	631,000	631,000	0.0%	3,079,000	20.5%
Fire:						
Misc./Safety	-	109,000	109,000	0.0%	-	0.0%
Total	<u>\$ -</u>	<u>\$ 2,350,000</u>	<u>\$ 2,350,000</u>	<u>0.0%</u>	<u>\$12,033,000</u>	<u>19.5%</u>

The City of Hesperia is only required to perform an actuarial valuation biennially. An actuarial valuation was prepared for the year ending June 30, 2016 that is available for the financial statements for the year ending June 30, 2017. An actuarial valuation was not prepared for the years ending June 30, 2011, June 30, 2013, and June 30, 2015.

SCHEDULE OF THE CITY OF HESPERIA CONTRIBUTIONS

CalPERS Pension Plan

Last 10 Fiscal Years¹

	2015 ¹	2016 ¹	2017 ¹
Contractually Required Contribution (actuarial determined)	\$ 2,113,264	\$ 2,141,473	\$ 2,323,999
Contributions in Relation to the Contractually Required Contribution	(2,113,264)	(2,141,473)	(2,323,999)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered-Employee Payroll ²	\$ 10,558,692	\$ 10,264,387	\$ 10,377,283
Contributions as a Percentage of Covered-Employee Payroll ²	20.01%	20.86%	22.40%
Contractually Required Contribution			
City	\$ 1,460,320	\$ 1,423,805	\$ 1,501,636
Fire	245,096	303,974	364,190
Water	407,848	413,694	458,173
Total	\$ 2,113,264	\$ 2,141,473	\$ 2,323,999
Contributions in Relation to the Contractually Required Contribution			
City	\$ (1,460,320)	\$ (1,423,805)	\$ (1,501,636)
Fire	(245,096)	(303,974)	(364,190)
Water	(407,848)	(413,694)	(458,173)
Total	\$ (2,113,264)	\$ (2,141,473)	\$ (2,323,999)
District's Covered-Employee Payroll²			
City	\$ 7,672,349	\$ 7,408,225	\$ 7,455,214
Fire	-	-	-
Water	2,886,343	2,856,162	2,922,069
Total	\$ 10,558,692	\$ 10,264,387	\$ 10,377,283
Contributions as a Percentage of Covered-Employee Payroll²			
City	5.88%	6.38%	6.72%
Fire	0.00%	0.00%	0.00%
Water	14.13%	14.48%	15.68%
Total	20.01%	20.86%	22.40%

Valuation Date

June 30, 2015

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 Table¹

Derived using CalPERS' Membership Data for all Funds

Post Retirement Benefit

Contract COLA up to 2.75% until Purchasing Power

Increase

Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

²The City's covered-employee payroll was recalculated based on actual pensionable earnings reported to CalPERS during the fiscal year.

¹The 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 (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

**SCHEDULE OF THE CITY OF HESPERIA
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CalPERS Pension Plan
Last 10 Fiscal Years¹**

	2015	2016	2017
City's Proportion of the Net Pension Liability/(Asset)	0.27%	0.30%	0.30%
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 16,898,127	\$ 20,701,260	\$ 25,738,730
City's Covered-Employee Payroll ²	\$ 10,897,933	\$ 10,558,692	\$ 10,264,387
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll ²	155.06%	196.06%	250.76%
City's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	79.82%	78.40%	74.06%
City's Proportionate Share of Aggregate Employer Contributions ³⁺⁴	\$ 1,868,482	\$ 2,399,866	\$ 2,541,191
City's Proportion of the Net Pension Liability/(Asset)			
City	0.15%	0.16%	0.16%
Fire	0.08%	0.09%	0.09%
Water	0.04%	0.05%	0.05%
Total	0.27%	0.30%	0.30%
City's Proportionate Share of the Net Pension Liability/(Asset)			
City	\$ 9,365,868	\$ 11,061,479	\$ 13,359,519
Fire	5,000,861	6,246,032	7,897,864
Water	2,531,398	3,393,749	4,481,347
Total	\$ 16,898,127	\$ 20,701,260	\$ 25,738,730
City's Covered-Employee Payroll²			
City	\$ 7,950,880	\$ 7,672,349	\$ 7,408,225
Fire	-	-	-
Water	2,947,053	2,886,343	2,856,162
Total	\$ 10,897,933	\$ 10,558,692	\$ 10,264,387
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee			
City	69.16%	78.48%	93.86%
Fire	0.00%	0.00%	0.00%
Water	85.90%	117.58%	156.90%
Total	155.06%	196.06%	250.76%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability			
Measurement Date	June 30, 2015	June 30, 2016	June 30, 2017
Miscellaneous	81.15%	79.89%	75.87%
Safety	78.83%	77.27%	72.69%
Total (CalPERS Plan Overall)	79.82%	78.40%	74.06%
Total Pension Liability	June 30, 2015	June 30, 2016	June 30, 2017
Miscellaneous	\$ 13,110,948,452	\$ 13,639,503,084	\$ 14,397,353,530
Safety	17,719,018,179	18,131,714,318	18,961,274,094
Total	\$ 30,829,966,631	\$ 31,771,217,402	\$ 33,358,627,624
Fiduciary Net Position Allocation Basis	June 30, 2015	June 30, 2016	June 30, 2017
Miscellaneous	\$ 10,639,481,174	\$ 10,896,036,068	\$ 10,923,476,287
Safety	13,968,041,341	14,011,269,803	13,782,056,004
Total	\$ 24,607,522,515	\$ 24,907,305,871	\$ 24,705,532,291
Net Pension Liability	June 30, 2015	June 30, 2015	June 30, 2017
Miscellaneous	2,471,487,278	2,743,467,016	3,473,877,243
Safety	3,750,976,838	4,120,444,515	5,179,218,090
Total	6,222,464,116	6,863,911,531	8,653,095,333
City's Proportionate Share of Aggregate Employer Contributions³⁺⁴			
	June 30, 2015	June 30, 2016	June 30, 2017
City	\$ 857,352	\$ 1,176,476	\$ 1,285,349
Fire	625,338	711,616	714,904
Water	385,792	511,774	540,938
Total	\$ 1,868,482	\$ 2,399,866	\$ 2,541,191

(Continued)

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

²The District covered-employee payroll was recalculated based on actual pensionable earnings reported to CalPERS as of the measurement date.

³The City's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The City's proportionate share of aggregate contributions is based on the City'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.

⁴This 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 City's pension expense.

**Notes to Required Supplementary Information
for the Year Ended June 30, 2017**

Changes of Benefit Terms:

The City did not have any benefit terms changes after June 30, 2015 (Valuation Date).

Changes of Assumptions:

From Fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that 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 of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expenses.

From Fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.



SCHEDULE OF COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue Funds			
	Measure I Renewal	Gas Tax	Gas Tax Swap	Article 8
Assets				
Cash and cash equivalents	\$ 2,545,742	\$ 109,522	\$ 186,012	\$ -
Restricted investments	-	-	-	-
Accounts receivable	-	-	-	-
Accrued interest	3,910	116	300	125
Notes receivable	-	-	-	-
Allowance for notes receivable	-	-	-	-
Due from other governmental agencies	418,958	131,983	30,692	2,209,696
Due from other funds	-	-	-	-
Land held for resale	-	-	-	-
Total Assets	<u>\$ 2,968,610</u>	<u>\$ 241,621</u>	<u>\$ 217,004</u>	<u>\$ 2,209,821</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 383,680	\$ 17,915	\$ -	\$ 20,732
Deposits	-	-	-	-
Advances from other funds	-	-	-	-
Due to other funds	-	-	-	206,686
Total Liabilities	<u>383,680</u>	<u>17,915</u>	<u>-</u>	<u>227,418</u>
Fund Balances:				
Restricted:				
Debt service	-	-	-	-
Transportation	2,584,930	223,706	217,004	1,982,403
Public safety	-	-	-	-
Grants	-	-	-	-
Economic development	-	-	-	-
Other purposes	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>2,584,930</u>	<u>223,706</u>	<u>217,004</u>	<u>1,982,403</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,968,610</u>	<u>\$ 241,621</u>	<u>\$ 217,004</u>	<u>\$ 2,209,821</u>

Community Development Block Grant	CDBG Revolving Loan	AB 3229 State COPS Program	Air Quality Management District	Street Maintenance	Disaster Preparedness Grant
\$ 21,428	\$ 349,070	\$ 110,670	\$ 94,148	\$ 645,661	\$ 5,793
-	-	-	-	-	-
-	-	-	-	1,206	-
-	596	203	-	1,257	125
-	105,126	-	-	-	-
-	(105,126)	-	-	-	-
18,141	-	1,565	-	43	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 39,569	\$ 349,666	\$ 112,438	\$ 94,148	\$ 648,167	\$ 5,918

\$	129,316	\$	-	\$	-	\$	-	\$	320,884	\$	195
	-		-		-		-		-		-
	-		-		-		-		-		-
	-		-		-		-		-		-
	<u>129,316</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>320,884</u>		<u>195</u>

-	-	-	-	-	-
-	-	-	94,148	327,283	-
-	-	112,438	-	-	-
-	349,666	-	-	-	5,723
-	-	-	-	-	-
-	-	-	-	-	-
(89,747)	-	-	-	-	-
(89,747)	349,666	112,438	94,148	327,283	5,723

<u>\$ 39,569</u>	<u>\$ 349,666</u>	<u>\$ 112,438</u>	<u>\$ 94,148</u>	<u>\$ 648,167</u>	<u>\$ 5,918</u>
					(Continued)

(Continued)

CITY OF HESPERIA

(Continued)

SCHEDULE OF COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Special Revenue Funds			
	Environmental Programs	Neighborhood Stabilization Program	Home Grant	Development Impact Fees- Storm Drain
Assets				
Cash and cash equivalents	\$ 108,352	\$ 2,022,638	\$ 168,174	\$ 2,513,237
Restricted investments	-	-	-	-
Accounts receivable	-	9	-	-
Accrued interest	141	3,169	271	4,315
Notes receivable	-	-	12,979,307	-
Allowance for notes receivable	-	-	(12,979,307)	-
Due from other governmental agencies	23,330	1,229	-	-
Due from other funds	-	-	-	-
Land held for resale	-	672,613	-	-
Total Assets	\$ 131,823	\$ 2,699,658	\$ 168,445	\$ 2,517,552
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 6,564	\$ 1,427	\$ -	\$ 2,000
Deposits	-	1,100	-	-
Advances from other funds	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	6,564	2,527	-	2,000
Fund Balances:				
Restricted:				
Debt service	-	-	-	-
Transportation	-	-	-	2,515,552
Public safety	-	-	-	-
Grants	-	-	-	-
Economic development	-	-	168,445	-
Other purposes	125,259	2,697,131	-	-
Unassigned	-	-	-	-
Total Fund Balances	125,259	2,697,131	168,445	2,515,552
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 131,823	\$ 2,699,658	\$ 168,445	\$ 2,517,552

CITY OF HESPERIA

Special Revenue			
Development Impact Fees- Fire	Development Impact Fees- Police	Development Impact Fees- Public Services	VVEDA Housing Authority
\$ 939,408	\$ 286,054	\$ 64,981	\$ 1,715,323
-	-	-	-
-	-	-	-
1,604	488	110	3,014
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 941,012</u>	<u>\$ 286,542</u>	<u>\$ 65,091</u>	<u>\$ 1,718,337</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	1,520,637	-
-	-	3,497	-
<u>-</u>	<u>-</u>	<u>1,524,134</u>	<u>-</u>
-	-	-	-
-	-	-	-
941,012	286,542	-	-
-	-	-	-
-	-	-	1,718,337
-	-	-	-
-	-	(1,459,043)	-
<u>941,012</u>	<u>286,542</u>	<u>(1,459,043)</u>	<u>1,718,337</u>
<u>\$ 941,012</u>	<u>\$ 286,542</u>	<u>\$ 65,091</u>	<u>\$ 1,718,337</u>
(Continued)			

CITY OF HESPERIA

(Continued)

SCHEDULE OF COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Debt Service		
	Mark Roos Revenue Bonds	2012 Water Rights Acquisition	2013 Refunding of Lease Revenue Bonds
Assets			
Cash and cash equivalents	\$ -	\$ 5,902	\$ 108,645
Restricted investments	-	1,454,371	1,151,549
Accounts receivable	-	-	-
Accrued interest	-	935	805
Notes receivable	-	-	-
Allowance for notes receivable	-	-	-
Due from other governmental agencies	-	-	-
Due from other funds	-	-	-
Land held for resale	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 1,461,208</u>	<u>\$ 1,260,999</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable and other current liabilities	\$ -	\$ -	\$ -
Deposits	-	-	-
Advances from other funds	-	-	-
Due to other funds	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted:			
Debt service	-	1,461,208	1,260,999
Transportation	-	-	-
Public safety	-	-	-
Grants	-	-	-
Economic development	-	-	-
Other purposes	-	-	-
Unassigned	-	-	-
Total Fund Balances	<u>-</u>	<u>1,461,208</u>	<u>1,260,999</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ -</u>	<u>\$ 1,461,208</u>	<u>\$ 1,260,999</u>

CITY OF HESPERIA

Capital Projects

<u>City Projects</u>	<u>Fire Capital</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ 5,493,284	\$ 17,494,044
-	-	2,605,920
-	-	1,215
-	8,787	30,271
-	-	13,084,433
-	-	(13,084,433)
2,310	-	2,837,947
-	601,639	601,639
-	-	672,613
<u>\$ 2,310</u>	<u>\$ 6,103,710</u>	<u>\$ 24,243,649</u>

