HESPERIA FIRE PROTECTION DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

June 30, 2015

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Fire Protection District
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Fire Protection District (a component unit of the City of Hesperia) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these component unit 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 component unit financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinions

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hesperia Fire Protection District as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Offices located in Orange and San Diego Counties

Emphasis of Matter

As discussed in Notes 1e and 11 to the financial statements, the City adopted Governmental Accounting Standards Board's Statement No. 68, *"Accounting and Financial Reporting for Pensions"* and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68."* The adoption of these standards required retrospective application resulting in a reduction of $6,547,999 to previously reported net position of the governmental activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for DPHP, CalPERS pension plan - schedule of contributions, CalPERS pension plans - schedule of proportionate share of net pension liability, and the budgetary comparison schedule identified as required supplementary information (RSI) in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Carlsbad, California
December 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year (FY) ended June 30, 2015. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position decreased by approximately $6.8 million, or 54% during the fiscal year. One reason for this decrease in net position was the County Fire contract increasing by $0.6 million from the prior fiscal year for the same level of service. However, the primary reason for the large decrease in net position was that the Fire District implemented GASB Statement 68 in Fiscal Year 2014-15. With the new reporting change, the Fire District was allocated its proportionate share of the California Public Employees Retirement System's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting requirement reduced the beginning net position by $6.5 million.

- The District is comprised of two funds: the Fire Operations fund, which accounts for the normal day-to-day operations, and the Fire Station Building fund, which accounts for capital expenditures. During FY 2014-15, in the Statement of Revenues, Expenditures, and Changes in Fund Balances, expenditures exceeded revenues by $0.9 million in the Fire Operations fund; whereas, the Fire Station Building fund ended the year with $0.4 million of revenues in excess of expenditures.

- 18 Limited-Term Firefighters were added when the District was awarded a $2.0 million Staffing for Adequate Fire and Emergency Response (SAFER) grant from Fiscal Year 2013-14 through Fiscal Year 2014-15. Subsequent to the acceptance of the grant, certain administrative and firefighter overtime expenditures were determined ineligible, reducing the estimated grant to $1.6 million. During this second year of the two-year grant, the additional 18 positions cost the District slightly over $1.0 million. However, only $0.7 million of SAFER grant funds were eligible and received in FY 2014-15. Therefore, the remaining $0.3 million in increased expenditures was funded from the District's reserves.

- The Fire District Board of Directors has been considering alternatives to fiscally manage the ongoing issue of operating expenditures exceeding operating revenues. The District's operating fund ended Fiscal Year 2014-15 with an operating loss of $0.9 million. At the August 4, 2015 Board Meeting, the Board approved a resolution requesting that the Local Agency Formation Commission initiate proceedings to analyze the reorganization of the District, with the San Bernardino County Fire Protection District as the designated successor of a potential annexation. More detail can be found within Note 10.

USING THIS ANNUAL REPORT

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

REPORTING THE DISTRICT AS A WHOLE

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

Government-Wide Financial Statements

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

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

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

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

REPORTING THE DISTRICT'S FUNDS

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

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

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

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

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

THE DISTRICT AS A WHOLE

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

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5.8 million at the close of the most recent fiscal year.

Table 1
Condensed Statement of Net Position

			Changes from 2014 to 2015	
	2014	2015	Amount	Percentage
Current and other assets	$ 6,491,700	$ 6,238,243	$ (253,457)	-3.9%
Capital assets	9,257,492	9,189,012	(68,480)	-0.7%
Total Assets	15,749,192	15,427,255	(321,937)	-2.0%
Total deferred outflow of resources	-	540,730	540,730	100.0%
Current and other liabilities	2,974,495	3,071,259	96,764	3.3%
Long-term debt outstanding	159,102	173,909	14,807	9.3%
Net pension liability	-	5,000,861	5,000,861	100.0%
Total Liabilities	3,133,597	8,246,029	5,112,432	163.1%
Total deferred inflow of resources	-	1,917,829	1,917,829	100.0%
Net Position:				
Investment in capital assets	9,257,492	9,189,012	(68,480)	-0.7%
Restricted	-	-	-	n/a
Unrestricted	3,358,103	(3,384,885)	(6,742,988)	-200.8%
Total Net Position	$ 12,615,595	$ 5,804,127	$ (6,811,468)	-54.0%

