HESPERIA WATER DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS

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 Water District
Hesperia, California

We have audited the accompanying financial statements of the Hesperia Water 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 an opinion 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 auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Hesperia Water District as of June 30, 2015, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts.

Emphasis of Matter

As discussed in Notes 1e and 9 to the financial statements, the District 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 $3,222,798 ($3,019,763 water operations & capital and $203,035 sewer operations & capital) to previously reported net position. 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, the schedule of funding progress for DPHP, the CalPERS pension plans - schedule of proportionate share of net pension liability, and the CalPERS pension plan - schedule of Contributions 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information 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 Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position decreased approximately $3.0 million from $88.9 million to $85.9 million or 3.4% primarily due to the implementation of GASB 68, which required a negative $3.2 million restatement of the beginning net position.

- During the year, the District's outstanding long-term debt decreased by $2.1 million from $13.7 million to $11.6 million. This is, in large part, due to the final $1.2 million payment of the $6.0 million loan held by the Hesperia Housing Authority and a $0.9 million decrease from scheduled 1998 A&B Lease Revenue Refunding Bond and 1992B Certificate of Participation payments.

- The District's capital assets, net of depreciation, decreased by $2.4 million from $96.1 million to $93.7 million. This decrease is primarily the net effect of a $3.5 million increase in current year depreciation, which was offset by a $1.1 million increase in construction in progress pertaining to the pipeline replacement program.

- The total cost of the District's operations and capital improvements was $20.2 million, which is a decrease of 8.2% from the June 30, 2014 total of $22.0 million. This is the result of a combined decrease in operating costs such as water replacement costs and contract services, due to less water usage and completed capital projects as compared to fiscal year ending June 30, 2014.

USING THIS ANNUAL REPORT

The basic financial statements of the District consist of the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position provides information about the activities of the District as a whole and with the water and sewer functions separately. Also, it presents a longer-term view of the District's finances.

The Statement of Revenues, Expenses, and Changes in Net Position describes how the services of the District were financed in the short term as well as what remains for future spending. The Statement also provides information on the District's operations and can be used to determine whether the District has recovered all of its costs through its rates and other charges. This statement can also be used to determine the District credit worthiness and profitability.

The Statement of Cash Flows provides information regarding the District's cash receipts, cash payments, and changes in cash resulting from operations, investments and financing activities. Additionally, the Statement of Cash Flows provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

REPORTING THE DISTRICT AS A WHOLE

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

These two statements report the District's net position and changes to it. You can think of the District's net position – the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

The basic financial statements can be found on pages 10-14 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 35.

THE DISTRICT AS A WHOLE

Our analysis focuses on the Condensed Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the District. In the current year, net position decreased from $88.9 million to $85.9 million. This decrease of approximately $3.0 million comes primarily from a $2.5 million increase in net pension liability and $1.0 million in Deferred Inflows related to pensions, as required by GASB 68. The Water District continues to maintain the water and sewer infrastructure, which includes water storage tanks, water pumping equipment, water transmission lines, and sewer lines, etc.

Table 1

Condensed Statement of Net Position

			Changes from 2014 to 2015	
	2014	2015	Amount	Percentage
Current and other assets	$ 18,929,875	$ 19,488,552	$ 558,677	3.0%
Capital assets	96,103,431	93,714,142	(2,389,289)	-2.5%
Total Assets	115,033,306	113,202,694	(1,830,612)	-1.6%
Deferred outflows of resources	3,064,890	3,087,418	22,528	0.7%
Current and other liabilities	15,560,393	15,258,625	(301,768)	-1.9%
Long-term debt outstanding	13,686,495	11,594,657	(2,091,838)	-15.3%
Net pension liability	-	2,531,398	2,531,398	100.0%
Total Liabilities	29,246,888	29,384,680	137,792	0.5%
Deferred inflows of resources	-	1,025,910	1,025,910	100.0%
Net Position:				
Net Investment in capital assets	83,007,645	82,701,051	(306,594)	-0.4%
Restricted	1,888,888	1,888,888	-	0.0%
Unrestricted	3,954,775	1,289,583	(2,665,192)	-67.4%
Total Net Position	$ 88,851,308	$ 85,879,522	$ (2,971,786)	-3.3%

The following is a list of factors that explain the $3.0 million decrease in net position:

- Current and other assets experienced a slight increase of $0.6 million during the fiscal year. The increase is primarily the result of a $1.6 million increase (in the Sewer function) in the inter-fund loan between the water and sewer operations, which was offset by a $0.4 million decrease in accounts receivable due to ongoing operations and $0.6 million decrease in cash.
- Capital assets decreased by $2.4 million, net of depreciation, from June 30, 2014. As mentioned, the decrease is largely due to depreciation expense of $3.5 million offset by a $1.1 million increase in construction in progress.
- Current and other liabilities decreased by $0.3 million from June 30, 2014. This is primarily due to reductions of $1.6 million to accounts payables and $0.4 million to deferred charges, which was offset by an increase of $1.6 million to the inter-fund transfers (due to other funds in the water function).
- Long-term debt outstanding activity during the fiscal year resulted in a net decrease of $2.1 million from June 30, 2014. During the fiscal year, the District made a $1.2 million note payment to the Hesperia Housing Authority and a total of $0.9 million of principal payments on other outstanding debts, as shown in Table 4.
- Deferred Inflow of Resources increased by $1.0 million from June 30, 2014 due to the implementation of GASB 68, which requires the reporting of the difference in projected and actual earnings on investments of a pension plan as deferred inflow of resources.
- Net Investment in capital assets decreased by $0.3 million, or 0.4%, from the year ended June 30, 2014, which is primarily due to the $2.4 million decrease in capital assets and $2.1 million increase in long-term debt outstanding.
- Restricted net position had no change from June 30, 2014.
- Unrestricted net position decreased by $2.7 million or 67.4% primarily due to the $0.6 million decrease in cash position from sewer operations, a decrease in noncurrent liabilities of $1.7 million, and a decrease in accounts receivable of $0.4 million.

