HESPERIA WATER DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

June 30, 2016

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, 2016, 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 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 basic financial statements based on 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Hesperia Water District as of June 30, 2016, 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.

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 Schedule of Contributions, and the Schedule of Proportionate Share of the Net Pension Liability, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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
January 25, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year (FY) ended June 30, 2016. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The District's net position decreased by approximately 1.3% or $1.1 million from June 30, 2015 $85.9 million net position. The District's decrease in net position is due, in large part, to the factors listed below:

- Current assets increased by $1.0 million from $19 million in FY 2014-15. This increase is mainly due to the cash position improvement of the water and sewer operations.

- The Net Pension Liability increased by $0.9 million and Pension Deferred Outflows increased by $0.4 million, while Pension Deferred Inflows of Resources decreased by $0.6 million from June 30, 2015.

- The District's capital assets, net of depreciation, decreased by $2.5 million from $93.7 million to $91.2 million. This decrease is primarily the net effect of a $3.5 million current year depreciation expense, 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 $20.9 million, which is an increase of 3.6% from the June 30, 2015 total of $20.2 million. This is the result of a combined increase 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, 2015.

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. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position include all assets, deferred inflows/outflows, 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. The District's financial health or financial position is measured by its net position – the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources.

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 $85.9 million to $84.8 million. This decrease of approximately $1.1 million comes primarily from the net effect of $1.1 million increase in current assets, a net $0.1 million increase in pension liability, deferred outflows, and deferred inflows, and $2.3 decrease in noncurrent capital assets. 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 2015 to 2016	
	2015	2016	Amount	Percentage
Current and other assets	$ 19,488,552	$ 20,576,029	$ 1,087,477	5.6%
Capital assets	93,714,142	91,241,888	(2,472,254)	-2.6%
Total Assets	113,202,694	111,817,917	(1,384,777)	-1.2%
Deferred outflows of resources	3,087,418	3,260,500	173,082	5.6%
Current and other liabilities	15,258,625	15,612,075	353,450	2.3%
Long-term debt outstanding	11,594,657	10,806,840	(787,817)	-6.8%
Net pension liability	2,531,398	3,393,749	862,351	34.1%
Total Liabilities	29,384,680	29,812,664	427,984	1.5%
Deferred inflows of resources	1,025,910	477,408	(548,502)	-53.5%
Net Position:				
Net Investment in capital assets	82,701,051	81,151,492	(1,549,559)	-1.9%
Restricted	1,888,888	1,888,888	-	0.0%
Unrestricted	1,289,583	1,747,965	458,382	35.5%
Total Net Position	$ 85,879,522	$ 84,788,345	$ (1,091,177)	-1.3%

The following is a list of factors that explain the $1.1 million decrease in net position:

- Current and other assets experienced a slight increase of $1.1 million during the fiscal year. The increase is primarily the result of a $2.1 million increase in cash, which was offset by the reduction of the due from other funds of $1.5 million, as the water operating and capital funds cash position is improving; thereby, requiring less cash from sewer operating and capital funds. Accounts receivable operations, inventories, and deposits increased by $0.5 million.
- Capital assets decreased by $2.4 million, net of depreciation, from June 30, 2015. The decrease is largely due to depreciation expense of $3.5 million offset by a $1.0 million increase in construction in progress and $0.1 million in machinery and equipment.
- Current and other liabilities increased by $0.4 million from June 30, 2015. This is primarily due to an increase of $0.3 million in accounts payables for the purchase of new meters and vehicles repairs, as well as increase of $0.1 million in other post-employment benefits obligations.
- Long-term debt outstanding activity during the fiscal year resulted in a net decrease of $0.8 million from June 30, 2015. This is mainly due to the offset of an increase of $0.1 million in other post-employment benefits obligations and a decrease of $0.9 million of principal payments on other outstanding debts, as shown in Table 4.
- The Net Pension Liability increased by $0.9 million and Pension Deferred Outflows increased by $0.4 million, while Pension Deferred Inflows of Resources decreased by $0.6 million from June 30, 2015.
- Net Investment in capital assets decreased by $1.5 million, or 1.9%, from the year ended June 30, 2015, which is primarily due to the $2.4 million decrease in capital assets and $0.8 million increase in long-term debt outstanding.
- Restricted net position had no change from June 30, 2015.
- Unrestricted net position increased by $0.5 million or 35.5% primarily due to the $0.7 million increase in current assets from sewer operations and a decrease in noncurrent liabilities of $0.2 million.

DISTRICT ACTIVITIES

The Water District's net position (from operations) decreased $1.1 million or 1.3% from the June 30, 2015 net position. The cost of all Water District activities this year increased by $0.7 million from $20.2 million for FY 2014-15 to $20.9 million for FY 2015-16. As shown in the Changes in Net Position (Table 2), the amount paid by users of the systems was $18.5 million, which is a decrease of $0.9 million or 4.8% from the June 30, 2015 total of $19.4 million. This is attributed to water conservation efforts by the District's customers. Non-operating revenues of $1.4 million made up the remainder of the $19.8 million total revenues.