The following are brief explanations for the balance change of each line of Table 1 above for the year ending June 30, 2015:

- Current and other assets reported a decrease of $0.3 million or 3.9% from FY 2013-14. Cash decreased by $0.4 million or 7% but is partially offset by an increase in accounts receivable of $0.2 million which is represented by the increase in outstanding paramedic billings during the fiscal year. The decrease to cash consisted of an increase of $0.2 million in the Fire Station Building fund less a decrease of $0.6 million in the Fire Operations fund. The cash increase in the Fire Station Building fund is primarily the result of revenues in the amount of $0.6 million and expenditures incurred but not paid in Fiscal Year 2014-15 as shown by the increase in accounts payable during Fiscal Year 2014-15.

- Capital assets – decreased by less than $0.1 million resulting from the FY 2014-15 depreciation of assets in the amount of $0.5 million and capital asset acquisitions (nine defibrillators and a new ambulance to replace one damaged beyond repair in an accident) of $0.4 million. There was no disposal of assets during the year.

- Current and other liabilities – increased by $0.1 million or 3.3% from June 30, 2014. The District and the County of San Bernardino Fire Department (County) entered into a 25-year lease agreement for a fire station and the County prepaid the lease for a total of $3.5 million. Each year, the District recognizes $140,000 of the lease payment, thereby reducing unearned revenue by the same amount. This reduction was offset by a $0.2 million increase in accounts payable as certain expenses including the new ambulance were not paid during the fiscal year.

- Long-term debt outstanding increased slightly by $14,807, or 9.3% from the $159,102 balance in Fiscal year 2013-14 as there were additional workers' compensation claims incurred during the 2014-15 Fiscal Year.

- Unrestricted net position decreased substantially ($6.7 million) primarily from the implementation of GASB Statement 68 in Fiscal Year 2014-15. A more detailed explanation of GASB 68 is included within Note 6 which also explains why deferred inflows and deferred outflows both increased 100%. Deferred outflows of resources increased to $0.6 million due to pension contributions and differences in proportions. Deferred inflows of resources increased to $1.9 million due to the differences between investment earnings and actuarial valuations. Net pension liability, the difference between the total pension liability and the assets set aside to meet those obligations, increased to $5.0 million.

Table 2
Changes in Net Position

			Changes from 2014 to 2015	
	2014	2015	Amount	Percentage
Revenues				
Program revenues:				
Charges for services	$ 2,948,586	$ 3,396,024	$ 447,438	15.2%
Operating contributions and grants	584,151	718,125	133,974	22.9%
Capital grants and contributions	285,932	140,000	(145,932)	-51.0%
General revenues:				
Property taxes	7,254,555	6,819,324	(435,231)	-6.0%
Income from money and property	70,949	60,914	(10,035)	-14.1%
Other revenues	166	1,422	1,256	759.6%
Total revenues	11,144,339	11,135,809	(8,530)	-0.1%
Expenses				
Public Safety-Fire	10,863,942	11,399,278	535,336	4.9%
Total expenses	10,863,942	11,399,278	535,336	4.9%
Excess/(Deficiency) of revenues over/ (under) expenses	280,397	(263,469)	(543,866)	-194.0%
Change in net position	280,397	(263,469)	(543,866)	-194.0%
Net Position at July 1, restated	12,335,198	6,067,596	(6,267,602)	-50.8%
Net position at June 30	$ 12,615,595	$ 5,804,127	$ (6,811,468)	-54.0%

The cost of all District activities this year was $11.4 million, an increase of 4.9% over the June 30, 2014 expenditures of $10.9 million. Other significant changes of note in Table 2 are:

- The June 30, 2015 combined property tax revenue and Redevelopment Agency (RDA) pass-through revenues of $6.8 million reflected a $0.4 million or 6.0% decrease from June 30, 2014. Property taxes revenue is 61% of total revenues. The regular property tax revenue remained relatively flat compared to fiscal year 2013-14 at $3.9 million. The FY 2014-15 RDA tax increment pass-through revenue of $1.4 million decreased by 26% or $0.4 million primarily because the Fiscal year 2013-14 total included a State Controller's Office mandated one-time settlement payment from the Hesperia Housing Authority. The remaining $1.5 million of property tax revenue consists of tax revenue of two Community Facilities Districts within the Fire Operations fund and RDA tax increment pass-through revenues within the Fire Station Building fund, which were unchanged from the prior fiscal year.

- Charges for services, those billed directly to recipients of the District's services, increased 15.2% or $0.4 million from the $2.9 million reported at June 30, 2014. The increase is primarily due to an increase in paramedic ambulance fee revenues as a result of the District adjusting its fee schedule to keep pace with the rising costs of providing service.

- The District's expenses increased by 5.9% or slightly over $0.6 million from the expenses at June 30, 2014 (without including the $0.1 million expensed in Fiscal Year 2013-14 for a police and fire joint power authority (JPA) study). The primary reason is an increase in the County contract of $0.6 million for the same level of service. A rise in retirement costs for the District's former employees accounts for $0.4 million of the County contract increase.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year-end, the District's Fire Operations fund reported a fund balance of $0.5 million, which is a decrease of $0.9 or 64.2% from the June 30, 2014 ending fund balance of $1.4 million. The District utilized the Staffing for Adequate Fire and Emergency Response (SAFER) grant again in Fiscal Year 2014-15 which resulted in a nominal increase in expenditures from Fiscal Year 2013-14. The primary reason the fund balance declined in Fiscal Year 2014-15, aside from the County contract increase, was a decrease to tax related revenue of slightly over $0.6 million combined with a nearly $0.2 million increase in capital outlay, primarily for the purchase of new defibrillators. These decreases to fund balance were partially offset by an increase of over $0.2 million in SAFER grant revenue and a $0.4 million increase in charges for services. The overall decline in fund balance will be funded through the District's reserves.

The Fire Station Building fund balance totaled $5.4 million, an increase of about $0.4 million or 8.0% from June 30, 2014's ending fund balance of $5.0 million. This increase is due to the collection of $0.6 million in property tax revenues (from RDA pass-throughs), offset by $0.2 million in expenditures during Fiscal Year 2014-15 for the purchase of a replacement ambulance.

CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions. At June 30, 2015, capital assets of the governmental activities, net of depreciation, totaled $9.2 million. The primary vehicle capital asset acquisition was the purchase of a new ambulance to replace a damaged one. Machinery and equipment increased with the addition of nine new defibrillators. Depreciation on capital assets is recognized in the Government-Wide financial statements (See Table 3 below).

Table 3
Capital Assets at Year-End

	Balance at June 30, 2014 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2015 Net of Accumulated Depreciation
Land	$ 855,329	$ -	$ -	$ -	$ 855,329
Land improvements	8,384	-	-	(3,185)	5,199
Vehicles	850,803	176,841	-	(257,088)	770,556
Machinery and equipment	90,236	236,208	-	(45,931)	280,513
Buildings and improvements	7,452,740	-	-	(175,324)	7,277,416
	$ 9,257,492	$ 413,048	$ -	$ (481,528)	$ 9,189,012

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, remained relatively flat during FY 2014-15 due to minor changes in claims payable.

Table 4
Outstanding Debt, at Year-End

	Principal Balance at June 30, 2014	Additions	Deletions	Principal Balance at June 30, 2015	Due Within One Year
Claims Payable	$ 159,102	$ 32,621	$ (17,814)	$ 173,909	$ -
	$ 159,102	$ 32,621	$ (17,814)	$ 173,909	$ -

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Fiscal year (FY) 2014-15 was the last year of the Staffing for Adequate Fire and Emergency Response (SAFER) grant, which provided funding to increase staffing levels of the District. The SAFER grant was a two-year grant which allowed the District to add additional safety personnel in order to enhance fire services.

