HESPERIA FIRE PROTECTION DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2014

June 30, 2014

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Fire Protection District
Hesperia, California

We have audited the accompanying basic 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, 2014, and the related notes to the basic 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 of 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, 2014, 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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for DPHP and budgetary comparison schedule as identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.

White Nelson Diehl Evans LLP

Carlsbad, California
November 25, 2014

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, 2014. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased by approximately $0.3 million during the fiscal year. This is the result of a significant increase in property tax related revenue of 4.3% from a combined 5.5% increase in the District's assessed valuation and the receipt of a one-time pass-through settlement which helped offset the District's increase in operating expenditures.

- 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 2013-14, in the Revenues, Expenditures, and Changes in Fund Balances Statement, revenues exceeded expenditures by $39,066 in the Fire Operations fund; whereas, the Fire Station Building fund ended the year with $0.6 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. 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 first year of the two-year grant, the additional 18 positions increased expenditures by $1.0 million. However, only $0.6 million of SAFER grant funds were eligible and received in FY 2013-14. Therefore, the remaining $0.4 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 the FY 2013-14 with excess revenues over expenditures of $39,066, of which revenues included a one-time revenue of $0.6 million. Without this one-time revenue, the operating loss would have been $0.5 million.

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 13-16 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 17-28 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 $12.6 million, at the close of the most recent fiscal year.

Table 1
Condensed Statement of Net Position

	2013	2014	Changes from 2013 to 2014 Amount	Percentage
Current and other assets	$ 6,023,454	$ 6,491,700	$ 468,246	7.8%
Capital assets	9,522,471	9,257,492	(264,979)	-2.8%
Total Assets	15,545,925	15,749,192	203,267	1.3%
Total deferred outflow of resources	-	-	-	n/a
Current and other liabilities	3,117,878	2,974,495	(143,383)	-4.6%
Long-term debt outstanding	92,849	159,102	66,253	71.4%
Total Liabilities	3,210,727	3,133,597	(77,130)	-2.4%
Total deferred inflow of resources	-	-	-	n/a
Net Position:				
Investment in capital assets	9,522,471	9,257,492	(264,979)	-2.8%
Restricted	-	-	-	n/a
Unrestricted	2,812,727	3,358,103	545,376	19.4%
Total Net Position	$ 12,335,198	$ 12,615,595	$ 280,397	2.3%

The following are brief explanations for the balance change of each line of Table 1 above for the year ending June 30, 2014:

- Current and other assets reported an increase of $0.5 million or 7.8% over FY 2012-13. The increase is primarily due to a $0.6 million increase in due from other governmental agencies; a result of increased property tax revenue. The increase to cash, of $0.1 million (an increase of $0.5 million in the Fire Station Building fund less a decrease of $0.4 million in the Fire Operations fund), is primarily due to the Fire Station Building fund having revenues of $0.6 million and no expenses, then netted against the $0.4 million unreimbursed expenditures related to the SAFER grant ($0.6 SAFER revenue less the $1.0 million SAFER expense). The decrease to accounts receivable is represented by the decrease in outstanding paramedic billings during the fiscal year.

- Capital assets – decreased by $0.3 million resulting from the FY 2013-14 depreciation of assets of $0.5 million and capital asset acquisitions (a fifth ambulance for the increased staffing funded by the Staffing for Adequate Fire and Emergency Response (SAFER) grant) of $0.2 million.

- Current and other liabilities – decreased by $0.1 million or 4.6% from June 30, 2013. The District and the County of San Bernardino Fire Department (County) entered into a 25-year lease agreement 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.

- Long-term debt outstanding, increased $66,253 due to additional workers' comp claims incurred during the fiscal year.

- Unrestricted net position increased by $0.5 million or 19.4% primarily resulting from increases in cash and cash equivalents related to the Fire Station Building fund and because the District incurred only minimal capital expenditures during the fiscal year.