DISTRICT ACTIVITIES

The June 30, 2014 net position was restated downward by $3.2 million, which was due to the implementation of GASB 68. The Water District's net position (from operations) increased $0.3 million or 0.3% from the restated June 30, 2014 net position. The cost of all Water District activities this year decreased by $1.8 million from $22.0 million for FY 2013-14 to $20.2 million for FY 2014-15. This decrease of costs was offset by a reduction of revenue. As shown in the Changes in Net Position (Table 2), the amount paid by users of the systems was $19.4 million, which is a decrease of $0.4 million or 1.8% from the June 30, 2014 total of $19.8 million. This is attributed to water conservation efforts by the District's customers. Non-operating revenues of about $1.0 million made up the remainder of the $20.4 million total revenues.

Table 2

Changes in Net Position

	2014	2015	Changes from 2014 to 2015 Amount	Percentage
Revenues				
Operating revenues:				
Charges for services	$ 19,756,973	$ 19,391,607	$ (365,366)	-1.8%
Non-operating revenues:				
Property taxes	320,722	287,410	(33,312)	-10.4%
Interest income	14,717	13,743	(974)	-6.6%
System improvement and replacement	306,762	414,951	108,189	35.3%
Rent income	394,474	341,505	(52,969)	-13.4%
Subtotal non-operating revenues	1,036,675	1,057,609	20,934	2.0%
Total revenues	20,793,648	20,449,216	(344,432)	-1.7%
Expenses				
Water	19,014,005	17,285,767	(1,728,238)	-9.1%
Wastewater	2,944,634	2,912,437	(32,197)	-1.1%
Total expenses	21,958,639	20,198,204	(1,760,435)	-8.0%
Change in net position	(1,164,991)	251,012	1,416,003	121.5%
Net position at July 1,	78,286,839	88,851,308	10,564,469	13.5%
Restatement of net position at July 1,	11,729,460	(3,222,798)	(14,952,258)	-127.5%
Net position at July 1, as restated	90,016,299	85,628,510	(4,387,789)	-4.9%
Net position at June 30,	$ 88,851,308	$ 85,879,522	$ (2,971,786)	-3.3%

The District's operating revenue had a slight decrease of $0.4 million in FY 2014-15 due to its customer's water conservation efforts. The District's total expenses decreased by $1.8 million, which was largely due to a decrease in water operations' operating costs such as water replacement costs, workers' compensation, contract services, and bond interest expense due to the replacement of letter of credit provider in Fall 2013. Sewer operations' expenses were approximately the same as the prior fiscal year.

CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions, including infrastructure assets. At June 30, 2015, capital assets, net of depreciation, totaled $93.7 million, which is a decrease of $2.4 million from June 30, 2014 total of $96.1 million. This decrease is primarily due to depreciation expense of $3.5 million and offset by $1.1 million increase in construction in progress. During the year, a $3.3 million decrease to construction in progress was offset by a $3.3 million increase in water facilities.

The District has elected to use the "Basic Approach" as defined by GASB Statement No. 34 for infrastructure reporting for water lines. Using the "Basic Approach," the District will depreciate the value of the infrastructure over a forty (40) year period. As replacing of water line segments is done, the value of that work will be added and any remaining book value of the replaced segment will be reduced from the water facilities infrastructure class. The District's other capital assets are depreciated as outlined in the Notes to the Basic Financial Statements.

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	$ 3,302,878	$ -	$ (129,000)	$ -	$ 3,173,878
Water rights	13,428,460	-	-	-	13,428,460
Land improvements	159,548	-	-	(19,118)	140,430
Vehicles	237,668	213,629	-	(146,746)	304,551
Buildings and structures	1,022,946	-	-	(232,802)	790,144
Machinery and equipment	581,279	151,102	-	(121,267)	611,114
Infrastructure:					
Water facilities	70,996,835	3,315,937	(247,433)	(2,826,237)	71,239,102
Sewer facilities	3,433,552	-	-	(178,263)	3,255,289
Construction in progress	2,940,265	1,146,847	(3,315,938)	-	771,174
	$ 96,103,431	$ 4,827,515	$ (3,692,371)	$ (3,524,433)	$ 93,714,142

DEBT ADMINISTRATION

Debt issued by the Hesperia Water District is not the responsibility of the City of Hesperia. In like manner, the debt issued by the City of Hesperia is not the responsibility of the Hesperia Water District. The debt of the Hesperia Water District decreased by a net amount of $2.1 million in FY 2014-15. The decrease is largely due to the final $1.2 million payment on the 5-year $6.0 million loan held by the Hesperia Housing Authority and a $0.9 million decrease from scheduled 1998 A&B Lease Revenue Refunding Bonds and 1992B Certificate of Participation payments. Table 4 below, presents the outstanding debt.