FY 2015-16 will see the District restructure its staffing allocation due to the end of the SAFER Grant. Eighteen of the Limited-Term Fire Fighter positions will be eliminated and replaced with fifteen Ambulance Operators to staff 5 Advanced Life Support Ambulances. The District will continue in Fiscal Year 2015-16 with two Advance Support Fire Engines. The proposed revenue budget in 2015-16 is expected to remain relatively unchanged, as anticipated increases in charges for services will be offset by the elimination of the SAFER Grant. Fiscal Year 2015-16 budgeted expenditures are expected to be approximately $1.8 million lower, reflecting the elimination of the SAFER Grant. Any excess expenditures over revenues that occur will be funded from District reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

STATEMENT OF NET POSITION
June 30, 2015

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 5,237,338
Accounts receivable	347,311
Accrued interest	2,833
Due from other governmental agencies	591,381
Total Current Assets	6,178,863
Noncurrent Assets:	
Deposits	59,380
Capital assets:	
Not being depreciated:	
Land	855,329
Being depreciated:	
Land improvements	138,813
Vehicles	4,934,796
Machinery and equipment	717,854
Buildings and improvements	8,660,559
Less: Accumulated depreciation	(6,118,339)
Total Capital Assets	9,189,012
Total Noncurrent Assets	9,248,392
Total Assets	15,427,255
DEFERRED OUTFLOWS OF RESOURCES	
Contributions to pension plan in current fiscal year	245,096
Pension plan adjustments due to differences in proportions in current fiscal year	295,634
Total Deferred Outflows of Resources	540,730

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

LIABILITIES	
Current Liabilities:	
Accounts payable and other current liabilities	$ 244,689
Total Current Liabilities	244,689
Noncurrent Liabilities:	
Net OPEB obligation	23,309
Unearned revenue	2,803,261
Long-term debt-due in more than one year	173,909
Net pension liability	5,000,861
Total Noncurrent Liabilities	8,001,340
Total Liabilities	8,246,029
DEFERRED INFLOWS OF RESOURCES	
Pension deferral due to projected and actual investment earnings difference on pension plan investments	1,523,212
Difference between actual and determined actuarial valuation for pension plan	394,617
Total Deferred Inflows of Resources	1,917,829
NET POSITION	
Investment in capital assets	9,189,012
Unrestricted	(3,384,885)
Total Net Position	$ 5,804,127

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Position: Governmental Activities
Primary Government					
Governmental activities:					
Public Safety- Fire	$ 11,399,278	$ 3,396,024	$ 718,125	$ 140,000	$ (7,145,129)
Total governmental activities	$ 11,399,278	$ 3,396,024	$ 718,125	$ 140,000	(7,145,129)
General Revenues:					
Property taxes					6,819,324
Income from money and property					60,914
Other revenues					1,422
Total general revenues					6,881,660
Change in net position					(263,469)
Net position at beginning of year					12,615,595
Prior period adjustment (see note 11)					(6,547,999)
Net Assets at beginning of year, restated					6,067,596
Net position at end of year					$ 5,804,127

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

BALANCE SHEET
June 30, 2015

	Fire Operations	Fire Station Building	Total Governmental Funds
Assets and Deferred Outflows of Resources			
Assets:			
Cash and cash equivalents	$ -	$ 5,237,338	$ 5,237,338
Accounts receivable	347,311	-	347,311
Accrued interest	-	2,833	2,833
Due from other governmental agencies	591,381	-	591,381
Due from other funds	-	395,963	395,963
Total Assets	938,692	5,636,134	6,574,826
Deferred Outflows of Resources			
Total deferred outflows of resources	-	-	-
Total Assets and Deferred Outflows of Resources	$ 938,692	$ 5,636,134	$ 6,574,826
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 53,075	$ 191,614	$ 244,689
Due to other funds	395,963	-	395,963
Total Liabilities	449,038	191,614	640,652
Deferred Inflows of Resources			
Unavailable revenue	3,261	-	3,261
Total deferred inflows of resources	3,261	-	3,261
Fund Balances:			
Restricted:			
Public safety	486,393	5,444,520	5,930,913
Total Fund Balances	486,393	5,444,520	5,930,913
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 938,692	$ 5,636,134	$ 6,574,826

