

# HESPERIA FIRE PROTECTION DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2010

June 30, 2010

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January 13, 2011

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Hesperia Fire Protection District  
Hesperia, California

We have audited the accompanying financial statements of the governmental activities of the Hesperia Fire Protection District (a component unit of the City of Hesperia) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Hesperia Fire Protection District as of June 30, 2010, and the respective changes in financial position, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the schedule of funding progress and budgetary comparison schedule, as listed in the table of contents as required supplementary information, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is 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 management's discussion and analysis and the schedule of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and the schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule and related note have 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 of the Hesperia Fire Protection District 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Diehl, Evans and Company, LLP*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Hesperia Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The District's net assets decreased 20.6% to \$5.2 million from \$6.5 million as a result of this year's operations.
- During the year, the District's expenses exceeded taxes and other governmental revenue by \$1.3 million compared to June 30, 2009's operating loss of \$0.6 million. This increase in the operating loss is largely due to a \$0.8 million loss in Property Tax revenue.
- The total revenues from all sources, as presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance, were \$8.2 million, a decrease of 7.9% from the June 30, 2009 revenue of \$8.9 million. The decrease is greatly attributed to a reduction in the Redevelopment Agency's Tax Increment pass through to the Fire District of \$0.6 million as well as a reduction of Property Tax Revenue of \$0.3 million; these decreases were offset by small increases in other revenues.
- The total cost of all District programs was \$9.7 million, a decrease of \$0.1 million or 0.8% from June 30, 2009 of \$9.8 million. This is attributed to a \$0.2 million savings related to self-insurance netted by a \$0.1 million increase cost of maintaining the FY 2008-09 level of fire protective and advance life support services, without additional staff.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The District's financial activities, recorded in one Special Revenue fund, tell how these services were financed in the short-term as well as what remains for future spending.

### **REPORTING THE DISTRICT AS A WHOLE**

The financial statements presented herein include all the activities of the Hesperia Fire Protection District using the integrated approach as prescribed by GASB Statement No. 34.

#### **Government-Wide Financial Statements**

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Assets and the Statement of Activities – report information about the District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, 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.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities, present information about the District's basic services which are considered to be governmental activities, primarily public safety. Property taxes and charges for services finance most of these activities.

## REPORTING THE DISTRICT'S FUND

Table 1  
Condensed Statement of Net Assets

	2009	2010	Changes from 2009 to 2010	
			Amount	Percentage
Current and other assets	\$ 2,668,986	\$ 1,564,112	\$ (1,104,874)	-41.4%
Capital assets	4,034,485	3,699,949	(334,536)	-8.3%
Total Assets	6,703,471	5,264,061	(1,439,410)	-21.5%
Current and other liabilities	42,391	4,105	(38,286)	-90.3%
Long-term debt outstanding	146,993	89,380	(57,613)	-39.2%
Total Liabilities	189,384	93,485	(95,899)	-50.6%
Net Assets:				
Invested in capital assets	4,034,485	3,699,949	(334,536)	-8.3%
Restricted	-	-	-	0.0%
Unrestricted	2,479,602	1,470,627	(1,008,975)	-40.7%
Total Net Assets	\$ 6,514,087	\$ 5,170,576	\$ (1,343,511)	-20.6%

## Fund Financial Statements

The fund financial statements provide detailed information about the District's fund—and the District as a whole. The District uses a *governmental fund* to account for its operations.

*Governmental funds*—The District's basic services are reported in a governmental fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using an accounting method called the *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and the governmental *fund* in reconciliation schedules following the fund financial statements.

## THE DISTRICT AS A WHOLE

Our analysis focuses on the net assets (Table 1) and activities (Table 2) of the District's governmental activities. The Condensed Statement of Net Assets presents capital assets net of the debt incurred to pay for those assets. Currently, the District has no outstanding debt related to its capital assets thereby showing the full value of the District's assets.

The following are brief explanations for the balance change in each line of Table 1 above for the year ending June 30, 2010:

- Current and other assets – decreased by \$1.1 million or 41.4% primarily due to the decrease in cash and cash equivalents as a result of operations including decreased revenues and increased expenses.
- Capital assets – decreased by \$0.3 million a result of recording the FY 2009-10 depreciation of assets.
- Current and other liabilities – decreased by \$38,286 or 90.3% from June 30, 2009 primarily due to the timing of invoices at June 30, 2010.
- Long-term debt outstanding – the decrease of about \$0.1 million is the result of payments against outstanding claims during the fiscal year.
- Unrestricted net assets – decreased by \$1.0 million or 40.7% primarily resulting from decreased property tax related revenues.