Table 4
Outstanding Debt at Year-End

	Principal Balance at June 30, 2014	Additions	Deductions	Principal Balance at June 30, 2015	Due Within One Year
Loans	$ 1,200,000	$ -	$ (1,200,000)	$ -	$ -
Certificates of participation	760,000	-	(70,000)	690,000	75,000
Revenue bonds	11,220,000	-	(820,000)	10,400,000	855,000
Less deferred amounts:					
Bond discounts	(84,214)	-	7,305	(76,909)	7,305
Compensated Absences	194,825	181,589	(202,256)	174,158	167,192
Claims payable	395,884	111,734	(100,210)	407,408	100,000
	$ 13,686,495	$ 293,323	$ (2,385,161)	$ 11,594,657	$ 1,204,497

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As reflected in the FY 2015-16 Budget, the District's revenue in the operating funds, water and sewer, is expected to decrease about $1.7 million from the FY 2014-15 Budget of $21.0 million. The District's operating expenses are expected to decrease $1.3 million from the FY 2014-15 Budget of $20.8 million. This is attributed to the State of California Governor's drought declaration that encouraged the water users in the State to reduce water use.

In the FY 2015-16 Budget, the District's revenue in the capital funds, water and sewer showed an increase of $0.3 million from the FY 2014-15 Budget of $0.3 million due to development related revenue. The District's budgeted capital expenses are expected to decrease by $0.4 million from the FY 2014-15 Budget of $0.4 million due to the completion or suspension of capital projects funded through the Water District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, 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 Hesperia Water District, 9700 Seventh Avenue, Hesperia, California 92345.

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STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Water Operations & Capital	Sewer Operations & Capital	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ 3,925,187	$ 3,925,187
Receivables:			
Accounts	2,358,600	513,745	2,872,345
Accrued interest	1,022	2,074	3,096
Due from other governmental agencies	3,438	11,536	14,974
Deposits	-	3,315	3,315
Inventories	992,311	-	992,311
Due from other funds	-	8,889,133	8,889,133
Restricted Assets:			
Cash and investments with fiscal agent	1,888,888	-	1,888,888
Cash held for bondholders	415,094	-	415,094
Total Current Assets	5,659,353	13,344,990	19,004,343
Noncurrent Assets:			
Other Noncurrent Assets:			
Prepaid expenses	203,988	-	203,988
Deposits for self-insurance	257,101	23,120	280,221
Total Other Noncurrent Assets	461,089	23,120	484,209
Capital Assets:			
Land	1,369,341	1,804,537	3,173,878
Water rights	13,428,460	-	13,428,460
Construction in progress	771,174	-	771,174
Land improvements	790,727	-	790,727
Vehicles	2,278,764	214,005	2,492,769
Machinery and equipment	4,304,913	295,790	4,600,703
Buildings and improvements	7,425,207	-	7,425,207
Water and sewer facilities	123,054,326	7,137,408	130,191,734
Less: Accumulated depreciation	(65,075,740)	(4,084,770)	(69,160,510)
Total Capital Assets	88,347,172	5,366,970	93,714,142
Total Noncurrent Assets	88,808,261	5,390,090	94,198,351
Total Assets	94,467,614	18,735,080	113,202,694
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	810,913	-	810,913
Deferred asset from derivative instrument	1,859,252	-	1,859,252
Deferred pension outflows	390,966	26,287	417,253
Total Deferred Outflows of Resources	3,061,131	26,287	3,087,418

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015 (Continued)

LIABILITIES	Water Operations & Capital	Sewer Operations & Capital	Total
Current Liabilities:			
Accounts payable	$ 2,296,329	$ 355,149	$ 2,651,478
Accrued interest payable	54,729	-	54,729
Deposits	594,327	-	594,327
Due to other funds	8,889,133	-	8,889,133
Due to other governments	-	41,025	41,025
Current liabilities payable from restricted assets - due to bondholders	415,094	-	415,094
Liability from derivative instrument	1,859,252	-	1,859,252
Long term debt due within one year	1,185,125	19,372	1,204,497
Total Current Liabilities	15,293,989	415,546	15,709,535
Noncurrent Liabilities:			
Net OPEB obligation	740,388	-	740,388
Net pension liability	2,371,920	159,478	2,531,398
Unearned revenue	13,199	-	13,199
Compensated absences	6,159	807	6,966
Claims payable	270,142	37,266	307,408
Revenue bonds (net of unamortized discounts)	9,460,786	-	9,460,786
Certificates of participation	615,000	-	615,000
Total Noncurrent Liabilities	13,477,594	197,551	13,675,145
Total Liabilities	28,771,583	613,097	29,384,680
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	961,278	64,632	1,025,910
Total Deferred Inflows of Resources	961,278	64,632	1,025,910
NET POSITION			
Net investment in capital assets	77,334,081	5,366,970	82,701,051
Restricted for debt service	1,888,888	-	1,888,888
Unrestricted	(11,427,085)	12,716,668	1,289,583
Total Net Position	$ 67,795,884	$ 18,083,638	$ 85,879,522