\$ -	\$ 293,132	\$ 1,175,845
-	-	1,100
-	-	1,520,637
<u>10,515</u>	<u>-</u>	<u>220,698</u>
<u>10,515</u>	<u>293,132</u>	<u>2,918,280</u>

-	-	2,722,207
-	-	7,945,026
-	5,810,578	7,150,570
-	-	355,389
-	-	1,886,782
-	-	2,822,390
<u>(8,205)</u>	<u>-</u>	<u>(1,556,995)</u>
<u>(8,205)</u>	<u>5,810,578</u>	<u>21,325,369</u>
<u>\$ 2,310</u>	<u>\$ 6,103,710</u>	<u>\$ 24,243,649</u>

SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Special Revenue Funds		
	Measure I Renewal	Gas Tax	Gas Tax Swap
Revenues:			
Taxes	\$ -	\$ 1,552,471	\$ 235,389
Use of money and property	10,892	1,373	973
Intergovernmental	2,539,600	-	-
Charges for services	-	-	-
Grants	146	-	-
Other revenues	-	-	-
Total Revenues	2,550,638	1,553,844	236,362
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Development services	319,308	-	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	1,423,541	280,118	-
Total Expenditures	1,742,849	280,118	-
Excess (Deficiencies) of Revenues Over (Under) Expenditures	807,789	1,273,726	236,362
Other Financing Sources (Uses):			
Transfers in	-	32,719	1,085
Transfers out	(170,000)	(1,630,000)	(180,000)
Total Other Financing Sources (Uses)	(170,000)	(1,597,281)	(178,915)
Net Change in Fund Balances	637,789	(323,555)	57,447
Fund balances at beginning of year	1,947,141	547,261	159,557
Prior period adjustment (Note 21)	-	-	-
Fund balances at beginning of year	1,947,141	547,261	159,557
Fund balances at end of year	\$ 2,584,930	\$ 223,706	\$ 217,004

CITY OF HESPERIA

Special Revenue Funds						
Article 8	Community Development Block Grant	CDBG Revolving Loan	AB 3229 State COPS Program	Air Quality Management District	Street Maintenance	
\$ 2,209,696	\$ -	\$ -	\$ -	\$ -	\$ -	
135	-	1,985	497	-	4,516	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	2,762,342	-	187,441	311,428	-	
-	-	-	-	-	14,520	
2,209,831	2,762,342	1,985	187,938	311,428	19,036	
-	-	-	-	-	-	
-	824,601	-	-	60,000	3,593,510	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	83,104	
169,849	2,027,488	-	-	16,528	-	
169,849	2,852,089	-	-	76,528	3,676,614	
2,039,982	(89,747)	1,985	187,938	234,900	(3,657,578)	
146,964	114,487	-	-	-	3,430,000	
(1,450,000)	-	-	(140,000)	-	-	
(1,303,036)	114,487	-	(140,000)	-	3,430,000	
736,946	24,740	1,985	47,938	234,900	(227,578)	
1,245,457	(114,487)	347,681	64,500	(140,752)	554,861	
-	-	-	-	-	-	
1,245,457	(114,487)	347,681	64,500	(140,752)	554,861	
\$ 1,982,403	\$ (89,747)	\$ 349,666	\$ 112,438	\$ 94,148	\$ 327,283	

(Continued)

CITY OF HESPERIA

(Continued)

SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

Special Revenue Funds

	Disaster Preparedness Grant	Environmental Programs	Neighborhood Stabilization Program
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	278	548	17,613
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	22,351	100,859	-
Other revenues	-	57,861	-
Total Revenues	<u>22,629</u>	<u>159,268</u>	<u>17,613</u>
Expenditures:			
Current:			
General government:			
City manager	16,906	24,262	-
Development services	-	-	183,015
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	<u>16,906</u>	<u>24,262</u>	<u>183,015</u>
Excess (Deficiencies) of Revenues Over (Under) Expenditures	<u>5,723</u>	<u>135,006</u>	<u>(165,402)</u>
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(76,271)	-	-
Total Other Financing Sources (Uses)	<u>(76,271)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(70,548)</u>	<u>135,006</u>	<u>(165,402)</u>
Fund balances at beginning of year	<u>76,271</u>	<u>(9,747)</u>	<u>2,862,533</u>
Prior period adjustment (Note 21)	-	-	-
Fund balances at beginning of year	<u>76,271</u>	<u>(9,747)</u>	<u>2,862,533</u>
Fund balances at end of year	<u>\$ 5,723</u>	<u>\$ 125,259</u>	<u>\$ 2,697,131</u>

CITY OF HESPERIA

Special Revenue Funds

Home Grant	Development Impact Fees- Storm Drain	Development Impact Fees- Fire	Development Impact Fees- Police	Development Impact Fees - Public Services
\$ -	\$ -	\$ -	\$ -	\$ -
20,076	14,309	5,269	1,605	334
-	-	-	-	-
-	233,321	24,683	7,225	20,266
15,483	-	-	-	-
-	-	-	-	-
35,559	247,630	29,952	8,830	20,600
-	-	-	-	-
-	1,419	-	-	-
-	-	-	-	9,633
-	-	-	-	-
-	-	-	-	-
-	65,464	-	-	-
-	-	-	-	-
-	-	-	-	-
-	2,000	-	-	-
-	68,883	-	-	9,633
35,559	178,747	29,952	8,830	10,967
-	-	-	-	-
-	(111,457)	-	-	(688,533)
-	(111,457)	-	-	(688,533)
35,559	67,290	29,952	8,830	(677,566)
132,886	2,448,262	911,060	277,712	(781,477)
-	-	-	-	-
132,886	2,448,262	911,060	277,712	(781,477)
\$ 168,445	\$ 2,515,552	\$ 941,012	\$ 286,542	\$ (1,459,043)

(Continued)

CITY OF HESPERIA

(Continued)

SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Special Revenue Funds	Debt Service
	VVEDA Housing Authority	Mark Roos Revenue Bonds
Revenues:		
Taxes	\$ -	\$ -
Use of money and property	10,782	517
Intergovernmental	-	-
Charges for services	-	46,051
Grants	-	-
Other revenues	-	-
Total Revenues	10,782	46,568
Expenditures:		
Current:		
General government:		
City manager	-	-
Development services	-	-
Debt Service:		
Interest	-	-
Principal	-	-
Bond administration expense	-	-
Capital Outlay:		
Land	-	-
Buildings and improvements	-	-
Equipment and vehicles	-	-
Infrastructure	-	-
Total Expenditures	-	-
Excess (Deficiencies) of Revenues Over (Under) Expenditures	10,782	46,568
Other Financing Sources (Uses):		
Transfers in	-	-
Transfers out	-	(180,768)
Total Other Financing Sources (Uses)	-	(180,768)
Net Change in Fund Balances	10,782	(134,200)
Fund balances at beginning of year	1,707,555	134,200
Prior period adjustment (Note 20)	-	-
Fund balances at beginning of year	1,707,555	134,200
Fund balances at end of year	\$ 1,718,337	\$ -

CITY OF HESPERIA

Debt Service		Capital Projects		Total Other Governmental Funds
2012 Water Rights Acquisition	2013 Refunding of Lease Revenue Bonds	City Projects	Fire Capital	
\$ -	\$ -	\$ -	\$ 803,524	\$ 4,801,080
5,893	4,850	239	29,541	132,225
-	-	-	-	2,539,600
-	-	38,539	-	370,085
-	-	-	-	3,400,050
-	-	-	-	72,381
5,893	4,850	38,778	833,065	11,315,421
-	-	-	-	41,168
-	-	-	-	4,981,853
859,375	532,150	-	-	1,401,158
580,000	250,000	-	-	830,000
2,225	2,225	-	-	4,450
-	-	-	-	65,464
-	-	-	184,322	184,322
-	-	-	483,537	566,641
-	-	7,337	-	3,926,861
1,441,600	784,375	7,337	667,859	12,001,917
(1,435,707)	(779,525)	31,441	165,206	(686,496)
1,439,780	789,150	111,457	-	6,065,642
-	-	-	-	(4,627,029)
1,439,780	789,150	111,457	-	1,438,613
4,073	9,625	142,898	165,206	752,117
1,457,135	1,251,374	(151,103)	5,645,372	20,573,252
-	-	-	-	-
1,457,135	1,251,374	(151,103)	5,645,372	20,573,252
\$ 1,461,208	\$ 1,260,999	\$ (8,205)	\$ 5,810,578	\$ 21,325,369

SCHEDULE OF COMBINING OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 June 30, 2017

	Agency Funds		
	Special Deposits Fund	Assessment District 91-1 Fund	Community Facilities District 2005-1 Fund
Assets			
Cash and investments	\$ 1,761,742	\$ 352,633	\$ 1,338,382
Cash and investments with fiscal agent	-	-	1,454,104
Accounts receivable	1,194,880	-	8,504
Accrued interest	141	603	3,282
Total Assets	\$ 2,956,763	\$ 353,236	\$ 2,804,272
Liabilities			
Accounts payable	\$ 106,747	\$ 750	\$ 145
Due to bondholders	-	352,486	2,804,127
Deposits payable	2,850,016	-	-
Total Liabilities	\$ 2,956,763	\$ 353,236	\$ 2,804,272

CITY OF HESPERIA

Agency Funds				
Branch Library Fund	Summit Valley HCP Fund	Plan Review Trust Fund	Total Agency Funds	
\$ 305	\$ 289	\$ 6,181	\$ 3,459,532	
-	-	-	1,454,104	
1	1	-	1,203,386	
-	-	11	4,037	
\$ 306	\$ 290	\$ 6,192	\$ 6,121,059	
\$ -	\$ -	\$ -	\$ 107,642	
-	-	-	3,156,613	
306	290	6,192	2,856,804	
\$ 306	\$ 290	\$ 6,192	\$ 6,121,059	

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
SPECIAL DEPOSITS FUND
For the Year Ended June 30, 2017

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Assets				
Cash and investments	\$ 1,391,460	\$ 1,556,649	\$ (1,186,367)	\$ 1,761,742
Accounts receivable	7,074	1,194,880	(7,074)	1,194,880
Accrued interest	22	141	(22)	141
Total Assets	<u>\$ 1,398,556</u>	<u>\$ 2,751,670</u>	<u>\$ (1,193,463)</u>	<u>\$ 2,956,763</u>
Liabilities				
Accounts payable	\$ 86,043	\$ 1,007,460	\$ (986,756)	\$ 106,747
Deposits payable	1,312,513	1,744,210	(206,707)	2,850,016
Total Liabilities	<u>\$ 1,398,556</u>	<u>\$ 2,751,670</u>	<u>\$ (1,193,463)</u>	<u>\$ 2,956,763</u>

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
ASSESSMENT DISTRICT 91-1 FUND
For the Year Ended June 30, 2017

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Assets				
Cash and investments	\$ 351,178	\$ 1,733	\$ (278)	\$ 352,633
Accrued interest	330	603	(330)	603
Total Assets	\$ 351,508	\$ 2,336	\$ (608)	\$ 353,236
Liabilities				
Accounts payable	\$ 279	\$ 749	\$ (278)	\$ 750
Due to bondholders	351,229	2,006	(749)	352,486
Total Liabilities	\$ 351,508	\$ 2,755	\$ (1,027)	\$ 353,236

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
COMMUNITY FACILITIES DISTRICT 2005-1 FUND
For the Year Ended June 30, 2017

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Assets				
Cash and investments	\$ 1,276,773	\$ 1,721,323	\$ (1,659,714)	\$ 1,338,382
Cash and investments with fiscal agent	1,451,977	1,148,465	(1,146,338)	1,454,104
Accounts receivable	6,439	8,504	(6,439)	8,504
Accrued interest	1,530	3,282	(1,530)	3,282
Total Assets	<u>\$ 2,736,719</u>	<u>\$ 2,881,574</u>	<u>\$ (2,814,021)</u>	<u>\$ 2,804,272</u>
Liabilities				
Accounts payable	\$ 133	\$ 1,655,241	\$ (1,655,229)	\$ 145
Due to bondholders	2,736,586	1,730,604	(1,663,063)	2,804,127
Total Liabilities	<u>\$ 2,736,719</u>	<u>\$ 3,385,845</u>	<u>\$ (3,318,292)</u>	<u>\$ 2,804,272</u>

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

BRANCH LIBRARY FUND

For the Year Ended June 30, 2017

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Assets				
Cash and investments	\$ 304	\$ 1	\$ -	\$ 305
Accounts receivable	-	1	-	1
Total Assets	<u>\$ 304</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 306</u>
Liabilities				
Deposits payable	\$ 304	\$ 2	\$ -	\$ 306
Total Liabilities	<u>\$ 304</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 306</u>

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
SUMMIT VALLEY HCP FUND
For the Year Ended June 30, 2017

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Assets				
Cash and investments	\$ 288	\$ 1	\$ -	\$ 289
Accounts receivable	-	1	-	1
Total Assets	<u>\$ 288</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 290</u>
Liabilities				
Deposits payable	\$ 288	\$ 2	\$ -	\$ 290
Total Liabilities	<u>\$ 288</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 290</u>

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 PLAN REVIEW TRUST FUND
 For the Year Ended June 30, 2017

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Assets				
Cash and investments	\$ 6,151	\$ 30	\$ -	\$ 6,181
Accrued interest	6	11	(6)	11
Total Assets	<u>\$ 6,157</u>	<u>\$ 41</u>	<u>\$ (6)</u>	<u>\$ 6,192</u>
Liabilities				
Deposits payable	6,157	35	-	6,192
Total Liabilities	<u>\$ 6,157</u>	<u>\$ 35</u>	<u>\$ -</u>	<u>\$ 6,192</u>

SCHEDULE OF COMBINING CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

For the Year Ended June 30, 2017

	Total Agency Funds			Balance at June 30, 2017
	Balance at June 30, 2016	Additions	Deletions	
Assets				
Cash and investments	\$ 3,026,154	\$ 3,279,737	\$ (2,846,359)	\$ 3,459,532
Cash and investments with fiscal agent	1,451,977	1,148,465	(1,146,338)	1,454,104
Accounts receivable	13,513	1,203,386	(13,513)	1,203,386
Accrued interest	1,888	4,037	(1,888)	4,037
Total Assets	<u>\$ 4,493,532</u>	<u>\$ 5,635,625</u>	<u>\$ (4,008,098)</u>	<u>\$ 6,121,059</u>
Liabilities				
Accounts payable	\$ 86,455	\$ 2,663,450	\$ (2,642,263)	\$ 107,642
Due to bondholders	3,087,815	1,732,610	(1,663,812)	3,156,613
Deposits payable	1,319,262	1,744,249	(206,707)	2,856,804
Total Liabilities	<u>\$ 4,493,532</u>	<u>\$ 6,140,309</u>	<u>\$ (4,512,782)</u>	<u>\$ 6,121,059</u>

General Fund

To account for all financial resources traditionally associated with government, which are not required, legally or by sound financial management, to be accounted for in another fund.