## GOVERNMENTAL ACTIVITIES

Table 2  
Condensed Statement of Activities

	2009	2010	Changes from 2009 to 2010	
			Amount	Percentage
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 2,147,979	\$ 2,263,709	\$ 115,730	5.4%
General revenues:				
Taxes:				
Property taxes	6,899,060	6,092,221	(806,839)	-11.7%
Income from money and property	59,171	44,804	(14,367)	-24.3%
Gain on exchange of capital asset	119,529	-	(119,529)	-100.0%
Total revenues	<u>9,225,739</u>	<u>8,400,734</u>	<u>(825,005)</u>	<u>-8.9%</u>
<b>Expenses</b>				
Public Safety-Fire	9,821,883	9,744,245	(77,638)	-0.8%
Total expenses	<u>9,821,883</u>	<u>9,744,245</u>	<u>(77,638)</u>	<u>-0.8%</u>
Excess/(Deficiency) of revenues over/ (under) expenses	<u>(596,144)</u>	<u>(1,343,511)</u>	<u>(747,367)</u>	<u>-125.4%</u>
Change in net assets	<u>(596,144)</u>	<u>(1,343,511)</u>	<u>(747,367)</u>	<u>-125.4%</u>
Net assets at July 1,	7,110,231	6,514,087	(596,144)	-8.4%
Net assets at June 30,	<u>\$ 6,514,087</u>	<u>\$ 5,170,576</u>	<u>\$ (1,343,511)</u>	<u>-20.6%</u>

The cost of all governmental activities this year was \$9.7 million, a decrease of \$0.1 million or 0.8% from the June 30, 2009 cost of \$9.8 million. Other significant changes to take note of in Table 2 are:

- The June 30, 2010 combined property tax revenues of \$6.1 million showed an 11.7% decrease of \$0.8 million from the \$6.9 million of June 30, 2009. This is primarily due to the decrease of Redevelopment Agency pass through and general property tax revenue during the fiscal year.
- Charges for services, those billed directly to recipients of the Fire District's services, increased 5.4% to \$2.3 million or by \$0.1 over the \$2.2 million of June 30, 2009.
- The District's expenses decreased by 0.8% or about \$0.1 million from the expenses at June 30, 2009. The primary reason for this decrease in expenses was the \$0.2 million cost savings related to self-insurance netted against a \$0.1 million increase costs of maintaining the service level from FY 2008-09.

The District's programs are primarily Public Safety.

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

At year-end the District's governmental fund reported a balance of \$0.8 million, which is a decrease of about \$1.4 million or 66.0% from June 30, 2009's ending fund balance of \$2.2 million. The primary reasons for the decrease of the fund balance is that Property Tax Revenue decreased by \$0.8 million or 12.1% and operating expenditures increased by \$0.3 million or 3.3%.

### CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions. At June 30, 2010, capital assets, net of depreciation, of the governmental activities totaled \$3.7 million. Depreciation on capital assets is recognized in the Government-Wide financial statements (See Table 3 below). For more detailed information about the District's capital assets see Note 3 Changes in Capital Assets.

**Table 3  
Capital Assets at Year-End**

	Balance at June 30,2009	Net of			Balance at June 30,2010
	Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Accumulated Depreciation
Land	\$ 855,329	\$ -	\$ -	\$ -	\$ 855,329
Land improvements	24,317	-	-	(3,185)	21,132
Vehicles	1,987,128	-	-	(273,557)	1,713,571
Machinery and equipment	154,657	-	-	(25,540)	129,117
Buildings and improvements	1,013,054	-	-	(32,254)	980,800
	<u>\$ 4,034,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (334,536)</u>	<u>\$ 3,699,949</u>



## DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, decreased in FY 2009-10 by a net \$57,613 from changes in claims payable. For more detailed information about the District's debt, see Note 4 Long-Term Debt.

**Table 4**  
**Outstanding Debt, at Year-End**

	Principal Balance at June 30,2009	Additions	Deletions	Principal Balance at June 30,2010
Claims Payable	\$ 146,993	\$ 268,634	\$ (326,247)	\$ 89,380
	<u>\$ 146,993</u>	<u>\$ 268,634</u>	<u>\$ (326,247)</u>	<u>\$ 89,380</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2010-11 Budget shows no staffing level increases, but it shows \$0.1 million as the increased cost of maintaining the FY 2009-10 level of service.