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

	Water Operations & Capital	Sewer Operations & Capital	Total
OPERATING REVENUES			
Water sales	$ 15,229,406	$ -	$ 15,229,406
Water services	435,940	-	435,940
Sewer services	-	3,607,678	3,607,678
Other	117,894	689	118,583
Total Operating Revenues	15,783,240	3,608,367	19,391,607
OPERATING EXPENSES			
General and administrative	3,467,771	-	3,467,771
Engineering	735,485	-	735,485
Production	5,462,572	-	5,462,572
Distribution	1,095,405	-	1,095,405
Wastewater collection	-	2,707,247	2,707,247
Customer service	2,015,613	-	2,015,613
Depreciation and amortization	3,563,710	205,190	3,768,900
Total Operating Expenses	16,340,556	2,912,437	19,252,993
OPERATING INCOME (LOSS)	(557,316)	695,930	138,614
NONOPERATING REVENUES (EXPENSES)			
Unrestricted system improvement and replacement	414,951	-	414,951
Property taxes	287,082	-	287,082
Property taxes - debt service	328	-	328
Rent income	341,505	-	341,505
Interest income	5,898	7,845	13,743
Interest expense	(942,245)	-	(942,245)
Loss on disposal of capital assets	(2,966)	-	(2,966)
Total Nonoperating Revenues (Expenses), Net	104,553	7,845	112,398
Change In Net Position	(452,763)	703,775	251,012
Net position at beginning of year, as previously stated	71,268,410	17,582,898	88,851,308
Prior Period Adjustment	(3,019,763)	(203,035)	(3,222,798)
Net position at beginning of year, as restated	68,248,647	17,379,863	85,628,510
Net position at end of year	$ 67,795,884	$ 18,083,638	$ 85,879,522

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Water Operations & Capital	Sewer Operations & Capital	Total
Cash Flows from Operating Activities:			
Cash received from water and sewer customers	$ 16,110,576	$ 3,596,847	$ 19,707,423
Cash received from other operating receipts	117,894	689	118,583
Cash payments for water purchases	(7,130,907)	-	(7,130,907)
Cash payments for sewer collection and maintenance	-	(2,555,485)	(2,555,485)
Cash payments for services and supplies	(1,110,522)	-	(1,110,522)
Cash payments to employees for services	(6,379,310)	(5,212)	(6,384,522)
Net Cash Provided by Operating Activities	1,607,731	1,036,839	2,644,570
Cash Flows from Noncapital and Related Financing Activities:			
Property taxes received	287,410	-	287,410
Cash received to/from other funds	1,613,579	(1,613,579)	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	1,900,989	(1,613,579)	287,410
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(1,323,439)	(59,136)	(1,382,575)
Unrestricted system improvement and replacement receipts	414,951	-	414,951
Cash received from bondholders	2,688	-	2,688
Cash payment on loan payable to HCRA	(1,200,000)	-	(1,200,000)
Interest payments on long-term debt	(857,775)	-	(857,775)
Principal payments on long-term debt	(890,000)	-	(890,000)
Net Cash Used by Capital and Related Financing Activities	(3,853,575)	(59,136)	(3,912,711)
Cash Flows from Investing Activities:			
Rents received	341,505	-	341,505
Interest received	6,039	7,654	13,693
Net Cash Provided by Investing Activities	347,544	7,654	355,198
Net Increase (Decrease) in Cash and Cash Equivalents	2,689	(628,222)	(625,533)
Cash and cash equivalents at beginning of year	2,301,294	4,553,409	6,854,703
Cash and cash equivalents at end of year	$ 2,303,983	$ 3,925,187	$ 6,229,170

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

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

	Water Operations & Capital	Sewer Operations & Capital	Total
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:			
Operating income (Loss)	$ (557,316)	$ 695,930	$ 138,614
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3,563,710	205,190	3,768,900
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	445,230	5,251	450,481
(Increase) decrease in deposits	(33,313)	(5,551)	(38,864)
(Increase) decrease in inventory	(37,401)	-	(37,401)
(Increase) decrease in prepaid expenses	24,761	-	24,761
(Increase) decrease in due from other governments	30,440	-	30,440
(Increase) decrease in deferred outflows on pension	(17,518)	(1,178)	(18,696)
Increase (decrease) in accounts and claims payable	(1,693,096)	134,209	(1,558,887)
Increase (decrease) in accrued personnel costs	(227,504)	(16,082)	(243,586)
Increase (decrease) in customer deposits	31,579	-	31,579
Increase (decrease) in due to other governments	-	35,400	35,400
Increase (decrease) in net OPEB obligation	133,344	-	133,344
Increase (decrease) in deferred revenue	13,199	-	13,199
Increase (decrease) in net pension liability	(1,021,291)	(68,666)	(1,089,957)
Increase (decrease) in compensated absences	(8,371)	(12,296)	(20,667)
Increase (decrease) in deferred deferred inflows	961,278	64,632	1,025,910
Total Adjustments	2,165,047	340,909	2,505,956
Net Cash Provided (Used) by Operating Activities	$ 1,607,731	$ 1,036,839	$ 2,644,570
Supplemental Disclosures:			
Noncash Capital and Financing Activities			
Amortization Related to Long-Term Debt	$ 84,242		

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Hesperia Water District (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 District was organized pursuant to Section 30000 et seq. of the California Water Code. The District has two main areas of responsibility that are as follows:

Water Operations & Capital - The Water Division's main objective is to deliver and ensure adequate supplies of water. The water is to meet all drinking water quality regulations and to maintain District Facilities to ensure unobstructed flows during water runoff.