Table 2
Changes in Net Position

	2013	2014	Changes from 2013 to 2014 Amount	Percentage
Revenues				
Program revenues:				
Charges for services	$ 2,554,624	$ 2,948,586	$ 393,962	15.4%
Operating contributions and grants	-	584,151	584,151	100.0%
Capital grants and contributions	246,021	285,932	39,911	16.2%
General revenues:				
Property taxes	6,179,551	7,254,555	1,075,004	17.4%
Income from money and property	69,324	70,949	1,625	2.3%
Other revenues	-	166	166	100.0%
Total revenues	9,049,520	11,144,339	2,094,819	23.1%
Expenses				
Public Safety-Fire	9,016,299	10,863,942	1,847,643	20.5%
Total expenses	9,016,299	10,863,942	1,847,643	20.5%
Excess/(Deficiency) of revenues over/ (under) expenses	33,221	280,397	247,176	744.0%
Change in net position	33,221	280,397	247,176	744.0%
Net position at July 1,	12,301,977	12,335,198	33,221	0.3%
Net position at June 30,	$ 12,335,198	$ 12,615,595	$ 280,397	2.3%

The cost of all District activities this year was $10.9 million, an increase of 20.5% over the June 30, 2013 cost of $9.0 million. Other significant changes of note in Table 2 are:

- The June 30, 2014 combined property tax revenue and Redevelopment Agency (RDA) pass-through revenues of $7.3 million showed a $1.0 million or 17.4% increase from June 30, 2013. The property taxes revenue is 66% of the total revenues. The regular property tax revenue increased by 4.3% over fiscal year 2012-13 to $3.9 million. Due to a State Controller's Office mandated one-time settlement payment to the County of San Bernardino from the Hesperia Housing Authority, the FY 2013-14 RDA tax increment pass-through revenues of $1.9 million increased by 72% or $0.8 million (backing out the one-time revenue of $0.6 million, the increase is approximately $0.2 million) over the fiscal year 2012-13 revenue of $1.1 million. The remaining $1.5 million of property tax revenue consists of Community Facilities Districts tax revenues within the Fire Operations fund; along with RDA tax increment pass-through revenues within the Fire Station Building fund.

- Charges for services, those billed directly to recipients of the District's services, increased 15.4% or $0.4 million from the $2.6 million at June 30, 2013. The increase is primarily due to the District having adopting the fee schedule of County Fire at the beginning of the fiscal year along with the addition of a fifth ambulance (shown in Capital grants and contributions). The County fee schedule was about 32.5% higher than the District's previous fee schedule. This higher fee schedule led to the paramedic ambulance fee revenues being higher than the previous fiscal year.

- The District's expenses increased by 20.5% or $1.8 million from the expenses at June 30, 2013. The primary reasons for the increase are (1) the Staffing for Adequate Fire and Emergency Response (SAFER) grant ($1.0 million) which partially funded the addition of 18 Limited-term Firefighters and (2) an increase in the County contract of $0.6 million, which is largely attributed to the addition of an engineer position for the District's existing non-grant funded staffing. The SAFER grant reimbursement was not received at the level originally estimated due to the subsequent Federal administrator clarification on reimbursable expenses, which resulted in a use of District reserves for the unreimbursed expenditures.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year-end, the District's Fire Operations fund reported a fund balance of $1.4 million, which is an increase of $39,066 or 3.0% from the June 30, 2013 ending fund balance of $1.3 million. The District utilized the Staffing for Adequate Fire and Emergency Response (SAFER) grant which resulted in an increase to staffing levels and a corresponding increase in expenditures of nearly $1.9 million from $8.5 million to $10.4 million in fiscal year 2013-14. However, SAFER grant revenue of approximately $0.6 million, along with an increase to tax related revenue of nearly $1.0 million (including the one-time revenue of $0.6 million) helped to offset the increased expenditures; with the remaining $0.3 million of increased expenditures being funded through the District's reserves.

The Fire Station Building fund balance totaled $5.0 million, which is an increase of about $0.5 million or 12.8% from June 30, 2013's ending fund balance of $4.5 million. This increase is due to the collection of property tax revenues (from RDA pass-throughs), with no offsetting expenditures during fiscal year 2013-14.

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, 2014, capital assets, net of depreciation, of the governmental activities totaled $9.3 million. The primary capital asset acquisition was the fifth ambulance contributed to the District by the City of Hesperia. 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, 2013 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2014 Net of Accumulated Depreciation
Land	$ 855,329	$ -	$ -	$ -	$ 855,329
Land improvements	11,569	-	-	(3,185)	8,384
Vehicles	951,101	162,544	-	(262,842)	850,803
Machinery and equipment	122,810	-	-	(32,574)	90,236
Buildings and improvements	7,581,662	45,939	-	(174,861)	7,452,740
	$ 9,522,471	$ 208,483	$ -	$ (473,462)	$ 9,257,492

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, increased during FY 2013-14 due to claims payable.