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

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2015

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

Total fund balance - governmental funds		$ 5,930,913
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.		9,189,012
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position.		59,380
The net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.		(23,309)
The lease agreement between the District and the County provides current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position.		(2,800,000)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.		(173,909)
Net pension liability applicable to the District is not due and payable in the current period and accordingly is not reported as a liability in the fund financial statements. Additionally, related deferred inflows and outflows of resources are not reported in the fund financial statements. Balances as of June 30, 2015 are as follows:		
Deferred outflow-pension contributions	245,096	
Deferred outflow-proportion difference	295,634	
Deferred inflow-pension related deferrals	(1,523,212)	
Deferred inflow-pension actuarial valuation difference	(394,617)	
Net pension liability	(5,000,861)	(6,377,960)
Total Net Position		$ 5,804,127

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2015

	Fire Operations	Fire Station Building	Total Governmental Funds
Revenues:			
Taxes	$ 6,194,263	$ 625,061	$ 6,819,324
Use of money and property	48,633	12,281	60,914
Charges for services	3,396,024	-	3,396,024
Grants	718,125	-	718,125
Other revenues	1,422	-	1,422
Total Revenues	10,358,467	637,342	10,995,809
Expenditures:			
Public safety- fire	10,979,941	-	10,979,941
Capital Outlay:			
Vehicles	27,390	164,114	191,504
Machinery and Equipment	221,545	-	221,545
Infrastructure	-	69,059	69,059
Total Expenditures	11,228,876	233,173	11,462,049
Excess (Deficiency) of Revenues Over (Under) Expenditures	(870,409)	404,169	(466,240)
Net Change in Fund Balances	(870,409)	404,169	(466,240)
Fund balances at beginning of year	1,356,802	5,040,351	6,397,153
Fund balances at end of year	$ 486,393	$ 5,444,520	$ 5,930,913

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds		$ (466,240)
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:		
Capital Outlays	$ 413,048	
Depreciation expense	(481,528)	(68,480)
Decrease in long-term deposits are included in governmental activities in the government-wide Statement of Activities.		(22,129)
OPEB expense is recognized when paid in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized in the period when incurred in the Statement of Activities.		(1,852)
Increase in claims payable are included in governmental activities in the government-wide Statement of Activities.		(14,807)
The revenue for the lease agreement between the District and the County is being recognized and deferred on the Statement of Activities over the life of the lease, and was previously recognized as a current financial resource on the governmental funds. This was previously recognized on the Statement of Revenues, Expenditures, and Changes in Fund Balances.		140,000
Contributions to the pension plan in the current year are not included in the statement of activities.		170,039
Change in net position of governmental activities.		$ (263,469)

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a. Description of Reporting Entity:

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

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

b. Basis of Presentation:

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

Government-Wide Financial Statements:

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

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

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

b. Basis of Presentation (Continued):

Governmental Fund Financial Statements:

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

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. The District's governmental fund balances are comprised of the following components:

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

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

The District has two major funds described below:

Fire Operations – is used to accounts for the District's operations activities.

Fire Station Building – is used to account for the District's capital acquisition activities.

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

c. Measurement Focus:

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

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

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

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

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

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

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

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

d. Basis of Accounting:

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

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

   d. Basis of Accounting (Continued):

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

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

   e. New Accounting Pronouncements:

   Current Year Standards:

   In Fiscal Year 2014-15, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard decreased the net position at July 1, 2014 of the District by $6,547,999. Refer to Note 6 – Public Employees Retirement System for additional detail.

   - GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" was required to be implemented in the current fiscal year and did not impact the District.

   Pending Accounting Standards:

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

   - GASB 72 - "*Fair Value Measurement and Application",* the requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015.