Sewer Operations & Capital - The Sewer Division's main objective is to transmit and ensure continuous unobstructed flows of sewage to the regional plant.

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.

b. Basic Financial Statements:

The basic financial statements are comprised of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows and the Notes to Basic Financial Statements.

c. Basis of Presentation:

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. For the most part, the effect of inter-fund activity has been removed from these statements.

d. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus”, and the “accrual basis of accounting”. The accounting objectives of economic measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (Continued):

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales and sewer services while operating expenses pertain directly to the furnishing of those sales and services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and sewer services.

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 by $3,019,763 for Water Operations and Capital and $203,035 for Sewer Operations and Capital. Refer to Note 5 – 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", effective for periods beginning after June 15, 2015.
- 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 non-employer 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", effective for periods beginning after June 15, 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

   e. New Accounting Pronouncements (Continued):

   Pending Accounting Standards (Continued):

   - GASB 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", effective for 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. 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.

   g. Inventories:

   Inventories consist of materials and supplies that are valued at cost and are recorded as expenses on a first-in, first-out basis when consumed.

   h. Compensated Absences:

   A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

   Vacation pay is payable to employees at the time vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than 160 hours during a one year accrual period.

   Sick leave is payable when an employee is unable to work because of illness. Upon termination, any unused sick leave will not be paid.

   i. Unbilled Services:

   Unbilled water revenue of the enterprise fund is recognized as earned when the water is consumed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

j. Use of Estimates:

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

k. Property Taxes:

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 10
	Second Installment - February 10
Delinquent Date:	First Installment - December 11
	Second Installment - April 11

l. Cash and Investments:

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

m. Capital Assets and Depreciation:

Capital Assets are stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Net interest costs are capitalized on projects during the construction period. The District’s capitalization policy sets the threshold for reporting capital assets at $5,000.

Depreciation is charged using the straight-line method based on the estimated useful life of the related asset. Land and construction-in-progress are not depreciated. The estimated useful life of the assets is as follows:

Buildings	30 years
Improvements	20 years
Machinery and equipment	5-30 years
Vehicles	8 Years
Water and sewer facilities	40 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

n. 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:

- Deferred Charges on Refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred Asset from Derivative Investment – The deferred asset from derivative investment relates to the swap agreement between the Hesperia Water District and Bank of America, N.A.
- Deferred Outflow Related to Pensions - This amount is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred Outflow Related to Pensions for 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 - This item is the difference in projected and actual earnings on investments of the pension plan. This amount is amortized over five years.

o. Statement of Cash Flows:

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased and all amounts invested in a cash and investment pool to be cash equivalents.

p. 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 expenses when paid.

The District participates in the self-insurance program of the City of Hesperia. Information relating to the self-insurance program is available in the City of Hesperia Comprehensive Annual Financial Report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

   q. Accounts Receivable and Allowances:

      Accounts receivable are recorded at the invoiced amount. The District maintains an allowance for doubtful accounts. The allowance for doubtful accounts is based on the best estimate of the amount of probable future credit losses in existing accounts receivable. The District reviews the allowance for doubtful accounts on an annual basis. There was no allowance for doubtful accounts at June 30, 2015.

   r. Interest Expense:

      The District incurs interest charges on long-term debt. Interest expenses for the year ended June 30, 2015 was $942,245. No amounts were capitalized as a cost of construction projects.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

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

STATEMENT OF NET POSITION:	
Current Assets:	
Cash and cash equivalents	$3,925,187
Restricted assets:	
Cash and investments with fiscal agent	1,888,888
Cash held for bondholders	415,094
Total cash and investments	$6,229,169

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

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

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

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

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

Investments Authorized by Debt Agreements:

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

Disclosures Related to Interest Rate Risk:

The District's cash and investments are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding $3,925,187 in 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 District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the 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. CAPITAL ASSETS AND DEPRECIATION:

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Capital assets, not being depreciated:				
Land	$ 3,302,878	$ -	$ (129,000)	$ 3,173,878
Water rights	13,428,460	-	-	13,428,460
Construction in progress	2,940,265	1,146,847	(3,315,938)	771,174
Total capital assets, not being depreciated	19,671,603	1,146,847	(3,444,938)	17,373,512
Capital assets being depreciated:				
Land improvements	790,727	-	-	790,727
Vehicles	2,329,090	213,629	(49,950)	2,492,769
Machinery and equipment	4,449,601	151,102	-	4,600,703
Buildings and improvements	7,425,207	-	-	7,425,207
Water facilities	119,985,822	3,315,937	(247,433)	123,054,326
Sewer facilities	7,137,408	-		7,137,408
Total capital assets, being depreciated	142,117,855	3,680,668	(297,383)	145,501,140
Less accumulated depreciation for:				
Land improvements	(631,179)	(19,118)	-	(650,297)
Vehicles	(2,091,422)	(146,746)	49,950	(2,188,218)
Machinery and equipment	(3,868,322)	(121,267)	-	(3,989,589)
Buildings and improvements	(6,402,261)	(232,802)	-	(6,635,063)
Water facilities	(48,988,987)	(3,070,703)	244,466	(51,815,224)
Sewer facilities	(3,703,856)	(178,263)	-	(3,882,119)
Total accumulated depreciation	(65,686,027)	(3,768,899)	294,416	(69,160,510)
Total capital assets, being depreciated,net	76,431,828	(88,231)	(2,967)	76,340,630
Total capital assets, net	$ 96,103,431	$ 1,058,616	$ (3,447,905)	$ 93,714,142