The District originally expected to begin the reconstruction of Station #301 located near Main Street and Eleventh Avenue which serves the central portion of the City, however, the City did not receive a Notice of Award in July 2010, therefore the project will be put in suspense until it is determined that adequate funds are available to construct without grant funds.

The District's plans for the expansion of Station #304 located at Eucalyptus Avenue and Eleventh Avenue in the northwest portion of the City was placed on hold as the City did not receive a Notice of Award in July 2010. The project will be reviewed during the 2010-11 Mid-Year, and advertised for bid in Winter 2010 and constructed by the City without grant funds.

There are no planned vehicle purchases for the 2010-11 fiscal year.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

**HESPERIA FIRE PROTECTION DISTRICT**

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STATEMENT OF NET ASSETS  
June 30, 2010

**ASSETS**

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Current Assets:	
Cash and cash equivalents	\$ 187,929
Accounts receivable	960,687
Accrued interest	241
Due from other governmental agencies	197,740
Total Current Assets	<u>1,346,597</u>
Noncurrent Assets:	
Deposits	217,515
Capital assets:	
Land	855,329
Land improvements	138,813
Vehicles	4,574,750
Machinery and equipment	424,793
Buildings and improvements	1,508,014
Less: Accumulated depreciation	<u>(3,801,750)</u>
Total Capital Assets	<u>3,699,949</u>
Total Noncurrent Assets	<u>3,917,464</u>
<b>Total assets</b>	<u>\$ 5,264,061</u>

See accompanying independent auditors' report and notes to financial statements.

**HESPERIA FIRE PROTECTION DISTRICT**

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**LIABILITIES**

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Current Liabilities:

Accounts payable and other current liabilities	\$ 3,233
	<hr/>
Total Current Liabilities	3,233
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Noncurrent Liabilities:

Net OPEB obligation	872
Long-term debt due in more than one year	89,380
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Total Noncurrent Liabilities	90,252
	<hr/>
<b>Total liabilities</b>	<b>93,485</b>
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**NET ASSETS**

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Invested in capital assets	3,699,949
Restricted	-
Unrestricted	1,470,627
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<b>Total net assets</b>	<b>\$ 5,170,576</b>
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See accompanying independent auditors' report and notes to financial statements.

**HESPERIA FIRE PROTECTION DISTRICT**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
Governmental activities:					
Public Safety- Fire	\$ 9,744,245	\$ 2,263,709	\$ -	\$ -	\$ (7,480,536)
<b>Total governmental activities</b>	<u>9,744,245</u>	<u>2,263,709</u>	<u>-</u>	<u>-</u>	<u>(7,480,536)</u>
General Revenues:					
Property taxes					6,092,221
Income from money and property					<u>44,804</u>
Total general revenues					<u>6,137,025</u>
Change in net assets					(1,343,511)
Net assets at beginning of year					<u>6,514,087</u>
Net assets at end of year					<u>\$ 5,170,576</u>

See accompanying independent auditors' report and notes to financial statements.

**HESPERIA FIRE PROTECTION DISTRICT**

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BALANCE SHEET  
June 30, 2010

**Assets**

Cash and cash equivalents	\$	187,929
Accounts receivable		960,687
Accrued interest		241
Due from other governmental agencies		197,740

**Total Assets** \$ 1,346,597

**Liabilities and Fund Balance**

Liabilities:

Accounts payable and other current liabilities	\$	3,233
Deferred revenue		584,528

**Total Liabilities** 587,761

Fund Balance:

Unreserved		758,836
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**Total Fund Balance** 758,836

**Total Liabilities and Fund Balance** \$ 1,346,597

See accompanying independent auditors' report and notes to financial statements.

**HESPERIA FIRE PROTECTION DISTRICT**

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RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUND TO THE STATEMENT OF NET ASSETS  
June 30, 2010

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

Total fund balance - governmental fund	\$	758,836
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund Balance Sheet.		3,699,949
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Activities.		217,515
The net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.		(872)
The CFD 2005-1 has received special assessments and did not remit these to the fire protection district within the availability period. These revenues are recognized in the government-wide statements and deferred in the fund statements.		584,528
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental fund Balance Sheet.		<u>(89,380)</u>
Net Assets of governmental activities	\$	<u>5,170,576</u>

See accompanying independent auditors' report and notes to financial statements.