See accompanying independent auditors' report.

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

   e. New Accounting Pronouncements (continued):

   - GASB 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"*, effective for periods beginning after June 15, 2015 - 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.

   - GASB 74 - *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, effective for periods beginning after June 15, 2016.

   - GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

   - GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, the provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015.

   - GASB 77 - "*Tax Abatement Disclosures*", the requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

   f. Property Taxes:

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

   g. Cash and Investments:

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

   h. Claims and Judgments:

   When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2015, in the opinion of the District's Attorney, the District had no material unrecorded claims, which would require loss provision in the financial statements, including losses for claims, which are incurred but Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

   i. Capital Assets:

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

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

i. Capital Assets (Continued):

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

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

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

j. Deferred Outflows/Inflows of Resources:

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

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

- Deferred Outflow Related to Pensions for the Changes in Employer's Proportion 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 determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), 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 District has the following items that qualify for reporting in this category:

- Deferred Inflow Related to Pensions - These items are the difference in projected and actual earnings on investments of the pension plan and the differences in actual and determined actuarial valuation for the pension plan. These amounts are amortized over five years and are both related to the implementation of GASB 68.
- Unavailable Revenue – This item arises only under a modified accrual basis of accounting. Accordingly, the item, *unavailable revenues*, is reported only in the District's governmental fund balance sheet.

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

k. Pensions:

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office for the measurement period ended June 30, 2014 and reported in fiscal year ending June 30, 2015. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

l. Receivables:

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

m. Use of Estimates:

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2015 are classified in the accompanying financial statements as follows on the following page:

STATEMENT OF NET POSITION:	
Current Assets:	June 30, 2015
Cash and cash equivalents	$ 5,237,338
Total cash and investments	$ 5,237,338

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

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

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

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

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

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

The District has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Hesperia. The District is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Hesperia. The District has not adopted an investment policy separate from that of the City of Hesperia. The fair value of the District's investment in this pool is reported in the accompanying financial statements of amounts based upon the District's pro-rata share of the fair value calculated by the City for the entire City's portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value. Additional disclosures regarding $5,237,338 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.

3. LEASE AGREEMENT:

During the fiscal year ended June 30, 2010, the Fire District entered into an agreement with the County of San Bernardino for the joint use of fire station 305. The lease agreement is for a term of twenty-five (25) years, with a total County contribution of the fire station and related improvements of $3,500,000. During the year ended June 30, 2008, the County paid the Fire District the entire $3,500,000, which is being reported as unearned revenue on the Statement of Net Position. Revenue is being recognized for the amount paid by the County to the Fire District on a straight line basis over the life of the lease of twenty-five (25) years. The construction of the fire station was completed on June 30, 2010. The Fire District is responsible for major structural repairs and seventy percent (70%) of the maintenance and utilities, while the County is responsible for thirty percent (30%) of the maintenance and utilities. In the event that the lease is terminated, there are provisions in the agreement that dictate the fiscal impact upon each party. Through June 30, 2015, the remaining balance of the unearned revenue is $2,800,000.

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
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	4,743,294	191,502	-	4,934,796
Machinery and equipment	496,308	221,546	-	717,854
Buildings and improvements	8,660,559	-	-	8,660,559
Total Capital Assets, being depreciated	14,038,974	413,048	-	14,452,022
Less accumulated depreciation for:				
Land Improvements	(130,429)	(3,185)	-	(133,614)
Vehicles	(3,892,491)	(257,088)	-	(4,149,579)
Machinery and equipment	(406,072)	(45,931)	-	(452,003)
Buildings and improvements	(1,207,819)	(175,324)	-	(1,383,143)
Total accumulated depreciation	(5,636,811)	(481,528)	-	(6,118,339)
Total Capital Assets, being depreciated, net	8,402,163	(68,480)	-	8,333,683
Governmental-type activities				
Capital Assets, net	$ 9,257,492	$ (68,480)	$ -	$ 9,189,012

Depreciation expense for the year ended June 30, 2015 charged to the Public Safety-Fire function was $481,528.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2015:

	Principal Balance at June 30, 2014	Additions	Deletions	Principal Balance at June 30, 2015	Due Within One Year
Claims Payable	$ 159,102	$ 32,621	$ (17,814)	$ 173,909	$ -
	$ 159,102	$ 32,621	$ (17,814)	$ 173,909	$ -

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM:

General Information about the Pension Plans:

Plan Descriptions:

The District's employees participate in the Miscellaneous and Safety Risk Pools of CalPERS. The Plans are 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, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

Benefits Provided:

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. The details of the benefits provided can be obtained in Appendix B of the June 30, 2013 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications or from CalPERS Executive Office: 400 P Street, Sacramento, CA 95814.

Effective June 2004 the District had no active employees in the Miscellaneous and Safety Plans. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contributions for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the contribution amount. The total plan contributions are determined through the CalPERS' annual actuarial valuation process.

a. General Information about the Pension Plans:

For public agency cost-sharing plans covered by either the Miscellaneous or Safety Risk Pools, the Plan's actuarially determined contribution is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs related to any unfunded accrued liability. The required employer contribution for this year into the plan for the fiscal year ended June 30, 2015 was 0.0%, for both miscellaneous and safety risk plans. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

No employee contributions were made during the measurement period ended June 30, 2014; however, the District made a contribution of $89,786 for the same period. For the period ending June 30, 2015, the District contributed $245,096 toward the payment of unfunded accrued liability.

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

At June 30, 2015, the District reported a liability of $5,000,861 for its proportionate share of the net pension liability, which was measured as of June 30, 2014 (the measurement date). The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the District's proportion of net pension liability was 0.08%.

For the year ended June 30, 2015, the District recognized pension expense of $75,057 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources exhibited within the table on the subsequent page:

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

FY 2014-15 Deferred Outflows and Inflows of Resources - Fire

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Expense	$ -	$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(1,523,212)
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	295,634	(394,617)
District Contributions Subsequent to the Measurement Date	245,096	
Total	$ 540,730	$ (1,917,829)

$245,096 reported on the chart on as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows and Inflows of Resources Recognized in Pension Expense - Fire

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	$ (275,219)
2016	(275,219)
2017	(296,337)
2018	(380,803)
2019	-
Thereafter	-

See accompanying independent auditors' report.

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability:

At June 30, 2014 total pension liability was based on the following actuarial methods and assumptions:

FY 2014-15 Acturial Assumptions and Methods - Fire

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50% (net of administrative expenses)
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

Discount Rate:

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the Municipal Bond Rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan according to CalPERS. The Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate of this report provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 Fiscal Year. CalPERS will continue to check the materiality of the difference in calculation until such time as a change in methodology occurs.

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

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

The table on the following page 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.

FY 2014-15 Long-term Expected Real Rate of Return - Fire

Asset Class	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation of 3.0% used for this period

See accompanying independent auditors' report.

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

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

      The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
District's Proportionate Share of Net Pension Liability	$ 8,631,130	$ 5,000,861	$ 2,009,241

      Pension Plan Fiduciary Net Position:

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

   c. Payables to the Pension Plan:

      At June 30, 2015, the District had no outstanding contributions payable to the pension plan required for the year ended June 30, 2015.

7. OTHER POST EMPLOYMENT BENEFITS:

   Plan Description:

   The District's defined benefit postemployment healthcare plan (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DPHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

   Funding Policy:

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

See accompanying independent auditors' report.

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

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 3.2% of the annual covered payroll.

This table on the following page shows the components of the District's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

Annual Required Contribution (ARC)	$	2,024
Interest on net OPEB obligation		356
Adjustment to Annual Required Contribution (ARC)		(416)
Annual OPEB cost (expense)		1,964
Contributions made		(112)
Increase in net OPEB obligation		1,852
Net OPEB obligation - beginning of year		21,457
Net OPEB obligation - end of year	$	23,309

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 2015, 2014, and 2013 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year		Annual Pension Cost (APC)	Percentage of OPEB Cost Contributed		Net Pension Obligation
6/30/2015	$	1,964	19.9%	$	23,308
6/30/2014	$	5,935	7.9%	$	21,457
6/30/2013	$	5,104	5.8%	$	15,990

Funded Status and Funding Progress:

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

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

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.