CITY OF HESPERIA

BALANCE SHEET SCHEDULE GENERAL FUND June 30, 2017

Assets

Cash and cash equivalents	\$ 4,929,900
Accounts receivable	1,309,212
Accrued interest	7,753
Due from other governmental agencies	1,436,816
Due from other funds	595,968
Advances	1,520,637
Total Assets	\$ 9,800,286

Liabilities, Deferred Inflows of Resources, and Fund Balances

Liabilities

Accounts payable and other current liabilities	\$ 1,222,840
Deposits	6,000
Total Liabilities	1,228,840

Deferred Inflows of Resources

Unavailable revenues	600,341
Total Deferred Inflows of Resources	600,341

Fund Balances

Nonspendable:

Advances to other funds	1,520,637
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Assigned:

Self Insurance	150,000
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Unassigned	6,300,468
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Total Fund Balances	7,971,105
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Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,800,286
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CITY OF HESPERIA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2017

	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 13,997,544	\$ 13,723,774	\$ (273,770)
Licenses and permits	258,729	202,800	(55,929)
Fines and forfeitures	613,220	692,958	79,738
Use of money and property	22,039	31,203	9,164
Intergovernmental	9,464,026	9,414,116	(49,910)
Charges for services	1,766,618	2,325,288	558,670
Grants	130,113	71,487	(58,626)
Other revenues	2,431,814	2,463,136	31,322
Amount Available for Appropriations	28,684,103	28,924,762	240,659
Expenditures:			
Current:			
General government:			
City council	754,835	950,517	(195,682)
City manager	2,519,723	2,367,625	152,098
Management services	4,034,575	3,707,727	326,848
Development services	6,149,706	6,035,782	113,924
Public safety - police	15,626,715	15,530,193	96,522
Capital Outlay:			
Land	40,634	-	40,634
Buildings and improvements	242,700	241,515	1,185
Equipment and vehicles	819,180	651,338	167,842
Infrastructure	598,066	505,667	92,399
Total Expenditures	30,786,134	29,990,364	795,770
Excess (Deficiencies) of Revenues Over (Under) Expenditures	(2,102,031)	(1,065,602)	1,036,429
Other Financing Sources (Uses):			
Transfers in	140,000	216,271	76,271
Transfers out	(2,689,113)	(1,993,985)	695,128
Total Other Financing Sources (Uses)	(2,549,113)	(1,777,714)	771,399
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(4,651,144)	(2,843,316)	1,807,828
Fund balance at beginning of year	10,814,421	10,814,421	-
Fund balance at end of year	\$ 6,163,277	\$ 7,971,105	\$ 1,807,828

Special Revenue Funds

The Special Revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Individual Special revenue funds are as follows

Measure I Renewal – To account for the voter approved extension of the Measure I, a 0.5% sales tax revenue collected throughout San Bernardino County for transportation improvements.

Gas Tax – To account for receipts and expenditures of money apportioned by the State and Highway Code §'s 2105, 2106, 2107 and 2107.5. Gas Tax monies can only be used to construct and maintain streets and highways.

Gas Tax Swap – To account for receipts and expenditures of money apportioned by the State and Highway Code § 2103. Gas Tax Swap monies can only be used to construct and maintain streets and highways.

Article 8 – To account for the ¼ cent sales tax revenue which, in turn, are expended for the City's participation in the Victor Valley Transit Authority and for the construction of, and maintenance of, streets and roads in accordance with AB 325.

Community Development Block Grant – To account for the receipts and expenditures of the City's entitlements under Federal Community Development Block Grant (CDBG) programs of the US Department of Housing and Urban Development (HUD).

CDBG Revolving Loan – To account for the receipts and expenditures of the Section 108 loan proceeds from the Federal government (HUD) used to assist with business expansion within the City.

AB 3229 State COPS Program – To account for State grant funds used to enhance policing services.

Air Quality Management District – To account for receipts from the Mojave Desert Air Quality Management District used for the purpose of reducing air pollution from motor vehicles.

Fire District – To account for revenues from special tax assessments and for expenditures relating to the City's fire prevention and protection.

Street Maintenance – To account for funds expended to repair and maintain the City's streets.

Disaster Preparedness Grant – To account for State grant funds used to prepare City staff for quick and correct techniques for proper response and assistance to the citizens in times of emergencies.

Environmental Programs – Formerly called the Beverage Recycling Grant fund, this is to account for State grant funds used to enhance beverage container recycling, as well as other recycling programs within the City.

Neighborhood Stabilization Program – To account for Federal grant funds used to purchase, rehabilitate, and resell foreclosed homes within the City, in order to avoid any increased blighting conditions caused by vacant homes.

Development Impact Fees – Streets - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's streets.

Development Impact Fees – Storm Drainage - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's storm drain system.

Development Impact Fees – Fire - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's Fire Department with expanded facilities and equipment.

Development Impact Fees – Police - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's Police Department with expanded facilities and equipment.

Development Impact Fees – Public Services - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's facilities to better serve the growing populace.

HOME Grant – To account for the Department of Housing and Urban Development HOME Investment Partnership Act (HOME) grants requiring segregated fund accounting.

Community Development Commission – To account for the City's economic development functions that were previously an operation of the former redevelopment agency.

Hesperia Housing Authority – To account for the City's low and moderate income housing needs that was previously a function of the former redevelopment agency.

VVEDA Housing Authority – To account for the City's low and moderate income housing needs within the VVEDA project area that was previously a function of the former redevelopment agency.

CITY OF HESPERIA

SCHEDULE OF COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS
June 30, 2017

	Measure I Renewal	Gas Tax	Gas Tax Swap	Article 8
Assets				
Cash and cash equivalents	\$ 2,545,742	\$ 109,522	\$ 186,012	\$ -
Accounts receivable	-	-	-	-
Accrued interest	3,910	116	300	125
Notes receivable	-	-	-	-
Allowance for notes receivable	-	-	-	-
Due from other governmental agencies	418,958	131,983	30,692	2,209,696
Land held for resale	-	-	-	-
Total Assets	\$ 2,968,610	\$ 241,621	\$ 217,004	\$ 2,209,821
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 383,680	\$ 17,915	\$ -	\$ 20,732
Deposits	-	-	-	-
Advances from other funds	-	-	-	-
Due to other funds	-	-	-	206,686
Total Liabilities	383,680	17,915	-	227,418
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances				
Nonspendable				
Prepaid Items	-	-	-	-
Restricted:				
Transportation	2,584,930	223,706	217,004	1,982,403
Public safety	-	-	-	-
Grants	-	-	-	-
Economic Development	-	-	-	-
Other purposes	-	-	-	-
Assigned:				
Transportation	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	2,584,930	223,706	217,004	1,982,403
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,968,610	\$ 241,621	\$ 217,004	\$ 2,209,821

CITY OF HESPERIA

Community Development Block Grant	CDBG Revolving Loan	AB 3229 State COPS Program	Air Quality Management District	Fire District	Street Maintenance	Disaster Preparedness Grant
\$ 21,428	\$ 349,070	\$ 110,670	\$ 94,148	\$ -	\$ 645,661	\$ 5,793
-	-	-	-	400,153	1,206	-
-	596	203	-	7,380	1,257	125
-	105,126	-	-	-	-	-
-	(105,126)	-	-	-	-	-
18,141	-	1,565	-	104,472	43	-
-	-	-	-	-	-	-
<u>\$ 39,569</u>	<u>\$ 349,666</u>	<u>\$ 112,438</u>	<u>\$ 94,148</u>	<u>\$ 512,005</u>	<u>\$ 648,167</u>	<u>\$ 5,918</u>

\$ 129,316	\$ -	\$ -	\$ -	\$ 5,817	\$ 320,884	\$ 195
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	601,639	-	-
<u>129,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>607,456</u>	<u>320,884</u>	<u>195</u>

-	-	-	-	3,595	-	-
-	-	-	-	3,595	-	-

-	-	-	-	7,380	-	-
-	-	-	94,148	-	-	-
-	-	112,438	-	-	-	-
-	349,666	-	-	-	-	5,723
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	327,283	-
(89,747)	-	-	-	(106,426)	-	-
(89,747)	349,666	112,438	94,148	(99,046)	327,283	5,723

<u>\$ 39,569</u>	<u>\$ 349,666</u>	<u>\$ 112,438</u>	<u>\$ 94,148</u>	<u>\$ 512,005</u>	<u>\$ 648,167</u>	<u>\$ 5,918</u>
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(Continued)

CITY OF HESPERIA

(Continued)

SCHEDULE OF COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS
June 30, 2017

	Environmental Programs	Neighborhood Stabilization Program	Development Impact Fees- Streets	Development Impact Fees- Storm Drainage
Assets				
Cash and cash equivalents	\$ 108,352	\$ 2,022,638	\$ 2,372,248	\$ 2,513,237
Accounts receivable	-	9	-	-
Accrued interest	141	3,169	3,737	4,315
Notes receivable	-	-	-	-
Allowance for notes receivable	-	-	-	-
Due from other governmental agencies	23,330	1,229	-	-
Land held for resale	-	672,613	7,501,637	-
Total Assets	\$ 131,823	\$ 2,699,658	\$ 9,877,622	\$ 2,517,552
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 6,564	\$ 1,427	\$ 40,677	\$ 2,000
Deposits	-	1,100	-	-
Advances from other funds	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	6,564	2,527	40,677	2,000
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances				
Nonspendable				
Prepaid Items	-	-	-	-
Restricted:				
Transportation	-	-	9,836,945	2,515,552
Public safety	-	-	-	-
Grants	-	-	-	-
Economic Development	-	-	-	-
Other purposes	125,259	2,697,131	-	-
Assigned:				
Transportation	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	125,259	2,697,131	9,836,945	2,515,552
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 131,823	\$ 2,699,658	\$ 9,877,622	\$ 2,517,552

CITY OF HESPERIA

Development Impact Fees- Fire	Development Impact Fees- Police	Development Impact Fees- Public Services	HOME Grant	Community Development Commission	Hesperia Housing Authority
\$ 939,408	\$ 286,054	\$ 64,981	\$ 168,174	\$ -	\$ 2,677,190
-	-	-	-	-	-
1,604	488	110	271	-	4,931
-	-	-	12,979,307	278,144	21,876,374
-	-	-	(12,979,307)	(278,144)	(21,876,374)
-	-	-	-	25,471	-
-	-	-	-	12,102,122	11,468,003
<u>\$ 941,012</u>	<u>\$ 286,542</u>	<u>\$ 65,091</u>	<u>\$ 168,445</u>	<u>\$ 12,127,593</u>	<u>\$ 14,150,124</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,805	\$ 7,691
-	-	-	-	10,000	1,000
-	-	1,520,637	-	-	-
-	-	3,497	-	375,270	-
-	-	1,524,134	-	390,075	8,691
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
941,012	286,542	-	-	-	-
-	-	-	-	-	-
-	-	-	168,445	11,737,518	14,141,433
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(1,459,043)	-	-	-
<u>941,012</u>	<u>286,542</u>	<u>(1,459,043)</u>	<u>168,445</u>	<u>11,737,518</u>	<u>14,141,433</u>
<u>\$ 941,012</u>	<u>\$ 286,542</u>	<u>\$ 65,091</u>	<u>\$ 168,445</u>	<u>\$ 12,127,593</u>	<u>\$ 14,150,124</u>

(Continued)

CITY OF HESPERIA

	VVEDA Housing Authority	Totals
Assets		
Cash and cash equivalents	\$ 1,715,323	\$ 16,935,651
Accounts receivable	-	401,368
Accrued interest	3,014	35,792
Notes receivable	-	35,238,951
Allowance for notes receivable		(35,238,951)
Due from other governmental agencies	-	2,965,580
Land held for resale	-	31,744,375
Total Assets	\$ 1,718,337	\$ 52,082,766
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable and other current liabilities	\$ -	\$ 941,703
Deposits	-	12,100
Advances from other funds	-	1,520,637
Due to other funds	-	1,187,092
Total Liabilities	-	3,661,532
Deferred Inflows of Resources		
Unavailable revenues	-	3,595
Total Deferred Inflows of Resources	-	3,595
Fund Balances		
Nonspendable		
Prepaid Items	-	7,380
Restricted:		
Transportation	-	17,454,688
Public safety	-	1,339,992
Grants	-	355,389
Economic Development	1,718,337	27,765,733
Other purposes	-	2,822,390
Assigned:	-	
Transportation	-	327,283
Unassigned		(1,655,216)
Total Fund Balances	1,718,337	48,417,639
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,718,337	\$ 52,082,766



CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Measure I Renewal		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	10,370	10,892	522
Intergovernmental	2,655,036	2,539,600	(115,436)
Charges for services	-	-	-
Grants	-	146	146
Proceeds from sale of capital asset	-	-	-
Other revenues	-	-	-
Total Revenues	2,665,406	2,550,638	(114,768)
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	482,678	319,308	163,370
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	3,604,261	1,423,541	2,180,720
Total Expenditures	4,086,939	1,742,849	2,344,090
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(1,421,533)	807,789	2,229,322
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(170,000)	(170,000)	-
Total Other Financing Sources (Uses)	(170,000)	(170,000)	-
Net Change in Fund Balances	(1,591,533)	637,789	2,229,322
Fund balances at beginning of year	1,947,141	1,947,141	-
Fund balances at end of year	\$ 355,608	\$ 2,584,930	\$ 2,229,322

CITY OF HESPERIA

Gas Tax			Gas Tax Swap		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ 1,668,476	\$ 1,552,471	\$ (116,005)	\$ 217,410	\$ 235,389	\$ 17,979
1,106	1,373	267	647	973	326
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,669,582	1,553,844	(115,738)	218,057	236,362	18,305
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
470,438	280,118	190,320	-	-	-
470,438	280,118	190,320	-	-	-
1,199,144	1,273,726	74,582	218,057	236,362	18,305
-	32,719	32,719	-	1,085	1,085
(1,630,000)	(1,630,000)	-	(180,000)	(180,000)	-
(1,630,000)	(1,597,281)	32,719	(180,000)	(178,915)	1,085
(430,856)	(323,555)	107,301	38,057	57,447	19,390
547,261	547,261	-	159,557	159,557	-
\$ 116,405	\$ 223,706	\$ 107,301	\$ 197,614	\$ 217,004	\$ 19,390

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Article 8		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 2,113,262	\$ 2,209,696	\$ 96,434
Use of money and property	-	135	135
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	-	-	-
Proceeds from sale of capital asset	-	-	-
Other revenues	-	-	-
Total Revenues	2,113,262	2,209,831	96,569
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	952,450	169,849	782,601
Total Expenditures	952,450	169,849	782,601
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	1,160,812	2,039,982	879,170
Other Financing Sources (Uses):			
Transfers in	-	146,964	146,964
Transfers out	(1,450,000)	(1,450,000)	-
Total Other Financing Sources (Uses)	(1,450,000)	(1,303,036)	146,964
Net Change in Fund Balances	(289,188)	736,946	1,026,134
Fund balances at beginning of year	1,245,457	1,245,457	-
Fund balances at end of year	\$ 956,269	\$ 1,982,403	\$ 1,026,134

CITY OF HESPERIA

Community Development Block Grant			CDBG Revolving Loan		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	2,177	1,985	(192)
-	-	-	-	-	-
-	-	-	-	-	-
1,655,522	2,762,342	1,106,820	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,655,522	2,762,342	1,106,820	2,177	1,985	(192)
-	-	-	-	-	-
-	-	-	-	-	-
879,408	824,601	54,807	5,000	-	5,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,811,904	2,027,488	784,416	-	-	-
3,691,312	2,852,089	839,223	5,000	-	5,000
(2,035,790)	(89,747)	1,946,043	(2,823)	1,985	4,808
-	114,487	114,487	-	-	-
-	-	-	-	-	-
-	114,487	114,487	-	-	-
(2,035,790)	24,740	2,060,530	(2,823)	1,985	4,808
(114,487)	(114,487)	-	347,681	347,681	-
\$ (2,150,277)	\$ (89,747)	\$ 2,060,530	\$ 344,858	\$ 349,666	\$ 4,808

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

AB 3229 State COPS Program			
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	141	497	356
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	140,000	187,441	47,441
Proceeds from sale of capital asset	-	-	-
Other revenues	-	-	-
Total Revenues	140,141	187,938	47,797
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	-	-	-
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	140,141	187,938	47,797
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(140,000)	(140,000)	-
Total Other Financing Sources (Uses)	(140,000)	(140,000)	-
Net Change in Fund Balances	141	47,938	47,797
Fund balances at beginning of year	64,500	64,500	-
Fund balances at end of year	\$ 64,641	\$ 112,438	\$ 47,797

CITY OF HESPERIA

Air Quality Management District			Fire District		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ 6,983,929	\$ 7,038,738	\$ 54,809
29	-	(29)	42,970	46,740	3,770
-	-	-	-	-	-
-	-	-	3,561,034	3,050,502	(510,532)
308,800	311,428	2,628	-	29,964	29,964
-	-	-	-	-	-
-	-	-	-	-	-
308,829	311,428	2,599	10,587,933	10,165,944	(421,989)
-	-	-	-	-	-
-	-	-	10,462,703	10,462,703	-
60,000	60,000	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,528	16,528	-	-	-	-
76,528	76,528	-	10,462,703	10,462,703	-
232,301	234,900	2,599	125,230	(296,759)	(421,989)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
232,301	234,900	2,599	125,230	(296,759)	(421,989)
(140,752)	(140,752)	-	197,713	197,713	-
\$ 91,549	\$ 94,148	\$ 2,599	\$ 322,943	\$ (99,046)	\$ (421,989)

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Street Maintenance		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	2,879	4,516	1,637
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	-	-	-
Proceeds from sale of capital asset	-	-	-
Other revenues	2,000	14,520	12,520
Total Revenues	4,879	19,036	14,157
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	3,446,396	3,593,510	(147,114)
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	392,000	83,104	308,896
Infrastructure	-	-	-
Total Expenditures	3,838,396	3,676,614	161,782
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(3,833,517)	(3,657,578)	175,939
Other Financing Sources (Uses):			
Transfers in	3,430,000	3,430,000	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	3,430,000	3,430,000	-
Net Change in Fund Balances	(403,517)	(227,578)	175,939
Fund balances at beginning of year	554,861	554,861	-
Fund balances at end of year	\$ 151,344	\$ 327,283	\$ 175,939

CITY OF HESPERIA

Disaster Preparedness Grant			Environmental Programs		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
182	278	96	-	548	548
-	-	-	-	-	-
-	-	-	-	-	-
22,450	22,351	(99)	149,760	100,859	(48,901)
-	-	-	-	-	-
1,500	-	(1,500)	33,272	57,861	24,589
24,132	22,629	(1,503)	183,032	159,268	(23,764)
17,628	16,906	722	62,197	24,262	37,935
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,628	16,906	722	62,197	24,262	37,935
6,504	5,723	(781)	120,835	135,006	14,171
-	-	-	-	-	-
(75,549)	(76,271)	(722)	-	-	-
(75,549)	(76,271)	(722)	-	-	-
(69,045)	(70,548)	(1,503)	120,835	135,006	14,171
76,271	76,271	-	(9,747)	(9,747)	-
\$ 7,226	\$ 5,723	\$ (1,503)	\$ 111,088	\$ 125,259	\$ 14,171

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Neighborhood Stabilization Program		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	100,206	17,613	(82,593)
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	-	-	-
Proceeds from sale of capital asset	-	-	-
Other revenues	-	-	-
Total Revenues	100,206	17,613	(82,593)
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	713,755	183,015	530,740
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	713,755	183,015	530,740
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(613,549)	(165,402)	448,147
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(613,549)	(165,402)	448,147
Fund balances at beginning of year	2,862,533	2,862,533	-
Fund balances at end of year	\$ 2,248,984	\$ 2,697,131	\$ 448,147

CITY OF HESPERIA

Development Impact Fees Streets			Development Impact Fees Storm Drain		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
501	9,047	8,546	10,947	14,309	3,362
-	-	-	-	-	-
1,652,285	1,777,451	125,166	217,052	233,321	16,269
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,652,786	1,786,498	133,712	227,999	247,630	19,631
-	-	-	-	-	-
-	-	-	-	-	-
110,000	46,085	63,915	-	1,419	(1,419)
-	-	-	-	-	-
-	10,247	(10,247)	68,883	65,464	3,419
-	-	-	-	-	-
550,000	59,732	490,268	-	2,000	(2,000)
660,000	116,064	543,936	68,883	68,883	-
992,786	1,670,434	677,648	159,116	178,747	19,631
-	-	-	-	-	-
-	-	-	(111,457)	(111,457)	-
-	-	-	(111,457)	(111,457)	-
992,786	1,670,434	677,648	47,659	67,290	19,631
8,166,511	8,166,511	-	2,448,262	2,448,262	-
\$ 9,159,297	\$ 9,836,945	\$ 677,648	\$ 2,495,921	\$ 2,515,552	\$ 19,631

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Development Impact Fees Fire		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	4,114	5,269	1,155
Intergovernmental	-	-	-
Charges for services	27,072	24,683	(2,389)
Grants	-	-	-
Proceeds from sale of capital asset	-	-	-
Other revenues	-	-	-
Total Revenues	31,186	29,952	(1,234)
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	-	-	-
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	31,186	29,952	(1,234)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	31,186	29,952	(1,234)
Fund balances at beginning of year	911,060	911,060	-
Fund balances at end of year	\$ 942,246	\$ 941,012	\$ (1,234)

CITY OF HESPERIA

Development Impact Fees Police			Development Impact Fees Public Service		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,254	1,605	351	214	334	120
-	-	-	-	-	-
7,860	7,225	(635)	20,959	20,266	(693)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9,114	8,830	(284)	21,173	20,600	(573)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	16,412	9,633	6,779
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	16,412	9,633	6,779
9,114	8,830	(284)	4,761	10,967	6,206
-	-	-	688,533	-	(688,533)
-	-	-	(688,533)	(688,533)	-
-	-	-	-	(688,533)	(688,533)
9,114	8,830	(284)	4,761	(677,566)	(682,327)
277,712	277,712	-	(781,477)	(781,477)	-
\$ 286,826	\$ 286,542	\$ (284)	\$ (776,716)	\$ (1,459,043)	\$ (682,327)

(Continued)

CITY OF HESPERIA

HOME Grant			Community Development Commission		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19,244	20,076	832	74,863	74,904	41
-	-	-	-	-	-
-	-	-	116,625	40,501	(76,124)
2,100	15,483	13,383	-	-	-
-	-	-	-	-	-
-	-	-	-	455	455
21,344	35,559	14,215	191,488	115,860	(75,628)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	696,076	511,656	184,420
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	696,076	511,656	184,420
21,344	35,559	14,215	(504,588)	(395,796)	108,792
-	-	-	453,588	453,588	-
-	-	-	-	-	-
-	-	-	453,588	453,588	-
21,344	35,559	14,215	(51,000)	57,792	108,792
132,886	132,886	-	11,679,726	11,679,726	-
\$ 154,230	\$ 168,445	\$ 14,215	\$ 11,628,726	\$ 11,737,518	\$ 108,792

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	Hesperia Housing Authority		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	74,000	84,979	10,979
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	-	-	-
Proceeds from sale of capital asset	17,000	-	(17,000)
Other revenues	87,139	87,399	260
Total Revenues	178,139	172,378	(5,761)
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	5,144,804	5,144,804	-
Debt Service:			
Interest	-	-	-
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	5,144,804	5,144,804	-
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(4,966,665)	(4,972,426)	(5,761)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(114,487)	(114,487)	-
Total Other Financing Sources (Uses)	(114,487)	(114,487)	-
Net Change in Fund Balances	(5,081,152)	(5,086,913)	(5,761)
Fund balances at beginning of year	19,228,346	19,228,346	-
Fund balances at end of year	\$ 14,147,194	\$ 14,141,433	\$ (5,761)

(Continued)

CITY OF HESPERIA

VVEDA Housing Authority			Totals		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ 10,983,077	\$ 11,036,294	\$ 53,217
8,172	10,782	2,610	354,016	306,855	(47,161)
-	-	-	2,655,036	2,539,600	(115,436)
-	-	-	5,602,887	5,153,949	(448,938)
-	-	-	2,278,632	3,430,014	1,151,382
-	-	-	17,000	-	(17,000)
-	-	-	123,911	160,235	36,324
8,172	10,782	2,610	22,014,559	22,626,947	612,388
-	-	-	79,825	41,168	38,657
-	-	-	10,462,703	10,462,703	-
150,000	-	150,000	11,688,117	10,684,398	1,003,719
-	-	-	16,412	9,633	6,779
-	-	-	68,883	75,711	(6,828)
-	-	-	392,000	83,104	308,896
-	-	-	8,405,581	3,979,256	4,426,325
150,000	-	150,000	31,113,521	25,335,973	5,777,548
(141,828)	10,782	152,610	(9,098,962)	(2,709,026)	6,389,936
-	-	-	4,572,121	4,178,843	(393,278)
-	-	-	(4,560,026)	(4,560,748)	(722)
-	-	-	12,095	(381,905)	(394,000)
(141,828)	10,782	152,610	(9,086,867)	(3,090,931)	5,995,936
1,707,555	1,707,555	-	51,508,570	51,508,570	-
\$ 1,565,727	\$ 1,718,337	\$ 152,610	\$ 42,421,703	48,417,639	\$ 5,995,936



Debt Service Funds

The Debt Service funds are used to account for the accumulation of resources and the payment of general obligation bond principal and interest from governmental resources, and special assessment bond principal and interest from special assessment levies, when the government is obligated in some manner for the payment.