Depreciation expense for the year ended June 30, 2015 was $3,563,710 for Water operating and capital and $205,190 for Sewer operating and capital.

See accompanying independent auditors' report.

4. LONG-TERM DEBT:

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

	Principal Balance at June 30, 2014	Additions	Deductions	Principal Balance at June 30, 2015	Due Within One Year
Loans	$ 1,200,000	$ -	$ (1,200,000)	$ -	$ -
Certificates of Participation	760,000	-	(70,000)	690,000	75,000
Revenue Bonds	11,220,000	-	(820,000)	10,400,000	855,000
Less deferred amounts:					
Bond discounts	(84,214)	-	7,305	(76,909)	7,305
Total Revenue Bonds	11,135,786	-	(812,695)	10,323,091	862,305
Compensated absences	194,825	181,589	(202,256)	174,158	167,192
Claims Payable	395,884	111,734	(100,210)	407,408	100,000
Total Long-term Debt	$ 13,686,495	$ 293,323	$ (2,385,161)	$ 11,594,657	$1,204,497

Long-term debt at June 30, 2015 is comprised of the following issues:

Balance at June 30, 2015

2010 Loan from Hesperia Community Redevelopment Agency:

The District was issued a 5-year loan by the former Hesperia Community Redevelopment Agency on June 30, 2010, for $6,000,000 for various water capital projects. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed this loan. The loan was financed by revenues generated by the District through set rates and charges for water and sewer services. The issue had a quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment rates. The loan was paid off July 1, 2014. Therefore, the loan balance at June 30, 2015 is $0. $ 0

1992B Certificates of Participation:

The District issued 30-year Certificates of Participation on June 1, 1992 for $1,405,000 for the Administration Facilities Acquisition Project. The issue bears interest at a rate of 9% over its remaining life and matures in 2022 with principal payments ranging from $20,000 to $125,000. The Certificates will be financed by revenues generated by the District through set rates and charges for water and sewer services. 690,000

4. LONG-TERM DEBT (Continued):

1998A Variable Rate Lease Revenue Refunding Bonds:

The District issued 28-year variable rate lease revenue refunding bonds on July 2, 1998 for $18,040,000 to refund a 1991, $17,675,000 Certificate of Participation issue. The 1991 Certificate of participation is considered defeased; therefore, the issue is not included in the District's financial statements. The bonds require the District to collect gross revenues, as defined in the agreement, of at least 125% of the annual debt service of the bonds and any parity debt of the District. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998A issue has an initial interest rate of 5.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2026, ranging from $435,000 to $1,105,000. The 1998A bonds were issued at a discount of $180,400, which is being amortized over the life of the 1998A Bonds. The difference between the reacquisition price and the net carrying value of the 1991 Certificate of Participation, $1,906,482, has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense. In June 2004, the District entered into a variable-to-fixed-interest rate swap with Bank of America, N.A. The swap requires Bank of America, N.A. to pay the variable rate while fixing the District rate at 5.96%. The agreement provides up to $10,000,000 which is fixed at 5.96%. The amount fixed with the counterparty decreases over time to $6,910,000 at June 20, 2020. At June 30, 2015 the amount fixed was $9,590,000.	9,590,000
1998B Variable Rate Lease Revenue Refunding Bonds:	
The District issued 24-year variable rate lease revenue refunding bonds on July 2, 1998 for $2,070,000 to refund a 1992, $1,855,000 Certificate of Participation issue. The 1992A Certificate of Participation is considered defeased; therefore, the issue is not included in the District's financial statements. The bonds require the District to collect gross revenues, as defined in the agreement, of at least 125% of the annual debt service of the bonds and any parity debt of the District. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998B issue has a initial interest rate of 3.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2022, ranging from $55,000 to $130,000. The difference between the reacquisition price and the net carrying value of the 1992A Certificate of Participation, $212,358, has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense.	810,000
Compensated Absences	174,158
Claims Payable	407,408
Subtotal	11,671,566
Less: Bond Discounts	(76,909)
Total Long-Term Debt Before Current Portion	11,594,657
Less: Current Portion – Due Within One Year	(1,204,497)
Total Long-Term Portion of Long-Term Debt	$10,390,160

See accompanying independent auditors' report.

4. LONG-TERM DEBT (Continued):

The 2010 Hesperia Community Redevelopment Agency Loan was subsequently paid off on July 1, 2014, thereby avoiding any interest charges in FY 2014-15.