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

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

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

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

8. FIRE PROTECTION SERVICES AGREEMENT:

The Hesperia Fire Protection District entered into a fire protection services agreement with the San Bernardino County Consolidated Fire District (County) effective June 1, 2004. The agreement calls for the County to provide to the District fire prevention, fire investigation, fire suppression, advanced life support services, ambulance transportation service, hazardous materials, and rescue services. The District paid $9,449,751 to the County for these services during the fiscal year ending June 30, 2015. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

9. SELF INSURANCE RISK POOL:

Public Entity Risk Management Authority:

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

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

See accompanying independent auditors' report.

9. SELF INSURANCE RISK POOL (Continued):

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

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

	Year Ended June 30, 2015	Year Ended June 30, 2014
Unpaid Claims, Beginning of Fiscal Year	$ 159,102	$ 92,849
Incurred Claims	32,621	87,595
Claim Payments	(17,814)	(21,342)
Unpaid Claims, End of Fiscal Year	$ 173,909	$ 159,102

The Unpaid claims of $173,309 from the chart above are a component of long-term debt (Note 5). Due to the uncertainty of when the claims will be paid none are considered due within one year.

10. SIGNIFICANT EVENT:

On August 4, 2015, the Board of Directors 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.

11. RESTATEMENT OF PRIOR PERIOD YEAR FINANCIAL STATEMENTS:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the District's defined benefit pension plan in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in reducing net position by $6,547,999 as of July 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
FIRE DISTRICT OPERATIONS FUND
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	$ 1,147,545	$ 918,862	$ 1,356,802	$ 437,940
Resources (Inflows):				
Taxes	5,962,891	5,962,891	6,194,263	231,372
Use of money and property	61,991	61,991	48,633	(13,358)
Grants	580,000	580,000	718,125	138,125
Charges for services	3,582,786	3,582,786	3,396,024	(186,762)
Other revenues	-	-	1,422	1,422
Amount Available for Appropriations	10,187,668	10,187,668	10,358,467	170,799
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	10,986,328	10,993,828	10,979,941	13,887
Capital Outlay:				
Vehicles	-	-	27,390	(27,390)
Machinery and equipment	315,000	315,000	221,545	93,455
Total Charges to Appropriations	11,301,328	11,308,828	11,228,876	79,952
Excess of Resources Over (Under) Charges To Appropriations	(1,113,660)	(1,121,160)	(870,409)	250,751
Fund Balance, June 30	$ 33,885	$ (202,298)	$ 486,393	$ 688,691

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

The Fire District is only required to perform actuarial valuations biannually. An actuarial valuation was not performed for the year ending June 30, 2011, June 30, 2013, and June 30, 2015.

See accompanying independent auditors' report.

Schedules of Required Supplementary Information

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

	2014
District's Proportion of the Net Pension Liability/(Asset)	0.08%
District's Proportionate Share of the Net Pension Liability/(Asset)	$ 5,000,861
District's Covered-Employee Payroll[2]	N/A
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll[2]	N/A
District's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	78.46%

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

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

See accompanying independent auditors' report.

Schedules of Required Supplementary Information

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

	2014
Contractually Required Contribution	$ 89,786
Contributions in Relation to the Contractually Required Contribution	(89,786)
Contribution Deficiency / (Excess)	$ -
District's Covered-Employee Payroll[2]	N/A
Contributions as a Percentage of Covered-Employee Payroll[2]	N/A

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

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

See accompanying independent auditors' report.

June 30, 2015

1. BUDGETARY DATA:

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

Notes to Required Supplementary Information
for the Year Ended June 30, 2015

Changes of Benefit Terms

The District did not have any benefit terms changes after June 30, 2013 (Valuation Date).

Changes of Assumptions

None.

See accompanying independent auditors' report.