Individual Debt Service funds are as follows:

Marks-Roos Revenue Bonds - To account for debt service payments on the Marks-Roos Measure I Revenue bonds.

2012 Water Rights – To account for debt service payments on the City's 2012 Water Rights debt issuance.

2013 Refunding of Lease Revenue Bonds – To account for debt service payments on the refunding of the 2005 Variable Rate Certificates of Participation.

SCHEDULE OF COMBINING BALANCE SHEET
ALL DEBT SERVICE FUNDS
June 30, 2017

	Marks-Roos Revenue Bonds	2012 Water Rights	2013 Refunding of Lease Revenue Bonds	Totals
Assets				
Cash and cash equivalents	\$ -	\$ 5,902	\$ 108,645	\$ 114,547
Restricted investments	-	1,454,371	1,151,549	2,605,920
Accrued interest	-	935	805	1,740
Total Assets	<u>\$ -</u>	<u>\$ 1,461,208</u>	<u>\$ 1,260,999</u>	<u>\$ 2,722,207</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted:				
Debt Service	-	1,461,208	1,260,999	2,722,207
Total Fund Balances	<u>-</u>	<u>1,461,208</u>	<u>1,260,999</u>	<u>2,722,207</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 1,461,208</u>	<u>\$ 1,260,999</u>	<u>\$ 2,722,207</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL DEBT SERVICE FUNDS
For the Year Ended June 30, 2017

	Marks-Roos Revenue Bonds		
	Budget	Actual	Variance With Budget
Revenues:			
Use of money and property	\$ 4,403	\$ 517	\$ (3,886)
Charges For Services	-	46,051	46,051
Total Revenues	4,403	46,568	42,165
Expenditures:			
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Total Expenditures	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,403	46,568	42,165
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(180,768)	(180,768)	-
Total Other Financing Sources (Uses)	(180,768)	(180,768)	-
Net Change in Fund Balances	(176,365)	(134,200)	42,165
Fund balances at beginning of year	134,200	134,200	-
Fund balances at end of year	\$ (42,165)	\$ -	\$ 42,165

CITY OF HESPERIA

2012 Water Rights			2013 Refunding of Lease Revenue Bonds		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ 244	\$ 5,893	\$ 5,649	\$ 98	\$ 4,850	\$ 4,752
-	-	-	-	-	-
244	5,893	5,649	98	4,850	4,752
859,375	859,375	-	532,150	532,150	-
580,000	580,000	-	250,000	250,000	-
7,000	2,225	4,775	7,000	2,225	4,775
1,446,375	1,441,600	4,775	789,150	784,375	4,775
(1,446,131)	(1,435,707)	10,424	(789,052)	(779,525)	9,527
1,446,375	1,439,780	(6,595)	789,150	789,150	-
-	-	-	-	-	-
1,446,375	1,439,780	(6,595)	789,150	789,150	-
244	4,073	3,829	98	9,625	9,527
1,457,135	1,457,135	-	1,251,374	1,251,374	-
\$ 1,457,379	\$ 1,461,208	\$ 3,829	\$ 1,251,472	\$ 1,260,999	\$ 9,527

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL

ALL DEBT SERVICE FUNDS

For the Year Ended June 30, 2017

	Totals		
	Budget	Actual	Variance With Budget
Use of money and property	\$ 4,745	\$ 11,260	\$ 6,515
Other revenues	-	46,051	46,051
Total Revenues	4,745	57,311	52,566
Debt Service:			
Interest	1,391,525	1,391,525	-
Principal	830,000	830,000	-
Bond administration expense	14,000	4,450	9,550
Total Expenditures	2,235,525	2,225,975	9,550
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,230,780)	(2,168,664)	62,116
Transfers in	2,235,525	2,228,930	(6,595)
Transfers out	(180,768)	(180,768)	-
Total Other Financing Sources (Uses)	2,054,757	2,048,162	(6,595)
Net Change in Fund Balances	(176,023)	(120,502)	55,521
Fund balances at beginning of year	2,842,709	2,842,709	-
Fund balances at end of year	\$ 2,666,686	\$ 2,722,207	\$ 55,521



Capital Project Funds

The Capital Project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Individual Capital Project funds are as follows:

City Projects - To account for funds designated for various capital projects throughout the City.

Township - To account for funds designated for the restoration of the City's township area.

Fire Capital – To account for the funds restricted for capital purchases of the Hesperia Fire Protection District.

SCHEDULE OF COMBINING BALANCE SHEET
ALL CAPITAL PROJECTS FUNDS
June 30, 2017

	City Projects	Township	Fire Capital	Totals
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 5,493,284	\$ 5,493,284
Accounts receivable	-	-	-	-
Accrued interest	-	-	8,787	8,787
Due from other governmental agencies	2,310	-	-	2,310
Due from other funds	-	-	601,639	601,639
Total Assets	<u>\$ 2,310</u>	<u>\$ -</u>	<u>\$ 6,103,710</u>	<u>\$ 6,106,020</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ -	\$ -	\$ 293,132	\$ 293,132
Due to other funds	10,515	-	-	10,515
Total Liabilities	<u>10,515</u>	<u>-</u>	<u>293,132</u>	<u>303,647</u>
Fund Balances				
Committed:				
Public safety	-	-	5,810,578	5,810,578
Unassigned	(8,205)	-	-	(8,205)
Total Fund Balances (Deficits)	<u>(8,205)</u>	<u>-</u>	<u>5,810,578</u>	<u>5,802,373</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,310</u>	<u>\$ -</u>	<u>\$ 6,103,710</u>	<u>\$ 6,106,020</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2017

	City Projects		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	-	-	-
Grants	2,696,484	38,778	(2,657,706)
Total Revenues	2,696,484	38,778	(2,657,706)
Expenditures:			
Capital Outlay:			
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	2,733,034	7,337	2,725,697
Total Expenditures	2,733,034	7,337	2,725,697
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,550)	31,441	67,991
Other Financing Sources (Uses):			
Transfers in	-	111,457	111,457
Total Other Financing Sources (Uses)	-	111,457	111,457
Net Change in Fund Balances	(36,550)	142,898	179,448
Fund balances at beginning of year	(151,103)	(151,103)	-
Fund balances at end of year	\$ (187,653)	\$ (8,205)	\$ 179,448

CITY OF HESPERIA

Township			Fire Capital		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ 807,739	\$ 803,524	\$ (4,215)
423	-	(423)	20,609	29,541	8,932
-	-	-	-	-	-
423	-	(423)	828,348	833,065	4,717
-	-	-	212,600	184,322	28,278
-	-	-	215,000	483,537	(268,537)
-	-	-	-	-	-
-	-	-	427,600	667,859	(240,259)
423	-	(423)	400,748	165,206	(235,542)
-	-	-	-	-	-
-	-	-	-	-	-
423	-	(423)	400,748	165,206	(235,542)
-	-	-	5,645,372	5,645,372	-
\$ 423	\$ -	\$ (423)	\$ 6,046,120	\$ 5,810,578	\$ (235,542)

(Continued)

CITY OF HESPERIA

(Continued)

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2017

	Totals		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 807,739	\$ 803,524	\$ (4,215)
Use of money and property	21,032	29,541	8,509
Grants	2,696,484	38,778	(2,657,706)
Total Revenues	3,525,255	871,843	(2,653,412)
Expenditures:			
Capital Outlay:			
Buildings and improvements	212,600	184,322	28,278
Equipment and vehicles	215,000	483,537	(268,537)
Infrastructure	2,733,034	7,337	2,725,697
Total Expenditures	3,160,634	675,196	2,485,438
Excess (Deficiency) of Revenues Over (Under) Expenditures	364,621	196,647	(167,974)
Other Financing Sources (Uses):			
Transfers in	-	111,457	111,457
Total Other Financing Sources (Uses)	-	111,457	111,457
Net Change in Fund Balances	364,621	308,104	(56,517)
Fund balances at beginning of year	5,494,269	5,494,269	-
Fund balances at end of year	\$ 5,858,890	\$ 5,802,373	\$ (56,517)

CITY OF HESPERIA

Statistical Section Narrative

The schedules of this statistical section fall into one of five broad classifications of information which include:

Financial Trends Information is intended to assist users in understanding and assessing how a government's financial position has changed over time.

- Net Position By Component
- Changes In Net Position
- Fund Balances Of Governmental Funds
- Changes In Fund Balances Of Governmental Funds

Revenue Capacity Information is intended to assist users in understanding and assessing factors affecting a government's ability to generate its own revenue. As 59% of the revenues are tax related, and of that, 73% is property taxes, emphasis on the valuation of the taxable property is a significant item to monitor.

- Assessed Value And Estimated Actual Value Of Taxable Property

Debt Capacity Information is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

- Direct And Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies And Collections
- Ratios Of Outstanding Debt By Type
- Ratio Of General Bonded Debt Outstanding
- Direct And Overlapping Bonded Debt
- Computation Of Legal Debt Margin
- Pledged-Revenue Coverage

Demographic and Economic Information is intended to assist users in understanding the socioeconomic environment within which a government operates and provide information that facilitates comparison of financial statement information over time and among governments.

- Demographic And Economic Statistics
- Principal Employers
- Full-time And Part-time City Employees

Operating Information is intended to provide information about operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

- Operating Indicators
- Capital Asset Statistics
- Water Sold by Type of Customer
- Water Rates
- Water Customers

CITY OF HESPERIA
Net Position By Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2008	2009	2010
Governmental activities:			
Net investment in capital assets	\$ 27,606,544	\$ 51,395,013	\$ 79,556,447
Restricted	11,244,302	11,048,328	10,967,421
Unrestricted	113,165,454	99,463,958	66,877,531
Total governmental activities net position	<u>\$ 152,016,300</u>	<u>\$ 161,907,299</u>	<u>\$ 157,401,399</u>
Business-type activities:			
Net investment in capital assets	\$ 71,858,235	\$ 77,907,459	\$ 72,865,322
Restricted	395,472	395,487	1,890,305
Unrestricted	14,100,209	3,940,107	5,397,455
Total business-type activities net position	<u>\$ 86,353,916</u>	<u>\$ 82,243,053</u>	<u>\$ 80,153,082</u>
Primary government:			
Net investment in capital assets	\$ 99,464,779	\$ 129,302,472	\$ 152,421,769
Restricted	11,639,774	11,443,815	12,857,726
Unrestricted	127,265,663	103,404,065	72,274,986
Total primary government net position	<u>\$ 238,370,216</u>	<u>\$ 244,150,352</u>	<u>\$ 237,554,481</u>

Fiscal Year						
2011	2012	2013	2014	2015	2016	2017
\$ 15,931,422	\$ 189,466,908	\$ 199,998,092	\$ 196,334,806	\$ 194,674,329	\$ 177,890,141	\$ 174,609,141
31,239,474	3,319,579	4,716,324	3,491,444	3,490,014	2,603,522	2,605,920
95,066,145	94,166,563	57,116,661	56,929,048	38,258,568	46,998,283	40,510,364
<u>\$ 142,237,041</u>	<u>\$ 286,953,050</u>	<u>\$ 261,831,077</u>	<u>\$ 256,755,298</u>	<u>\$ 236,422,911</u>	<u>\$ 227,491,946</u>	<u>\$ 217,725,425</u>
\$ 77,118,870	\$ 75,034,007	\$ 73,201,861	\$ 84,373,971	\$ 82,701,051	\$ 81,151,492	\$ 82,779,673
1,890,305	1,890,305	1,890,305	1,888,888	1,888,888	1,888,888	1,888,901
(1,343,492)	582,099	3,194,673	2,588,449	1,289,583	1,747,965	527,087
<u>\$ 77,665,683</u>	<u>\$ 77,506,411</u>	<u>\$ 78,286,839</u>	<u>\$ 88,851,308</u>	<u>\$ 85,879,522</u>	<u>\$ 84,788,345</u>	<u>\$ 85,195,661</u>
\$ 93,050,292	\$ 264,500,915	\$ 273,199,953	\$ 280,708,777	\$ 277,375,380	\$ 259,041,633	\$ 257,388,814
33,129,779	5,209,884	6,606,629	5,380,332	5,378,902	4,492,410	4,494,821
93,722,653	94,748,662	60,311,334	59,517,497	39,548,151	48,746,248	41,037,451
<u>\$ 219,902,724</u>	<u>\$ 364,459,461</u>	<u>\$ 340,117,916</u>	<u>\$ 345,606,606</u>	<u>\$ 322,302,433</u>	<u>\$ 312,280,291</u>	<u>\$ 302,921,086</u>