Table 4
Outstanding Debt, at Year-End

	Principal Balance at June 30, 2013	Additions	Deletions	Principal Balance at June 30, 2014	Due Within One Year
Claims Payable	$ 92,849	$ 87,595	$ (21,342)	$ 159,102	$ -
	$ 92,849	$ 87,595	$ (21,342)	$ 159,102	$ -

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Fiscal year (FY) 2013-14 introduced the Staffing for Adequate Fire and Emergency Response (SAFER) grant, which provided funding to increase staffing levels of the District. The SAFER grant is a two-year grant which allowed the District to add additional safety personnel in order to enhance fire services.

Along with the additional staff, the District received a new ambulance contributed by the City of Hesperia. This fifth ambulance, with the adoption of County Fire's higher fee schedule, provided a 15% increase to the District's paramedic ambulance fee revenues. The adoption of County Fire's fee schedule is the District's first rate increase since FY 2003-04. This increase, along with revenue received from the SAFER grant, and more importantly, a significant increase to property tax related revenue, helped to partially offset the increased expenditures that the District incurred with the increased staffing levels. When comparing just the SAFER grant revenue of $0.4 million to the increase in expenditures related to the grant of $1.0 million, other District resources and reserves funded the difference.

FY 2014-15 will see the District utilize the second and final year of the SAFER grant which will maintain the increased staffing levels. The District will continue to receive SAFER grant revenue partially offsetting the increased expenditures related to the increased staffing levels of the District, with the remainder to 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, 2014

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 5,619,931
Accounts receivable	284,895
Accrued interest	2,925
Due from other governmental agencies	502,440
Total Current Assets	6,410,191
Noncurrent Assets:	
Deposits	81,509
Capital assets:	
Not being depreciated:	
Land	855,329
Being depreciated:	
Land improvements	138,813
Vehicles	4,743,294
Machinery and equipment	496,308
Buildings and improvements	8,660,559
Less: Accumulated depreciation	(5,636,811)
Total Capital Assets	9,257,492
Total Noncurrent Assets	9,339,001
Total Assets	15,749,192
DEFERRED OUTFLOWS OF RESOURCES	
Total deferred outflows of resources	-

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

LIABILITIES		
Current Liabilities:		
Accounts payable and other current liabilities	$	13,038
Total Current Liabilities		13,038
Noncurrent Liabilities:		
Net OPEB obligation		21,457
Unearned revenue		2,940,000
Long-term debt-due in more than one year		159,102
Total Noncurrent Liabilities		3,120,559
Total Liabilities		3,133,597
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows of resources		-
NET POSITION		
Investment in capital assets		9,257,492
Unrestricted		3,358,103
Total Net Position	$	12,615,595

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

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	$ 10,863,942	$ 2,948,586	$ 584,151	$ 285,932	$ (7,045,273)
Total governmental activities	$ 10,863,942	$ 2,948,586	$ 584,151	$ 285,932	(7,045,273)

General Revenues:	
Property taxes	7,254,555
Income from money and property	70,949
Other revenues	166
Total general revenues	7,325,670
Change in net position	280,397
Net position at beginning of year	12,335,198
Net position at end of year	$ 12,615,595

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

BALANCE SHEET
June 30, 2014

	Fire Operations	Fire Station Building	Total Governmental Funds
Assets and Deferred Outflows of Resources			
Assets:			
Cash and cash equivalents	$ 582,146	$ 5,037,785	$ 5,619,931
Accounts receivable	284,895	-	284,895
Accrued interest	359	2,566	2,925
Due from other governmental agencies	502,440	-	502,440
Total Assets	1,369,840	5,040,351	6,410,191
Deferred Outflows of Resources			
Total deferred outflows of resources	-	-	-
Total Assets and Deferred Outflows of Resources	$ 1,369,840	$ 5,040,351	$ 6,410,191
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 13,038	$ -	$ 13,038
Total Liabilities	13,038	-	13,038
Deferred Inflows of Resources			
Total deferred inflows of resources	-	-	-
Fund Balances:			
Committed:			
Public safety	1,356,802	5,040,351	6,397,153
Total Fund Balances	1,356,802	5,040,351	6,397,153
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 1,369,840	$ 5,040,351	$ 6,410,191