**HESPERIA FIRE PROTECTION DISTRICT**

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
For the Year ended June 30, 2010

<b>Revenues:</b>	
Taxes	\$ 5,898,594
Use of money and property	44,804
Charges for services	<u>2,263,709</u>
Total Revenues	<u>8,207,107</u>
<b>Expenditures:</b>	
Public safety- fire	<u>9,683,965</u>
Total Expenditures	<u>9,683,965</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,476,858)</u>
Net Change in Fund Balances	(1,476,858)
<b>Fund balance at beginning of year</b>	<u>2,235,694</u>
<b>Fund balance at end of year</b>	<u><u>\$ 758,836</u></u>

See accompanying independent auditors' report and notes to financial statements.

**HESPERIA FIRE PROTECTION DISTRICT**

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

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

Net change in fund balance - total governmental fund	\$ (1,476,858)
The governmental fund reports 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. This is the amount by which depreciation exceeded capital outlays in the current period.	(334,536)
The CFD 2005-1 has received special assessments and did not remit these to the fire protection district within the availability period. These revenues are recognized in the government-wide statements and deferred in the fund statements.	193,627
Increase in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.	217,515
OPEB expense is recognized when paid in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized in the when incurred in the Statement of Activities.	(872)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental fund. Neither transaction, however, has any effect on net assets. This amount is the net effect of the change in claims payable.	<u>57,613</u>
Change in Net Assets of governmental activities	<u>\$ (1,343,511)</u>

See accompanying independent auditors' report and notes to financial statements.



June 30, 2010

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a. Description of Reporting Entity:

The Hesperia Fire Protection District (the District) is a subsidiary district of the City of Hesperia. Its mission is to protect the health and safety of the people who reside, visit, or work in the community. The District is the City of Hesperia's lead agency for dealing with natural disasters such as earthquakes, floods, storms, and other emergencies related to fire, explosion, hazardous materials, rescue, and medical services.

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

b. Basis of Presentation:

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

Government-Wide Financial Statements:

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

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

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):****b. Basis of Presentation (Continued):****Governmental Fund Financial Statements:**

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

Fund financial statements for the Hesperia Fire Protection District's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and there are no nonmajor funds.

The District fund is described below:

Special Revenue Fund - used to account for revenues derived from specific sources that are restricted by law or administrative regulation to expenditures for specific purposes.

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

**c. Measurement Focus:**

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

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

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

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

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):****c. Measurement Focus (Continued):**

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

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested 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 assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

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

**d. Basis of Accounting:**

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

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

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

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):****d. Basis of Accounting (Continued):**

Financial reporting is based upon all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board (APB) Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

**e. Property Taxes:**

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

**f. Cash and Investments:**

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

**g. Claims and Judgments:**

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2010, in the opinion of the District's Attorney, the District had no material unrecorded claims which would require loss provision in the financial statements, including losses for claims which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

**h. Use of Estimates:**

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

**i. Capital Assets:**

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

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

See accompanying independent auditors' report.

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

i. Capital Assets (Continued):

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

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

j. Receivables:

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2010 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS:

Current Assets:	<u>June 30, 2010</u>
Cash and cash equivalents	\$ 187,929
Total cash and investments	<u>\$ 187,929</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, 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 District’s, rather than the general provisions of the California Government Code or the District’s investment policy.

<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%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

See accompanying independent auditors' report.

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

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk:

The District's cash and cash equivalents are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding \$187,929 pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report.

Investment in State Investment Pool:

The Hesperia Fire Protection District participates in the City of Hesperia's investment pool which 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 Hesperia Fire Protection District's share of investment in this pool is reported in the accompanying financial statements at amounts based upon the Hesperia Fire Protection District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. CHANGES IN CAPITAL ASSETS:

In accordance with GASB Statement Number 34, the District has reported all capital assets in the Government-Wide Statement of Net Assets. The capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense have been recorded.