CITY OF HESPERIA
Changes In Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2008	2009	2010
Expenses:			
Governmental activities:			
General government	\$ 8,301,031	\$ 9,102,750	\$ 8,786,012
Public safety	19,464,330	21,009,383	21,219,049
Development services	38,592,916	40,695,333	37,148,535
Interest on long-term debt	8,351,815	11,912,918	10,578,499
Total governmental activities expenses	<u>74,710,092</u>	<u>82,720,384</u>	<u>77,732,095</u>
Business-type activities:			
Water	16,188,975	17,791,420	18,798,545
Wastewater	1,535,628	1,711,325	2,147,458
Total business-type activities expenses	<u>17,724,603</u>	<u>19,502,745</u>	<u>20,946,003</u>
Total primary government expenses	<u>92,434,695</u>	<u>102,223,129</u>	<u>98,678,098</u>
Program revenues:			
Governmental activities:			
Charges for services:			
General government	4,274,093	3,519,236	4,138,402
Public safety	2,665,407	2,826,597	3,020,727
Transportation	-	-	-
Development services	6,700,907	5,674,976	1,833,726
Operating grants and contributions	6,580,808	9,029,552	10,668,638
Capital grants and contributions	-	597,997	-
Total governmental activities			
program revenues	<u>20,221,215</u>	<u>21,648,358</u>	<u>19,661,493</u>
Business-type activities:			
Charges for services:			
Water	12,409,854	14,716,219	15,002,475
Wastewater	2,661,434	2,723,568	2,990,700
Operating grants and contributions	-	-	-
Capital grants and contributions	-	-	-
Total business-type activities			
program revenues	<u>15,071,288</u>	<u>17,439,787</u>	<u>17,993,175</u>
Total primary government			
program revenues	<u>35,292,503</u>	<u>39,088,145</u>	<u>37,654,668</u>
Net revenues (expenses):			
Governmental activities	(54,488,877)	(61,072,026)	(58,070,602)
Business-type activities	(2,653,315)	(2,062,958)	(2,952,828)
Total net revenues (expenses)	<u>(57,142,192)</u>	<u>(63,134,984)</u>	<u>(61,023,430)</u>

Fiscal Year

2011	2012	2013	2014	2015	2016	2017
\$ 7,057,475	\$ 7,199,392	\$ 6,952,050	\$ 8,305,493	\$ 7,268,741	\$ 7,867,596	\$ 8,943,760
21,768,668	21,141,500	21,849,650	24,063,447	25,164,286	25,512,637	27,464,389
37,275,002	46,365,807	21,179,809	20,376,539	18,290,886	17,558,931	24,946,499
9,726,254	5,443,347	1,056,514	1,783,967	1,530,538	1,453,069	1,406,880
75,827,399	80,150,046	51,038,023	54,529,446	52,254,451	52,392,233	62,761,528
19,928,163	18,193,068	17,675,402	19,014,005	17,285,767	17,886,564	18,142,254
2,680,585	2,531,776	2,851,639	2,944,634	2,912,437	3,039,080	3,315,505
22,608,748	20,724,844	20,527,041	21,958,639	20,198,204	20,925,644	21,457,759
98,436,147	100,874,890	71,565,064	76,488,085	72,452,655	73,317,877	84,219,287
4,563,118	4,389,440	4,748,681	4,696,201	4,348,094	4,645,281	5,706,695
2,517,304	3,732,817	3,717,361	4,531,678	4,741,715	3,712,048	3,605,671
-	-	-	18,488	25,230	3,156	2,724
1,919,336	692,724	1,120,325	867,793	1,124,106	1,439,939	2,196,396
5,788,385	6,811,296	6,810,068	7,199,155	6,717,219	6,697,290	8,680,855
1,316,660	14,626,795	10,047,639	2,506,222	150,598	172,319	256,246
16,104,803	30,253,072	26,444,074	19,819,537	17,106,962	16,670,033	20,448,587
15,926,606	16,205,787	16,664,347	16,243,222	15,783,240	14,822,201	15,727,618
3,207,605	3,354,291	3,499,280	3,513,751	3,608,367	3,633,380	3,679,006
-	-	-	-	-	-	-
-	-	-	-	-	-	213,722
19,134,211	19,560,078	20,163,627	19,756,973	19,391,607	18,455,581	19,620,346
35,239,014	49,813,150	46,607,701	39,576,510	36,498,569	35,125,614	40,068,933
(59,722,596)	(49,896,974)	(24,593,949)	(34,709,909)	(35,147,489)	(35,722,200)	(42,312,941)
(3,474,537)	(1,164,766)	(363,414)	(2,201,666)	(806,597)	(2,470,063)	(1,837,413)
(63,197,133)	(51,061,740)	(24,957,363)	(36,911,575)	(35,954,086)	(38,192,263)	(44,150,354)

(Continued)

(Continued)

CITY OF HESPERIA
Changes In Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2008	2009	2010
General revenues and other changes in net position:			
Governmental activities:			
Taxes:			
Property taxes	42,188,578	42,664,300	31,253,867
Sales and use tax	9,141,364	6,803,504	7,035,338
Transient occupancy tax	742,791	607,951	807,411
Franchise tax	2,255,427	2,587,274	2,450,261
Document transfer tax	223,588	206,900	175,336
Vehicle license fees	8,635,844	8,543,817	7,069,737
Income from property and investments	8,228,698	5,711,989	4,240,121
Gain/(loss) on disposal of capital assets	-	-	(4,015)
Special Item - Loss on exchange of capital assets	-	-	-
Unrestricted capital contributions	-	119,529	-
Other general revenues and transfers	3,793,760	3,717,761	536,646
Gain on sale / exchange of asset	-	-	-
Total governmental activities before extraordinary gain/(loss)	75,210,050	70,963,025	53,564,702
Extraordinary gain/(loss)	-	-	-
Total governmental activities	75,210,050	70,963,025	53,564,702
Business-type activities:			
Property taxes	368,104	293,773	247,343
Unrestricted investment earnings	926,463	326,570	36,712
Unrestricted system improvement and replacement	3,975,273	555,950	498,973
Gain on sale / exchange of asset	-	-	-
Other revenues and transfers	(3,269,333)	(3,224,198)	79,829
Total business-type revenues and transfers	2,000,507	(2,047,905)	862,857
Total primary government	77,210,557	68,915,120	54,427,559
Changes in net position:			
Governmental activities	20,721,173	9,890,999	(4,505,900)
Business-type activities	(652,808)	(4,110,863)	(2,089,971)
Total primary government	\$ 20,068,365	\$ 5,780,136	\$ (6,595,871)

Fiscal Year						
2011	2012	2013	2014	2015	2016	2017
25,705,048	16,896,764	6,745,176	7,301,566	6,651,348	7,136,879	7,657,562
7,509,243	8,845,389	9,916,642	10,124,237	10,042,299	10,455,912	10,390,005
843,063	913,867	852,692	1,040,271	1,163,434	1,148,212	1,101,101
2,497,862	2,575,946	2,708,952	2,978,024	3,196,630	3,257,019	3,231,198
153,516	153,764	141,089	147,482	231,387	209,218	269,704
6,495,727	6,033,936	5,977,260	6,194,705	6,534,189	7,044,997	7,417,786
951,489	652,530	404,833	1,745,715	1,839,817	1,936,799	2,274,694
-	-	-	-	-	-	-
-	-	-	-	-	(303,550)	-
-	-	-	-	-	-	70,935
402,290	173,276	69,873	66,929	534,129	302,988	133,435
-	-	-	35,201	-	-	-
44,558,238	36,245,472	26,816,517	29,634,130	30,193,233	31,188,474	32,546,420
-	158,367,511	(26,855,890)	-	-	(4,061,284)	-
44,558,238	194,612,983	(39,373)	29,634,130	30,193,233	27,127,190	32,546,420
262,581	283,473	285,575	320,722	287,410	320,590	357,298
130,657	11,591	14,569	14,717	13,743	28,609	59,225
187,560	307,599	157,211	306,762	414,951	575,453	1,321,835
-	-	-	-	-	-	43,725
406,340	402,831	932,374	394,474	341,505	454,234	462,646
987,138	1,005,494	1,389,729	1,036,675	1,057,609	1,378,886	2,244,729
45,545,376	195,618,477	1,350,356	30,670,805	31,250,842	28,506,076	34,791,149
(15,164,358)	144,716,009	(24,633,322)	(5,075,779)	(4,954,256)	(8,595,010)	(9,766,521)
(2,487,399)	(159,272)	1,026,315	(1,164,991)	251,012	(1,091,177)	407,316
\$ (17,651,757)	\$ 144,556,737	\$ (23,607,007)	\$ (6,240,770)	\$ (4,703,244)	\$ (9,686,187)	\$ (9,359,205)

CITY OF HESPERIA
Fund Balances Of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			2011 (a)	2012
	2008	2009	2010		
General Fund:					
Nonspendable				\$ -	\$ -
Assigned				150,000	150,000
Unassigned				16,773,804	17,067,559
Total General Fund				<u>\$ 16,923,804</u>	<u>\$ 17,217,559</u>
 Other Governmental Funds:					
Nonspendable				\$ 54,505,126	\$ 41,390,561
Restricted				53,740,154	41,136,183
Committed				19,152,637	-
Assigned				-	451,030
Unassigned				(16,625,775)	(167,130)
Total Other Governmental Funds				<u>\$ 110,772,142</u>	<u>\$ 82,810,644</u>
 General fund:					
Reserved	\$ 150,000	\$ 150,000	\$ 150,000		
Unreserved	23,013,889	21,101,356	17,395,078		
Total general fund	<u>\$ 23,163,889</u>	<u>\$ 21,251,356</u>	<u>\$ 17,545,078</u>		
 All other governmental funds:					
Reserved	\$ 194,005,136	\$ 177,067,847	\$ 147,485,950		
Unreserved, reported in:					
Special revenue funds	27,861,161	20,568,534	18,147,737		
Debt service funds	-	-	-		
Capital projects funds	7,053,736	2,366,513	239,351		
Total all other governmental funds	<u>\$ 228,920,033</u>	<u>\$ 200,002,894</u>	<u>\$ 165,873,038</u>		

Notes:

(a) The City implemented GASB statement No. 54 in the fiscal year ended June 30, 2011.

Fiscal Year				
2013	2014	2015	2016	2017
\$ -	\$ -	\$ -	\$ 844,842	\$ 1,520,637
150,000	150,000	150,000	150,000	150,000
12,737,884	12,701,103	10,697,900	9,819,579	6,300,468
<u>\$ 12,887,884</u>	<u>\$ 12,851,103</u>	<u>\$ 10,847,900</u>	<u>\$ 10,814,421</u>	<u>\$ 7,971,105</u>
\$ 23,473,585	\$ 9,762,337	\$ -	\$ -	\$ 7,380
17,209,534	16,684,194	51,360,979	60,910,649	58,598,260
11,403,713	25,767,388	-	-	-
1,054,216	1,012,802	574,819	554,861	-
(710,853)	(523,597)	(514,947)	(1,619,962)	(1,663,421)
<u>\$ 52,430,195</u>	<u>\$ 52,703,124</u>	<u>\$ 51,420,851</u>	<u>\$ 59,845,548</u>	<u>\$ 56,942,219</u>

CITY OF HESPERIA
Changes In Fund Balances Of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year		
	2008	2009	2010
Revenues:			
Taxes	\$ 55,405,322	\$ 53,503,130	\$ 42,821,733
Licenses and permits	236,382	229,900	251,204
Fines and forfeits	794,088	835,690	859,690
Use of money and property	8,261,151	5,760,927	4,379,612
Intergovernmental	14,407,875	14,884,925	12,344,269
Charges for services	8,862,460	6,422,964	4,600,020
Grants	1,524,833	4,724,661	5,788,214
Other revenues	2,025,167	1,974,849	1,187,413
Total revenues	<u>91,517,278</u>	<u>88,337,046</u>	<u>72,232,155</u>
Expenditures:			
Noncapital Expenditures:			
Current:			
General government	6,410,608	6,689,322	6,464,233
Public safety	19,227,144	20,670,110	20,884,512
Development services	19,311,962	21,551,931	13,149,584
Debt service:			
Interest	6,693,786	10,369,890	10,230,950
Principal	6,910,000	4,590,000	5,822,924
Debt issuance costs	3,060,015	-	-
Pass through payments	15,541,970	15,709,763	11,141,960
SERAF payment	-	-	8,161,869
Bond administration expense	203,355	154,547	285,992
Total noncapital expenditures	<u>77,358,840</u>	<u>79,735,563</u>	<u>76,142,024</u>
Capital outlay	<u>32,525,962</u>	<u>41,284,155</u>	<u>38,182,265</u>
Total Expenditures	<u>109,884,802</u>	<u>121,019,718</u>	<u>114,324,289</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,367,524)</u>	<u>(32,682,672)</u>	<u>(42,092,134)</u>
Other financing sources (uses):			
Transfers in	25,062,588	23,554,164	17,043,360
Transfers out	(25,062,588)	(23,554,164)	(17,043,360)
Proceeds from sale of capital assets	-	-	-
Proceeds from bond refunding	-	-	-
Payment to refund bond	-	-	-
Discount on bonds	-	-	-
Premium on issuance of bonds	-	-	-
Issuance of debt	160,289,820	1,853,000	4,256,000
Total other financing sources (uses)	<u>160,289,820</u>	<u>1,853,000</u>	<u>4,256,000</u>
Extraordinary gain/(loss)			
Prior period adjustment	-	-	-
Extraordinary gain/(loss)	-	-	-
Dissolution of redevelopment agency	-	-	-
Total extraordinary gain/(loss)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ 141,922,296</u>	<u>\$ (30,829,672)</u>	<u>\$ (37,836,134)</u>
Debt service as a percentage of noncapital expenditures	17.6%	18.8%	21.1%

Notes:

Debt Service as a Percentage of Noncapital Expenditures is calculated by dividing the sum of the debt service expenditures by the total noncapital expenditures.