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, 2014

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

Total fund balance - governmental funds	$	6,397,153
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.		9,257,492
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.		81,509
The net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.		(21,457)
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.		(2,940,000)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.		(159,102)
Total Net Position	$	12,615,595

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, 2014

	Fire Operations	Fire Station Building	Total Governmental Funds
Revenues:			
Taxes	$ 6,810,752	$ 560,709	$ 7,371,461
Use of money and property	60,136	10,813	70,949
Charges for services	2,948,586	-	2,948,586
Grants	584,151	-	584,151
Other revenues	166	-	166
Total Revenues	10,403,791	571,522	10,975,313
Expenditures:			
Public safety- fire	10,302,174	-	10,302,174
Capital Outlay:			
Buildings and improvements	45,939	-	45,939
Vehicles	16,612	-	16,612
Total Expenditures	10,364,725	-	10,364,725
Excess (Deficiency) of Revenues Over (Under) Expenditures	39,066	571,522	610,588
Net Change in Fund Balances	39,066	571,522	610,588
Fund balances at beginning of year	1,317,736	4,468,829	5,786,565
Fund balances at end of year	$ 1,356,802	$ 5,040,351	$ 6,397,153

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, 2014

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

Net change in fund balances - total governmental funds	$	610,588
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.		(410,911)
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. During the current period, some remittance was recognized and decreased the deferral in the fund statements.		(116,906)
Decrease in long-term deposits are included in governmental activities in the government-wide Statement of Activities.		(16,586)
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.		(5,467)
Increase in claims payable are included in governmental activities in the government-wide Statement of Activities		(66,253)
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
Increase of Capital Grants and Contributions to reflect capital asset contributed by the City of Hesperia to the District, net of deferred revenue.		145,932
Change in net position of governmental activities	$	280,397

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:

      <u>Fire Operations</u> – is used to accounts for the District's operations activities.

      <u>Fire Station Building</u> – 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.

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

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.

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:

- GASB 66 - *"Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62"*, required to be implemented in the current fiscal year did not impact the District.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Guarantees*", required to be implemented in the current fiscal year 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 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for the periods beginning after June 15, 2014.

See accompanying independent auditors' report.

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

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, 2014, 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. 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.

j. Capital Assets:

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

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

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

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

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

k. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and balance sheet 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 does not have any type of these items at June 30, 2014.

In addition to liabilities, the statement of net position and balance sheet 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 so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items at June 30, 2014.

l. 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, 2014 are classified in the accompanying financial statements as follows:

STATEMENT OF NET POSITION:	June 30, 2014
Current Assets:	
Cash and cash equivalents	$ 5,619,931
Total cash and investments	$ 5,619,931

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, and concentration of credit risk.

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

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 $5,619,931 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. 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, 2014, the remaining balance of the unearned revenue is $2,940,000.

See accompanying independent auditors' report.

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
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	4,580,750	162,544	-	4,743,294
Machinery and equipment	496,308	-	-	496,308
Buildings and improvements	8,614,620	45,939	-	8,660,559
Total capital assets, being depreciated	13,830,491	208,483	-	14,038,974
Less accumulated depreciation for:				
Land improvements	(127,244)	(3,185)	-	(130,429)
Vehicles	(3,629,649)	(262,842)	-	(3,892,491)
Machinery and equipment	(373,498)	(32,574)	-	(406,072)
Building and improvements	(1,032,958)	(174,861)	-	(1,207,819)
Total accumulated depreciation	(5,163,349)	(473,462)	-	(5,636,811)
Total capital assets, being depreciated, net	8,667,142	(264,979)	-	8,402,163
Governmental-type activities capital assets,net	$ 9,522,471	$ (264,979)	$ -	$ 9,257,492

Depreciation expense for the year ended June 30, 2014 charged to the Public Safety-Fire function was $473,462.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2014:

	Principal Balance at June 30, 2013	Increase	Decrease	Principal Balance at June 30, 2014	Due Within One Year
Claims Payable	$ 92,849	$ 87,595	$ (21,342)	$ 159,102	$ -
Total Long-Term Debt	$ 92,849	$ 87,595	$ (21,342)	$ 159,102	$ -

See accompanying independent auditors' report.