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance at June 30,2009	Increases	Decreases	Balance at June 30,2010
Capital assets, not being depreciated				
Land	\$ 855,329	\$ -	\$ -	\$ 855,329
Total capital assets, not being depreciated	855,329	-	-	855,329
Capital assets being depreciated:				
Land improvements	138,813	-	-	138,813
Vehicles	4,574,750	-	-	4,574,750
Machinery and equipment	424,793	-	-	424,793
Buildings and improvements	1,508,014	-	-	1,508,014
Total capital assets, being depreciated	6,646,370	-	-	6,646,370
Less accumulated depreciation for:				
Land improvements	(114,496)	(3,185)	-	(117,681)
Vehicles	(2,587,622)	(273,557)	-	(2,861,179)
Machinery and equipment	(270,136)	(25,540)	-	(295,676)
Buildings and improvements	(494,960)	(32,254)	-	(527,214)
Total accumulated depreciation	(3,467,214)	(334,536)	-	(3,801,750)
Total capital assets, being depreciated, net	3,179,156	(334,536)	-	2,844,620
Governmental-type activities capital assets, net	\$ 4,034,485	\$ (334,536)	\$ -	\$ 3,699,949

Depreciation expense was charged to the Public Safety-Fire function.

See accompanying independent auditors' report.

4. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2010:

	Principal Balance at June 30, 2009	Increase	Decrease	Principal Balance at June 30, 2010	Due Within One Year
Claims Payable	\$ 146,993	\$ 268,634	\$ (326,247)	\$ 89,380	\$ -
Total Long-Term Debt	\$ 146,993	\$ 268,634	\$ (326,247)	\$ 89,380	\$ -

5. PUBLIC EMPLOYEES RETIREMENT SYSTEM:

Plan Description:

The District’s employees participate in the Miscellaneous 2% at 55 Risk Pool (Plan) of the California Public Employees’ Retirement System (PERS). This plan is a cost-sharing, multiple-employer defined benefit pension plan administered by PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees’ Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. Copies of PERS’ annual financial report may be obtained from the PERS Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 7% of their annual covered salary. The District made the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution for this year into the plan for the fiscal year ended June 30, 2010 was 0.0%, for both miscellaneous and safety, of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. The District’s employer contribution for the last three fiscal years, which were equal to the required contribution each year were \$7,436, \$6,819 and \$6,962 for the years ended June 30, 2010, 2009 and 2008 respectively. PERS does not provide individual plan trend information for risk pools. Effective June 2005 the District had no employees (See Note 8).

6. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The District's defined benefit postemployment healthcare plan (DHP), provides medical benefits to eligible retired District employees and beneficiaries. 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. DHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy:

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

Annual OPEB Cost and Net OPEB Obligation/Asset:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 2.9% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

Annual Required Contribution (ARC)	\$ 4,400
Interest on net OPEB obligation	-
Adjustment to Annual Required Contribution (ARC)	-
Annual OPEB cost (expense)	<u>4,400</u>
Contributions made	<u>(3,528)</u>
Increase in net OPEB obligation	872
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 872</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2010, 2009, and 2008 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 4,400	80.2%	\$ 872
6/30/2009	4,415	100.0%	-
6/30/2008	*	*	*

\*The information for the year ending June 30, 2008 is unavailable. GASB 45 was implemented

See accompanying independent auditors' report.



6. OTHER POST EMPLOYMENT BENEFITS (Continued):

prospectively in fiscal year 2009.

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2008, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 99,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>99,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Members)	<u>-</u>
UAAL as a Percentage of Covered Payroll	0.0%

Actuarial Methods and Assumptions:

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

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

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

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Asset Valuation method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	4.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
PEMHCA Minimum Growth	4.50%
Individual Salary Growth	CalPERS 1997-2002 Experience Study

See accompanying independent auditors' report.

7. FUND BALANCES:

A District may set up “reserves” of fund equity to segregate fund balances which are not appropriable for expenditure in a future period, or which are legally set aside for a specific future use. Fund “designations” also may be established to indicate tentative plans for financial resource utilization in a future period.

The District’s reserves and designations at June 30, 2010 consisted of the following reserves and designations:

Unreserved	\$758,836
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8. FIRE PROTECTION SERVICES AGREEMENT:

The Hesperia Fire Protection District entered into a fire protection services agreement with the San Bernardino County Consolidated Fire District (County) effective June 1, 2005. The agreement calls for the County to provide to the District fire prevention, fire investigation, fire suppression, advanced life support services, ambulance transportation service, hazardous materials, and rescue services. The District paid \$9,429,336 to the County for these services during the fiscal year ending June 30, 2010. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

9. SELF-INSURANCE RISK POOL:

Public Agency Risk Sharing Authority of California:

The District, through the City of Hesperia, is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority for the purpose of achieving savings on insurance premiums. Disclosures regarding these policies are available in the City of Hesperia’s Comprehensive Annual Financial Report.