Fiscal Year						
2011	2012	2013	2014	2015	2016	2017
\$ 39,660,004	\$ 33,248,360	\$ 24,185,906	\$ 25,810,277	\$ 24,857,082	\$ 25,753,020	\$ 25,563,592
255,836	272,834	254,140	274,845	249,645	218,187	202,800
783,589	691,028	1,000,528	1,078,299	730,759	611,892	692,958
1,143,298	640,468	385,822	305,202	336,889	279,643	379,097
10,387,784	10,310,032	10,339,295	10,570,236	10,956,809	11,569,248	11,953,716
3,984,185	4,232,754	4,507,550	5,244,644	6,021,914	6,236,834	7,563,827
2,622,114	16,023,836	10,097,612	3,069,915	1,640,455	1,447,056	3,501,501
1,458,152	1,125,924	1,343,397	3,259,028	2,406,483	2,462,075	2,623,371
60,294,962	66,545,236	52,114,250	49,612,446	47,200,036	48,577,955	52,480,862
5,763,613	6,026,623	5,685,578	6,307,766	5,884,810	6,133,879	7,067,037
21,030,984	20,368,993	20,985,359	23,297,100	24,521,949	24,612,969	25,992,896
19,884,334	27,950,655	13,530,819	12,756,306	10,780,744	11,755,745	16,720,178
9,474,632	4,333,082	320,722	1,174,686	1,439,244	1,421,297	1,401,158
31,544,872	5,179,771	1,250,000	1,705,000	1,605,000	5,385,000	830,000
-	-	194,352	193,035	-	29,808	-
8,893,177	5,033,794	-	-	-	-	-
1,680,385	-	-	-	-	-	-
617,322	377,174	348,433	277,518	91,441	-	4,450
98,889,319	69,270,092	42,315,263	45,711,411	44,323,188	49,338,698	52,015,719
17,127,815	21,627,384	44,304,198	5,196,460	6,162,324	5,611,919	6,211,788
116,017,134	90,897,476	86,619,461	50,907,871	50,485,512	54,950,617	58,227,507
(55,722,172)	(24,352,240)	(34,505,211)	(1,295,425)	(3,285,476)	(6,372,662)	(5,746,645)
45,960,444	5,346,800	6,432,019	20,618,002	8,521,039	6,025,208	6,735,501
(45,960,444)	(5,346,800)	(6,432,019)	(20,618,002)	(8,521,039)	(6,025,208)	(6,735,501)
-	99,178	-	136,143	-	-	-
-	-	-	12,445,000	-	-	-
-	-	-	(12,200,000)	-	-	-
-	-	(196,400)	(114,570)	-	-	-
-	-	112,377	-	-	-	-
-	-	26,735,000	-	-	-	-
-	99,178	26,650,977	266,573	-	-	-
-	-	-	-	1,265,000	18,825,164	-
-	-	-	-	-	(4,061,284)	-
-	(3,414,681)	(26,855,890)	-	-	-	-
-	(3,414,681)	(26,855,890)	-	1,265,000	14,763,880	-
\$ (55,722,172)	\$ (27,667,743)	\$ (34,710,124)	\$ (1,028,852)	\$ (2,020,476)	\$ 8,391,218	\$ (5,746,645)
41.5%	13.7%	3.7%	6.3%	6.9%	13.8%	4.3%

CITY OF HESPERIA
Assessed Value And Estimated Actual Value Of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

	City			Taxable Assessed Value	Redevelopment Agency ¹			Taxable Assessed Value	Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions		Secured	Unsecured	Less: Exemptions		
2008	5,813,485	128,913	(82,912)	5,859,486	4,701,132	122,542	(67,725)	4,755,949	0.179%
2009	5,802,745	146,469	(84,671)	5,864,543	4,692,402	138,930	(69,007)	4,762,325	0.179%
2010	4,750,711	162,847	(84,206)	4,829,352	3,884,266	156,308	(68,378)	3,972,196	0.179%
2011	4,220,587	148,355	(85,626)	4,283,316	1,882,185	83,764	(69,523)	1,896,426	0.179%
2012	4,181,230	145,580	(84,302)	4,242,508	1,848,240	80,887	(68,407)	1,860,720	0.179%
2013	4,145,686	145,628	(82,030)	4,209,284	-	-	-	-	0.179%
2014	4,323,310	153,406	(80,383)	4,396,333	-	-	-	-	0.179%
2015	4,568,877	153,174	(78,497)	4,643,554	-	-	-	-	0.179%
2016	4,927,737	163,458	(77,065)	5,014,130	-	-	-	-	0.179%
2017	5,180,485	149,700	(81,295)	5,248,890	-	-	-	-	0.179%

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

1 - Redevelopment Agency was dissolved on February 1, 2012.

Source: San Bernardino County Assessor's Office

CITY OF HESPERIA
Direct And Overlapping Property Tax Rates
(Rate per \$100 of assessed value)
Last Ten Fiscal Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
City Direct Rates:										
City basic rate	0.016	0.016	0.016	0.016	0.016	0.016	0.016	0.016	0.016	0.016
Hesperia Fire Protection District	0.153	0.153	0.153	0.153	0.153	0.153	0.153	0.153	0.153	0.153
Hesperia Water District	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010
Total City Direct Rate	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>	<u>0.179</u>
Overlapping Rates:										
County of San Bernardino	0.142	0.142	0.142	0.142	0.142	0.142	0.142	0.142	0.142	0.142
ERAF	0.215	0.215	0.215	0.215	0.215	0.215	0.215	0.215	0.215	0.215
Flood Control	0.023	0.023	0.022	0.022	0.022	0.022	0.022	0.022	0.022	0.022
County Free Library	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014
County Superintendent of Schools	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010
Victor Valley Community College	0.064	0.064	0.064	0.064	0.064	0.064	0.064	0.064	0.064	0.064
Hesperia Unified School District	0.295	0.295	0.295	0.295	0.295	0.295	0.295	0.295	0.295	0.295
CSA 60 - Victorville	0.009	0.009	0.009	0.009	0.009	0.009	0.009	0.009	0.009	0.009
CSA 70 - County Wide	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002
Hesperia Park District	0.042	0.042	0.043	0.043	0.043	0.043	0.043	0.043	0.043	0.043
Mojave Water Agency	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005
Total expenditures	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>

Note:

In 1978, California voters passed Proposition 13 which sets the property tax rate at 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within.

Source: County of San Bernardino Assessor's Office

CITY OF HESPERIA
Principal Property Tax Payers
Current Year and 9 Fiscal Years Ago

Taxpayer	2017		2008	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Carl E. Ross Trust	\$ 36,489,357	0.68%	\$ 32,243,431	0.54%
Walmart Stores, Inc	29,225,603	0.55%	11,090,972	0.19%
Target Corporation	24,464,666	0.46%	-	0.00%
Best Way Disposal Company, Inc.	15,400,400	0.29%	-	0.00%
WLPX Hesperia LLC.	22,394,297	0.42%	-	0.00%
Ryan Hekmat	17,100,780	0.32%	-	0.00%
RIM Properties	16,553,979	0.31%	-	0.00%
Dr. Prem Family Foundation	14,978,259	0.28%	-	0.00%
Sparky's Storage 18 CA LP	14,644,982	0.27%	-	0.00%
Villas 154 LP	13,140,601	0.25%	-	0.00%
Frontier Homes LLC.	-	0.00%	20,992,443	0.35%
Rancho Las Flores LP	-	0.00%	18,422,953	0.31%
Bella Rosa at Hesperia LLC	-	0.00%	15,323,417	0.26%
Moradi Family Trust	-	0.00%	15,085,800	0.25%
Hesperia Marketplace CAP PTRS	-	0.00%	12,623,000	0.21%
Hesperia Gateway Marketplace LLC	-	0.00%	11,964,600	0.20%
Hesperia Senior HLTH Care HSE GRP 1	-	0.00%	11,118,000	0.19%
Crossings at Hesperia LP.	-	0.00%	10,764,399	0.18%
	<u>\$ 204,392,924</u>	3.83%	<u>\$ 159,629,015</u>	2.69%

Notes:

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Source: County of San Bernardino Assessor's Office

CITY OF HESPERIA

Property Tax Levies And Collections

Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2008	36,836,222	33,657,968	91%	1,025,937	34,683,905	94%
2009	36,477,907	33,501,312	92%	853,768	34,355,080	94%
2010	28,277,084	25,680,061	91%	628,774	26,308,835	93%
2011	23,860,596	23,016,499	96%	353,561	23,370,060	98%
2012	15,384,704	14,704,816	96%	361,624	15,066,440	98%
2013	4,240,895	4,016,467	95%	103,502	4,119,969	97%
2014	4,312,226	4,073,475	94%	89,895	4,163,370	97%
2015	4,303,341	4,265,574	99%	28,706	4,294,280	100%
2016	4,466,513	4,300,003	96%	102,628	4,402,631	99%
2017	4,543,086	4,388,374	97%	-	4,388,374	97%

Note:

The amounts presented include City property taxes and Redevelopment Agency tax increment. This schedule also includes amounts collected by the City and Redevelopment Agency that were passed-through to other agencies.

The Total Collections to Date have decreased due to the Hesperia Community Redevelopment Agency being shut down by the State of California as of February 1, 2012.

Source: County of San Bernardino Auditor Controller's Office

CITY OF HESPERIA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities						Total Governmental Activities
	Tax Revenue Bonds	Tax Allocation Bonds ^{1, 3}	Certificates of Participation	Lease Revenue Bonds	Loans	Notes Payable ³	
2008	8,655,000	198,805,000	14,300,000	-	1,350,000	-	223,110,000
2009	8,135,000	195,585,000	14,100,000	-	1,050,000	1,503,000	220,373,000
2010	7,595,000	192,470,000	13,900,000	-	900,000	3,941,077	218,806,077
2011	7,035,000	164,105,000	13,700,000	-	600,000	1,821,205	187,261,205
2012	6,455,000	-	13,200,000	-	450,000	-	20,105,000
2013	5,855,000	-	12,700,000	26,735,000	300,000	-	45,590,000
2014	5,235,000	-	-	38,745,000	150,000	-	44,130,000
2015	4,590,000	-	-	37,935,000	-	-	42,525,000
2016	-	-	-	37,140,000	-	-	37,140,000
2017	-	-	-	36,310,000	-	-	36,310,000

Notes:

Details regarding the City's outstanding debt can be found in the notes (Note 5) to the financial statements.

1 The RDA issued \$49.3 million of refunding bonds and new debt in 2005.

2 These ratios are calculated using personal income and population for the prior calendar year.

3 In 2012 the RDA dissolution caused the bonds and notes payable to go to the Successor Agency to the RDA, a private-purpose trust.

Business-type Activities						
Water Revenue Bonds	Certificates of Participation	Loans	Total Business-type Activities	Total Primary Governmental	Percentage of Personal Income ²	Debt Per Capita ²
15,530,000	1,075,000	554,652	17,159,652	240,269,652	15.02%	2,736
14,880,000	1,035,000	188,671	16,103,671	236,476,671	15.01%	2,682
14,205,000	990,000	-	15,195,000	234,001,077	15.72%	2,645
13,500,000	940,000	-	14,440,000	201,701,205	13.15%	2,223
12,770,000	885,000	-	13,655,000	33,760,000	2.14%	372
12,010,000	825,000	-	12,835,000	58,425,000	3.88%	642
11,220,000	760,000	-	11,980,000	56,110,000	3.93%	613
10,400,000	690,000	-	11,090,000	53,615,000	3.61%	582
9,545,000	615,000	-	10,160,000	47,300,000	2.88%	507
8,660,000	535,000	-	9,195,000	45,505,000	2.66%	488

CITY OF HESPERIA

Ratio of General Bonded Debt Outstanding Last Ten Fiscal Years

(In Thousands, except Per Capita)

Fiscal Year Ended June 30	Outstanding General Bonded Debt			Percent of Assessed Value ¹	Per Capita
	Tax Allocation Bonds	Water General Obligation Bonds	Total Governmental Activities		
2008	198,805	-	198,805	3.39%	2,320
2009	195,585	-	195,585	3.34%	2,227
2010	192,470	-	192,470	3.99%	2,183
2011	164,105	-	164,105	3.83%	1,855
2012	-	-	-	0.00%	-
2013	-	-	-	0.00%	-
2014	-	-	-	0.00%	-
2015	-	-	-	0.00%	-
2016	-	-	-	0.00%	-
2017	-	-	-	0.00%	-

General bonded debt is debt payable with governmental fund resources (of which, with the RDA dissolution, the City now has none; and general obligation bonds recorded in enterprise funds (of which the City now has none).

1 - Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

CITY OF HESPERIA

Direct And Overlapping Bonded Debt

June 30, 2017

	<u>Total Debt</u> <u>6/30/17</u>	<u>Percentage</u> <u>Applicable ⁽¹⁾</u>	<u>Net Bonded</u> <u>Debt</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Overlapping debt:			
Victor Valley Joint Community College District	135,027,822	19.230%	25,965,850
Total Overlapping Tax and Assessment Debt			<u>\$ 25,965,850</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</u>			
Direct debt:			
City of Hesperia 2013 Refunding of 2005 Certificates of Participation	11,710,000	100.000%	11,710,000
City of Hesperia 2012 Revenue Bonds Water Rights Acquisition	24,600,000	100.000%	24,600,000
Sub-total Direct Debt			<u>36,310,000</u>
Overlapping debt:			
San Bernardino County General Fund Obligations	399,400,000	2.726%	10,887,644
San Bernardino County Pension Obligations	379,612,328	2.726%	10,348,232
San Bernardino County Flood Control District Certificates of Participation	73,680,000	2.726%	2,008,517
Mojave Water Agency Certificates of Participation	9,085,000	16.614%	1,509,382
Hesperia Unified School District Certificates of Participation	122,405,000	84.246%	103,121,316
Snowline Joint Union High School District Certificates of Participation	65,010,000	84.246%	54,768,325
Sub-total Overlapping Debt			<u>182,643,416</u>
Total Gross Direct And Overlapping General Fund Obligation Debt			<u>\$ 218,953,416</u>
<u>OVERLAPPING TAX INCREMENT DEBT</u>	445,444,925	3.239-100.000%	<u>\$ 151,215,536</u>
COMBINED TOTAL DEBT			<u>\$ 396,134,802</u> ⁽²⁾
Direct Debt:			
General Fund Obligation Debt			<u>36,310,000</u>
Sub-total Direct Debt			<u>36,310,000</u>
Overlapping Debt:			
Tax and Assessment Debt			25,965,850
General Fund Obligation Debt			182,643,416
Tax Increment Debt			<u>151,215,536</u>
Sub-total Overlapping Debt			<u>359,824,802</u>
COMBINED TOTAL DEBT			<u>\$ 396,134,802</u>

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$36,310,000)	0.81%
Combined Total Debt	7.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/17: \$ -

Source: California Municipal Statistics, Inc.