6. 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 (CalPERS). This plan is a cost-sharing, multiple-employer defined benefit pension plan administered by CalPERS. 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. Copies of CalPERS' annual financial report may be obtained from the CalPERS 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, 2014 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 CalPERS. The District's employer contribution for the last three fiscal years, which were equal to the required contribution each year were $89,786, $9,458 and $10,324 for the years ended June 30, 2014, 2013 and 2012 respectively. CalPERS does not provide individual plan trend information for risk pools. Effective June 2005 the District had no employees (See Note 8).

7. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

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

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Funding Policy:

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

Annual OPEB Cost and Net OPEB Obligation/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 3.0% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

Annual Required Contribution (ARC)	$ 6,019
Interest on net OPEB obligation	924
Adjustment to Annual Required Contribution (ARC)	(1,008)
Annual OPEB cost (expense)	5,935
Contributions made	(468)
Increase in net OPEB obligation	5,467
Net OPEB obligation - beginning of year	15,990
Net OPEB obligation - end of year	$ 21,457

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 2014, 2013, and 2012 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year	Annual Pension Cost (APC)	Percentage of OPEB Cost Contributed	Net Pension Obligation
6/30/2014	$ 5,935	7.9%	$ 21,457
6/30/2013	$ 5,104	5.8%	$ 15,990
6/30/2012	$ 5,988	6.4%	$ 11,180

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$ 110,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	110,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Members)	-
UAAL as a Percentage of Covered Payroll	0.0%

See accompanying independent auditors' report.

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Actuarial Methods and Assumptions:

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

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

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

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	26 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 1997-2007 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 $8,897,812 to the County for these services during the fiscal year ending June 30, 2014. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

9. SELF-INSURANCE RISK POOL:

Public Entity Risk Management Authority:

The Fire District is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 31 California cities and districts, for the purpose of pooling the District's risk for worker's compensation and general liability insurance with those of other member cities and districts. The Governing

Board of PERMA is comprised of directors nominated and selected by each member city and district. Each governing board member has one vote regarding all financial and management issues coming before the Board.

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

The District is self-insured for the first $250,000 of each claim, pertaining to Worker's Compensation Liability Coverage, and PERMA will assume each claim's liability between $250,000 and $500,000. For any Worker's Compensation Liability claim exceeding $500,000, the District is insured by Excess Insurer's Limited Liability for up to $5,000,000 of each claim. For General Liability, the District is self-insured for up to $50,000. PERMA will assume each claim exceeding $50,000 to $1,000,000. For all General Liability claims exceeding $1,000,000, the District is insured by Excess Insurers Limit of Liability for up to $50,000,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be 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, 2014	Year Ended June 30, 2013
Unpaid Claims, Beginning of Fiscal Year	$ 92,849	$ 92,849
Incurred Claims	87,595	77,912
Claim Payments	(21,342)	(77,912)
Unpaid Claims, End of Fiscal Year	$ 159,102	$ 92,849

The Unpaid claims of $159,102 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.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
FIRE DISTRICT SPECIAL REVENUE FUND
For the year ended June 30, 2014

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	$ 1,317,736	$ 1,317,736	$ 1,317,736	$ -
Resources (Inflows):				
Taxes	5,899,077	5,899,077	6,810,752	911,675
Use of money and property	56,615	56,615	60,136	3,521
Grants	794,778	794,778	584,151	(210,627)
Charges for services	3,274,203	3,274,203	2,948,586	(325,617)
Other revenues	-	-	166	166
Amount Available for Appropriations	10,024,673	10,024,673	10,403,791	379,118
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	10,181,214	10,367,863	10,302,174	65,689
Capital Outlay:				
Buildings and improvements	13,650	45,584	45,939	(355)
Vehicles	-	10,000	16,612	(6,612)
Total Charges to Appropriations	10,194,864	10,423,447	10,364,725	58,722
Excess of Resources Over (Under) Charges To Appropriations	(170,191)	(398,774)	39,066	437,840
Fund Balance, June 30	$ 1,147,545	$ 918,962	$ 1,356,802	$ 437,840

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

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Over Funded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
	(A)	(B)	(B - A)	(A / B)	(C)	(B - A / C)
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%
6/30/2008:						
Fire	$ -	$ 99,000	$ 99,000	0.0%	$ -	0.0%
Total	$ -	$ 99,000	$ 99,000	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, 2009, June 30, 2011, and June 30, 2013.

June 30, 2014

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.

See accompanying independent auditors' report.