Public Agency Self-Insurance System:

The Fire District is a member of the Public Agencies Self-Insurance System (PASIS), a joint powers authority of 8 California cities and districts, for the purpose of pooling the District’s risk for worker’s compensation insurance with those of other member cities and districts. The Governing Board of PASIS 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 premiums are paid quarterly. Estimated premiums for claims to be paid and a reserve are advanced upon joining PASIS. Each Year PASIS adjusts its premiums based on District payroll figures, claims paid and claims incurred but not reported. The District receives audited financial statements of PASIS each year which have been audited by other auditors.

The District is self-insured for the first \$300,000 of each claim and PASIS covers claims between \$300,001 and above.

9. SELF-INSURANCE RISK POOL (Continued):

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.

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

	Year Ended June 30, 2010	Year Ended June 30, 2009
Unpaid Claims, Beginning of Fiscal Year	\$ 146,993	\$ 30,972
Incurred Claims	268,634	283,165
Claim Payments	<u>(326,247)</u>	<u>(167,144)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 89,380</u>	<u>\$ 146,993</u>

The Unpaid claims of \$89,380 above are a component of long-term debt (Note 4). Due to the uncertainty of when the claims will be paid none are considered due within one year.

10. SUBSEQUENT EVENTS:

Effective July 1, 2010 the District will participate with the Public Entity Risk Management Authority (PERMA) insurance pool for workers' compensation coverage and administration. The District will be transferring all workers' compensation liability prior to July 1, 2010 (tail program) to PERMA from its previous JPA, PASIS. The District will continue to be self-insured for the first \$250,000 of each claim and PERMA will assume each claim's liability between \$250,000 and \$10,000,000. On June 28, 2010 a partial funding transfer of \$1,100,000 was made by PASIS to PERMA to fund the District's current and tail programs.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**HESPERIA FIRE PROTECTION DISTRICT      REQUIRED SUPPLEMENTARY INFORMATION**

BUDGETARY COMPARISON SCHEDULE  
 FIRE DISTRICT SPECIAL REVENUE FUND  
 For the year ended June 30, 2010

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>Fund Balance, July 1</b>	<u>\$ 2,235,694</u>	<u>\$ 2,235,694</u>	<u>\$ 2,235,694</u>	<u>\$ -</u>
<b>Resources (Inflows):</b>				
Taxes	6,566,032	6,566,032	5,898,594	(667,438)
Use of money and property	59,800	59,800	44,804	(14,996)
Charges for services	<u>2,237,044</u>	<u>2,237,044</u>	<u>2,263,709</u>	<u>26,665</u>
Amount Available for Appropriations	<u>8,862,876</u>	<u>8,862,876</u>	<u>8,207,107</u>	<u>(655,769)</u>
<b>Charges to Appropriations (Outflows):</b>				
Public safety - fire	<u>9,718,319</u>	<u>9,718,319</u>	<u>9,683,965</u>	<u>34,354</u>
Total Charges to Appropriations	<u>9,718,319</u>	<u>9,718,319</u>	<u>9,683,965</u>	<u>34,354</u>
Excess of Resources over (Under) Charges To Appropriations	<u>(855,443)</u>	<u>(855,443)</u>	<u>(1,476,858)</u>	<u>(621,415)</u>
<b>Fund Balance, June 30</b>	<u>\$ 1,380,251</u>	<u>\$ 1,380,251</u>	<u>\$ 758,836</u>	<u>\$ (621,415)</u>

See accompanying independent auditors' report and note to required supplementary information.

**Schedule of Funding Progress for DPHP**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial 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)
6/30/2009:						
Fire	n/a	n/a	n/a	n/a	n/a	n/a
Total	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2008:						
Fire	\$ -	\$ 99,000	\$ 99,000	0.0%	\$ -	0.0%
Total	\$ -	\$ 99,000	\$ 99,000	0.0%	\$ -	0.0%
6/30/2007:						
Fire	*	*	*	*	*	*
Total	*	*	*	*	*	*

\*GASB 45 was implemented prospectively in fiscal year 2009. The information for the year ending June 30, 2007 is unavailable.

N/A: The Fire District is only required to perform actuarial valuations biennially. An actuarial valuation was not prepared for the year ending June 30, 2009.

June 30, 2010

1. BUDGETARY DATA:

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