CITY OF HESPERIA

Computation Of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Total assessed value of all real and personal property	\$ 5,859,486,000	\$ 5,864,543,000	\$ 4,829,352,000	\$ 4,283,316,000
Debt limit percentage (1)	15.00%	15.00%	15.00%	15.00%
Total debt limit	878,922,900	879,681,450	724,402,800	642,497,400
Amount of debt applicable to debt limit	8,655,000	8,135,000	7,595,000	7,035,000
Legal debt margin	\$ 870,267,900	\$ 871,546,450	\$ 716,807,800	\$ 635,462,400
Percent of Debt Limit Authorized	0.98%	0.92%	1.05%	1.09%

The Government Code of the State of California (§43605) provides for a debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in

(1) Source: City of Hesperia, Management Services Department San Bernardino County Assessor's Office

Fiscal Year					
2012	2013	2014	2015	2016	2017
\$ 4,242,508,000	\$ 4,209,284,000	\$ 4,396,333,389	\$ 4,643,554,000	\$ 5,014,130,000	\$ 5,248,890,000
15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
636,376,200	631,392,600	659,450,008	696,533,100	752,119,500	787,333,500
6,455,000	5,855,000	5,235,000	4,590,000	-	-
\$ 629,921,200	\$ 625,537,600	\$ 654,215,008	\$ 691,943,100	\$ 752,119,500	\$ 787,333,500
1.01%	0.93%	0.79%	0.66%	0.00%	0.00%

CITY OF HESPERIA

Pledged-Revenue Coverage

Last Ten Fiscal Years

Fiscal Year Ended June 30	Water Revenue Bonds					Coverage
	Water Revenue	Less Operating Expenses	Net Available Revenue	Debt Service		
				Principal	Interest	
2007	23,395,345	15,818,866	7,576,479	605,000	930,004	4.94
2008	20,705,691	13,780,829	6,924,862	625,000	930,266	4.45
2009	19,005,437	15,046,874	3,958,563	650,000	895,435	2.56
2010	19,178,523	16,461,361	2,717,162	675,000	858,360	1.77
2011	20,121,349	17,984,711	2,136,638	705,000	628,053	1.60
2012	20,565,572	16,045,278	4,520,294	730,000	619,582	3.35
2013	21,678,840	15,771,259	5,907,581	760,000	621,688	4.28
2014	20,793,648	17,119,879	3,673,769	790,000	596,150	2.65
2015	20,449,216	15,484,093	4,965,123	820,000	583,019	3.54
2016	19,834,467	16,248,062	3,586,405	855,000	574,939	2.51
2017	21,865,075	16,955,279	4,909,796	885,000	527,909	3.47

Note:

Details regarding the City's outstanding debt can be found in the notes to the financial statements (Note 5). Operating expenses do not include interest or depreciation expenses.

Tax Allocation Bonds

Tax Increment	Debt Service		Coverage
	Principal	Interest	
27,001,236	1,415,000	2,073,461	7.74
34,255,092	1,460,000	5,813,807	4.71
34,641,768	3,220,000	9,851,781	2.65
24,620,757	3,115,000	10,173,800	1.85
19,315,568	28,365,000	9,400,380	0.51
11,146,382	3,534,125	4,207,674	1.44
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

CITY OF HESPERIA

Demographic And Economic Statistics

Last Ten Calendar Years

Calendar Year	Population ⁽¹⁾	Effective Buying Income (in thousands) ⁽²⁾	Per Capita Income ⁽²⁾	Unemployment Rate ⁽³⁾
2008	87,820	1,588,750	18,215	10.4%
2009	88,184	1,572,786	17,864	16.7%
2010	88,479	1,488,571	16,824	18.2%
2011	90,726	1,539,277	16,909	16.9%
2012	90,849	1,577,602	17,330	12.4%
2013	91,057	1,510,294	16,524	10.8%
2014	91,506	1,420,951	15,587	10.9%
2015	92,177	1,486,815	16,130	8.8%
2016	93,226	1,639,566	17,587	7.8%
2017	93,226	1,711,629	18,360	7.1%

Sources:

(1) State Department of Finance

(2) City of Hesperia Economic Development Department

(3) State of California Employment Development Department

CITY OF HESPERIA

Principal Employers

Current Year and Nine Fiscal Years Ago

	<u>2017</u>	<u>2008</u>
	Number Of Employees	Number Of Employees
Hesperia Unified School District*	2,807	2,150
County of San Bernardino**	508	366
Super Wal-Mart	371	-
City of Hesperia	321	351
Super Target	299	-
Stater Brothers Markets***	286	390
Arizona Pipeline Company	164	211
Hesperia Recreation & Park District***	157	-
In-N-Out	149	138
Double Eagle Transportation	120	150

Source: MuniServices, LLC.

* Count includes FTE, PTE and Substitutes for 2017

** Count is from previous calendar year 2016

*** Includes full-time and part-time employees for 2017

CITY OF HESPERIA
Full-time And Part-time City Employees
By Function
Last Ten Fiscal Years

Function	Full-time and Part-time Employees as of June 30, 2017									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	49.17	47.17	44.51	42.13	40.86	38.86	37.86	36.86	36.86	34.74
Public safety										
Police ¹	73.50	75.50	75.50	75.50	70.50	72.50	73.00	73.00	77.00	78.00
Fire ²	59.00	59.00	59.33	59.00	57.40	48.40	66.73	67.60	58.75	58.83
Development services										
Community Development	23.95	22.95	21.49	17.73	17.27	16.03	15.95	14.76	15.68	15.38
Code Compliance	30.64	28.78	26.78	23.78	23.78	23.78	23.78	23.92	23.92	25.28
Public works	37.91	37.68	35.90	35.40	35.36	34.36	34.36	33.66	34.36	35.30
Water	71.56	72.33	73.06	72.54	69.77	68.77	69.23	67.98	68.58	65.84
Wastewater	5.69	5.69	5.50	5.50	4.50	4.50	4.50	4.50	5.20	5.20
Total	<u>351.42</u>	<u>349.10</u>	<u>342.07</u>	<u>331.58</u>	<u>319.44</u>	<u>307.20</u>	<u>325.41</u>	<u>322.28</u>	<u>320.35</u>	<u>318.57</u>

1 - Police services are provided through a contract with the San Bernardino County Sheriff.

2 - Fire services are provided through a contract with the San Bernardino County Fire since June 1, 2004.

Source: City of Hesperia Management Services Department

CITY OF HESPERIA
Operating Indicators
By Function
Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Arrests	3,073	3,032	2,770	2,503	2,495	3,115	2,988	2,774	2,575	2,779
Citations issued	4,389	4,836	5,873	2,793	2,529	4,454	3,688	2,755	3,205	3,216
Calls for service	68,989	68,956	64,462	54,077	59,456	61,718	61,729	84,868	85,685	85,656
Fire:										
Number of emergency calls	9,830	10,238	11,416	12,145	10,443	10,157	12,244	13,457	10,619	19,960
Inspections	611	532	778	582	563	591	545	578	623	583
Public works:										
Street resurfacing (miles)	57.0	28.0	13.9	-	2.5	1.0	1.9	3.4	1.6	4.0
Potholes filled	27,000	18,884	10,961	8,398	9,156	10,000	19,086	21,945	24,583	28,000
Water:										
New connections	372	73	38	10	21	10	55	60	110	135
Average daily consumption (thousands of gallons)	15,176	15,622	13,726	11,687	11,774	12,130	12,035	11,695	10,090	10,832
Old steel waterlines replaced ¹ (miles of pipeline)	6.0	7.0	7.0	5.0	4.7	4.0	4.5	3.6	5.0	5.0
Sewer: ²										
Wastewater lines cleaned (mi.)	22	31	39	40	44	28	38	63	38	62
Manholes maintained	845	645	712	821	447	86	722	1,115	736	1,200

1 - The Water District is replacing old steel water lines, put into service 50 years ago, with larger PVC water lines.

2 - Sewer service to the City is provided by Victor Valley Wastewater Reclamation Authority. The City has no treatment facilities. Most of the City residents are on septic tanks.

Source: City of Hesperia Management Services Department

CITY OF HESPERIA

Capital Asset Statistics By Function Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Fire stations	3	3	3	4	4	4	4	4	4	4
Public works:										
Streets (miles)	545.0	545.0	545.0	545.0	545.0	545.0	545.0	545.0	545.0	549.0
Traffic Signals	25	25	25	25	26	26	26	26	26	27
Water:										
Water mains (miles)	574.0	574.0	574.0	574.0	574.0	574.0	574.0	574.0	574.0	589.0
Maximum daily capacity (thousands of gallons)	27,140	27,140	27,140	27,140	27,140	27,140	27,140	27,140	27,140	27,140
Old steel waterlines replaced ¹ (miles of pipeline)	6.0	7.0	7.0	5.0	4.7	4.0	4.5	3.6	5.0	5.0
Sewer: ²										
Sanitary sewers (miles)	115	115	115	115	115	115	115	115	128	128
Maximum daily treatment capacity (thousands of gallons)	1,894	1,894	1,894	1,894	1,894	1,894	1,894	1,894	1,894	1,894

1 - The Water District is replacing old steel water lines, put into service 50 years ago, with larger PVC water lines.

2 - Sewer service to the City is provided by Victor Valley Wastewater Reclamation Authority. The City has no treatment facilities. Most of the City residents are on septic tanks.

Source: City of Hesperia Departments

HESPERIA WATER DISTRICT

Water Sold by Type of Customer

Last Ten Fiscal Years

(in million of gallons)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Type of Customer:										
Residential	4,001.5	5,134.8	3,901.2	3,664.2	3,668.9	3,819.4	3,785.6	3,690.3	3,156.6	3,364.0
Industrial	5.6	4.1	3.2	2.9	4.0	4.2	5.4	4.3	2.9	3.2
Commercial	852.9	584.9	637.7	405.6	331.4	296.0	296.9	268.7	274.2	288.5
Government	282.6	150.9	467.9	193.2	293.3	308.0	304.8	305.2	249.3	297.9
Total	5,142.6	5,874.7	5,010.0	4,265.9	4,297.6	4,427.6	4,392.7	4,268.5	3,683.0	3,953.6

Note: Total direct rate is not applicable as the water district uses a tiered rate approach for billing consumed water.

Source: Hesperia Water District

HESPERIA WATER DISTRICT

Water Rates Last Ten Fiscal Years

Fiscal Year Ended June 30	Bi-Monthly Meter Charge	Bi-Monthly Usage Tiers			
		Rate Per	Rate Per	Rate Per	Rate Per
		0 - 10 HCF	11 - 40 HCF	41 - 80 HCF	Over 80 HCF
2008	\$ 33.57	\$ 0.71	\$ 1.20	\$ 1.47	\$ 1.74
2009	34.91	0.77	1.31	1.60	1.90
2010	36.31	0.84	1.43	1.74	2.07
2011	37.76	0.87	1.49	1.81	2.15
2012	39.27	0.90	1.55	1.88	2.24
2013	39.27	0.90	1.55	1.88	2.24
2014	39.27	0.90	1.55	1.88	2.24
2015	39.27	0.90	1.55	1.88	2.24
2016	39.27	0.90	1.55	1.88	2.24
2017	39.27	0.90	1.55	1.88	2.24

Notes:

Rates based on 5/8" and 3/4" meter, which are the standard household meter size.

HCF - Hundred Cubit Feet or approximately 748 gallons.

Source: Hesperia Water District

HESPERIA WATER DISTRICT

Water Customers

Current Year and 9 Fiscal Years Ago

	2017		2008	
	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues
Hesperia Unified School District	\$ 570,471	6.91%	\$ 331,388	3.45%
Hesperia Park & Recreation	276,304	3.35%	143,320	1.49%
Spring Street Associates LP	58,547	0.71%	44,074	0.46%
KDF Hesperia	51,395	0.62%	-	0.00%
Hesperia Community Church	42,748	0.52%	21,959	0.23%
Rim Properties	34,757	0.42%	-	0.00%
Willow Oaks	31,944	0.39%	-	0.00%
City of Hesperia	31,787	0.39%	-	0.00%
Foremost Senior Campus	25,502	0.31%	-	0.00%
CEMX	25,127	0.30%	18,673	0.19%
San Remo Hesperia LTD.	24,738	0.30%	-	0.00%
The Villas at Hesperia LP.	23,625	0.29%	-	0.00%
Park and Sons Carwash, INC.	20,187	0.24%	-	0.00%
Hesperia Speedwash	19,178	0.23%	-	0.00%

Note:

Information prior to 2006-07 is not available.

Source: Hesperia Water District