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

Fiscal Year Ending	Principal	Interest	Total
2016	$ 855,000	$ 17,356	$ 872,356
2017	885,000	15,945	900,945
2018	920,000	14,482	934,482
2019	955,000	12,962	967,962
2020	995,000	11,385	1,006,385
2021-2025	4,770,000	32,835	4,802,835
2026-2027	1,020,000	1,734	1,021,734
	$ 10,400,000	$ 106,699	$ 10,506,699

Variable interest rate used for the 1998A Variable Rate Lease Revenue Refunding Bonds was 0.17%. However, this series has interest rate swap agreement with the Bank of America, N.A. Please refer to Note 8 for the discussion of the swap agreement and the swap interest calculation.

Variable interest rate used for the 1998B Variable Rate Lease Revenue Refunding Bonds was 0.13%.

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

Fiscal Year Ending	Principal	Interest	Total
2016	75,000	62,100	137,100
2017	80,000	55,350	135,350
2018	90,000	48,150	138,150
2019	100,000	40,050	140,050
2020	105,000	31,050	136,050
2021-2022	240,000	32,850	272,850
	$ 690,000	$ 269,550	$ 959,550

5. PUBLIC EMPLOYEES RETIREMENT SYSTEM:

a. General Information about the Pension Plans:

Plan Descriptions:

The District's employees participate in the Miscellaneous Risk Pool Plans of CalPERS. The Plans are cost-sharing multiple-employer defined benefit pension plans administered by CalPERS. A full description of the pension plans benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 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.

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.

The District had a total of 56 active employees in the miscellaneous plans as of 06/30/2015. The District has no safety 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. 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 District has two retirement formulas for the miscellaneous members as defined by the California Public Employees' Pension Reform Act of 2013 (PEPRA): formula 2.7% at 55 ("Classic" members) and formula 2.0% at 62 ("PEPRA" members). The required employer contribution into the plan for the fiscal year ended June 30, 2015 was 14.544% for the Classic members and 6.25% for the PEPRA members. Employees' required contribution into the plan was 8% for the Classic and 6.25% for the PEPRA members. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

5. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Contributions (Continued):

The District contributed $398,557 for the measurement period ended June 30, 2014, and employees contributed $238,952 for the same period. For the period ending June 30, 2015, the District contributed $407,848 toward the payment of unfunded accrued liability, and employees' contributions were $232,277.

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

At the June 30, 2015, the District reported a liability of $2,531,398 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 the June 30, 2014, the District's proportion of net pension liability was 0.04%.

For the year ended June 30, 2015, the District recognized pension expense of $325,104 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	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	-	(979,952)
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	9,405	(45,958)
District Contributions Subsequent to the Measurement Date	407,848	-
Total	$ 417,253	$ (1,025,910)

$407,848 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

5. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	$ (261,401)
2017	(261,401)
2018	(258,120)
2019	(244,988)
2020	-
Thereafter	-

Actuarial Methods and Assumptions Used to Determine Total Pension Liability:

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

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.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

5. 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 (Continued):

      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 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.

5. 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 (Continued):

Discount Rate (Continued):

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

Asset Class	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	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

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	$ 4,759,864	$ 2,531,398	$ 681,983

See accompanying independent auditors' report.

5. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

      Pension Plan Fiduciary Net Position:

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

   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.

6. OTHER POST EMPLOYMENT BENEFITS (OPEB):

   The District pays the minimum health premium contribution, as established by the California Government Code 22892 of the Public Employees' Medical and Hospital Care Act (PEMHCA), for the participating active employees. The minimum health premium contribution for 2015 was $122 a month in post-employment health care benefits for each retiree until age 65. The District's defined benefit post-employment 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. The DPHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' Annual Financial Report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

   Funding Policy:

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

   Annual OPEB Cost and Net OPEB Obligation/Asset:

   The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 4.4% of the annual covered payroll.

   The following table 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:

See accompanying independent auditors' report.

6. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued):

Annual OPEB Cost and Net OPEB Obligation/Asset (Continued):

Annual Required Contribution (ARC)	$ 145,728
Interest on net OPEB asset	25,632
Adjustment to Annual Required Contribution (ARC)	(29,952)
Annual OPEB cost (expense)	141,408
Contributions made	(8,064)
Increase in net OPEB asset	133,344
Net OPEB obligation - beginning of year	607,044
Net OPEB obligation - end of year	$ 740,388

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 OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$ 141,408	5.7%	$ 740,388
6/30/2014	$ 129,953	8.6%	$ 607,044
6/30/2013	121,890	4.7%	488,245

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2014, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$1,088,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	1,088,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Members)	2,810,000
UAAL as a Percentage of Covered Payroll	38.7%

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.

6. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued):

Actuarial Methods and Assumptions (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	4.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	2.75%
PEMHCA Minimum Growth	4.50%
Individual Salary Growth	CalPERS 1997-2011 Experience Study

7. SELF-INSURANCE RISK POOL:

Public Entity Risk Management Authority:

The Water District is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 28 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 general liability and premiums are paid quarterly for workers' compensation insurance. 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 Water 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 employer's liability claim and up to Statutory for each Workers' Compensation 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. There were no instances in the past three years where a settlement exceeded the District's general liability coverage and one instance in 2012 of a workers' compensation claim exceeding the District's coverage which was transferred to excess coverage for settlement.

8. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP AGREEMENT:

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

Details on the swap agreement are as follows:

Notional Amount	Interest Rate	Issuer	Termination Date	Initial Effective Date
$ 9,590,000	5.96%	Bank of America	6/1/2020	6/1/2005

Terms:

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

Summary of Activities in Cash Flow Hedging Derivative Instrument:

Notional Amount	Fair Value At June 30, 2014	Change In Fair Value	Fair Value At June 30, 2015
$ 9,590,000	$ (2,177,040)	$317,788	$ (1,859,252)

Objective:

As of June 30, 2015, the negative fair value of $1,859,252 is reported as a deferred outflow of resources in the Statement of Net Position. In previous years, prior to the implementation of GASB 63, the fair value of the derivative instrument was reported as a deferred asset from derivative instrument in the Statement of Net Position.

Credit Risk:

As of June 30, 2015, the Water District was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Water District would not be exposed to credit risk in the amount of the derivative's fair value.

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

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

See accompanying independent auditors' report.

8. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP AGREEMENT (Continued):

Basis Risk:

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

Termination Risk:

The swaps may be terminated by the Water District or the counterparty if the other party fails to perform under the terms of the swap agreements. In addition, the Water District has the option to terminate the swaps upon proper notification to the counterparty. If the swaps are terminated, the Water District would prospectively pay the variable rates on the portion of the outstanding bonds related to the swap agreements. The termination of the swap agreements could therefore increase the Water District's total debt service. Also, if at the time of the termination, the swaps have a negative fair value, the Water District would be liable to the counterparty for a payment equal to such negative fair value. As of June 30, 2015 the swap had a negative fair value of $1,859,252.

Swap Payments and Associated Debt:

Using a fixed rate of 5.96% related to a swap agreement for $10,000,000, which has a remaining balance of $9,590,000, of the $18,040,000 Variable Rate Lease Revenue Refunding Bonds, Taxable Series 1998A, as of June 30, 2015, debt service requirements of the Bonds and the swap payments through the swap termination date of June 1, 2020, assuming a current variable interest rate of 0.17% are as follows. As rates vary, the variable rate interest payments and net swap payments will vary.

	Variable Rate Debt				
Year Ending June 30,	Outstanding Swap Balance	SWAP Reduction	Interest	Interest Rate Swap, Net	Fixed Interest Debt Service
2016	$ 9,340,000	$ (660,000)	$ 16,908	$ 575,859	$ 592,767
2017	8,560,000	(780,000)	15,769	537,074	552,843
2018	7,750,000	(810,000)	14,439	491,769	506,208
2019	6,910,000	(840,000)	13,058	444,728	457,786
2020	-	(6,910,000)	10,781	367,205	377,986

9. PRIOR PERIOD ADJUSTMENTS:

GASB Statement Numbers 68 and 71:

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 $3,019,763 for Water Operations and Capital and $203,035 for Sewer Operations and Capital as of July 1, 2014.

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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)
6/30/2014:						
Water	$ -	$ 1,088,000	$ 1,088,000	0.0%	$ 2,810,000	38.7%
Total	$ -	$ 1,088,000	$ 1,088,000	0.0%	$ 2,810,000	38.7%
6/30/2012:						
Water	$ -	$ 780,000	$ 780,000	0.0%	$ 2,715,000	28.7%
Total	$ -	$ 780,000	$ 780,000	0.0%	$ 2,715,000	28.7%
6/30/2010:						
Water	$ -	$ 631,000	$ 631,000	0.0%	$ 3,079,000	20.5%
Total	$ -	$ 631,000	$ 631,000	0.0%	$ 3,079,000	20.5%

The Water District is only required to perform actuarial valuations biennially. An actuarial was performed for the year ending June 30, 2014. The next actuarial valuation will be done for the year ending June 30, 2016.

See accompanying independent auditors' report.

SCHEDULE OF THE HESPERIA WATER DISTRICT CONTRIBUTIONS

CalPERS Pension Plan

Last 10 Fiscal Years[1]

	2015
Contractually Required Contribution	$ 397,009
Contributions in Relation to the Contractually Required Contribution	(397,009)
Contribution Deficiency (Excess)	$ -
District's Covered-Employee Payroll[2]	$ 2,947,053
Contributions as a Percentage of Covered-Employee Payroll[2]	13.47%

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

[2]The District covered-employee payroll was recalculated based on actual pensionable earnings reported to CalPERS as of June 30, 2014.

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.

See accompanying independent auditors' report.

SCHEDULE OF THE HESPERIA WATER DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY CalPERS Pension Plan

Last 10 Fiscal Years[1]

	2015
District's Proportion of the Net Pension Liability/(Asset)	0.04%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$ 2,531,398
Plan's Covered-Employee Payroll[2]	$ 2,947,053
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll[2]	85.90%
District's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	84.93%
District's Proportionate Share of Aggregate Employer Contributions[3,4]	$ 385,792

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

[2]The District covered-employee payroll was recalculated based on actual pensionable earnings reported to CalPERS as of June 30, 2014.

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

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

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

Changes of Benefit Terms:

There were no changes in benefits.

Changes of Assumptions:

There were no changes in assumptions.

See accompanying independent auditors' report.