Table 2

Changes in Net Position

	2015	2016	Changes from 2015 to 2016 Amount	Percentage
Revenues				
Operating revenues:				
Charges for services	$ 19,391,607	$ 18,455,581	$ (936,026)	-4.8%
Non-operating revenues:				
Property taxes	287,410	320,590	33,180	11.5%
Interest income	13,743	28,609	14,866	108.2%
System improvement and replacement	414,951	575,453	160,502	38.7%
Rent income	341,505	454,234	112,729	33.0%
Subtotal non-operating revenues	1,057,609	1,378,886	321,277	30.4%
Total revenues	20,449,216	19,834,467	(614,749)	-3.0%
Expenses				
Water	17,285,767	17,886,564	600,797	3.5%
Wastewater	2,912,437	3,039,080	126,643	4.3%
Total expenses	20,198,204	20,925,644	727,440	3.6%
Change in net position	251,012	(1,091,177)	(1,342,189)	534.7%
Net position at July 1,	88,851,308	85,879,522	(2,971,786)	-3.3%
Restatement of net position at July 1,	(3,222,798)	-	3,222,798	-100.0%
Net position at July 1, as restated	85,628,510	85,879,522	251,012	0.3%
Net position at June 30,	$ 85,879,522	$ 84,788,345	$ (1,091,177)	-1.3%

The District's operating revenue had a decrease of $0.9 million in FY 2015-16 due to its customer's water conservation efforts. The District's total operating expenses increased by $0.7 million, which was largely due to an increase of $0.5 million in the Water Division's operating costs for the implementation of an Advanced Metering Infrastructure (AMI) with analytics software; 3,758 units were installed in the first year one of a seven year implementation. This AMI fixed metering network provides real-time consumption information to customers and the District. Other operating costs, such as water replacement costs, contract services, and other operating costs increased by $0.1 million. The Sewer Division's materials and operations and other operating expenses increased by $0.1 million from 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, 2016, capital assets, net of depreciation, totaled $91.2 million, which is a decrease of $2.5 million from June 30, 2015 total of $93.7 million as shown in the Capital Assets at Year-End (Table 3). This decrease is primarily due to depreciation expense of $3.5 million and offset by $1.0 million increase in construction in progress.

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 Note 3 to the Basic Financial Statements.

Table 3
Capital Assets at Year-End

		Balance at June 30, 2015 Net of Accumulated Depreciation		Increases		Decreases		Current Year Depreciation	Balance at June 30, 2016 Net of Accumulated Depreciation
Land	$	3,173,877	$	-	$	-	$	-	$ 3,173,877
Water rights		13,428,460		92,000		-		-	13,520,460
Land improvements		140,430		-		-		(19,170)	121,260
Vehicles		304,551		27,435		-		(87,702)	244,284
Buildings and structures		790,143		-		-		(230,461)	559,682
Machinery and equipment		611,113		133,534		-		(128,577)	616,070
Infrastructure:									
Water facilities		71,239,102		247,433		(247,433)		(3,109,444)	68,129,658
Sewer facilities		3,255,289		-		-		(178,752)	3,076,537
Construction in progress		771,174		1,028,886		-		-	1,800,060
	$	93,714,139	$	1,529,288	$	(247,433)	$	(3,754,106)	$ 91,241,888

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 District's debt decreased by a net amount of $0.8 million in FY 2015-16. This decrease is largely due to 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, 2015		Additions		Deductions		Principal Balance at June 30, 2016		Due Within One Year
Certificates of participation	$	690,000	$	-	$	(75,000)	$	615,000	$	80,000
Revenue bonds		10,400,000		-		(855,000)		9,545,000		885,000
Less deferred amounts:										
Bond discounts		(76,909)		-		7,305		(69,604)		(7,305)
Compensated Absences		174,158		176,584		(173,296)		177,446		170,348
Claims payable		407,408		263,180		(131,590)		538,998		100,000
	$	11,594,657	$	439,764	$	(1,227,581)	$	10,806,840	$	1,228,043

For more detailed information about debt, see Note 4.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As reflected in the FY 2016-17 Budget, the District's revenue for the water and sewer funds is expected to increase about $5.8 million from the FY 2015-16 Budget of $19.9 million. The District's expenses are expected to increase $11.3 million from the FY 2015-16 Budget of $19.5 million. This is attributed to receiving a $1.5 million from Proposition 84 Drought Relief Grant, $4.7 million from Proposition 1 Grant related to recycled water, and anticipated water consumption increase of 5%. The primary reason for the expenses increase is the budgeting of $10.1 million for the Reclaimed Water Distribution System Project.

The District's waters sales revenues are expected to decrease by 7% mainly due to the continued customer/consumer reductions following the governor's 28% average mandated reduction of water use. The water operating expenses are expected to increase by 3%. This increase is primarily due to an increase in capital outlay, which includes equipment and vehicle replacement, and increased costs of leasing makeup water due to over production.

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, 2016

	Water Operations & Capital	Sewer Operations & Capital	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ 6,049,426	$ 6,049,426
Receivables:			
Accounts	2,589,563	532,661	3,122,224
Accrued interest	2,318	4,906	7,224
Due from other governmental agencies	3,915	5,768	9,683
Deposits	-	3,315	3,315
Inventories	1,114,004	-	1,114,004
Due from other funds	-	7,407,049	7,407,049
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	6,013,782	14,003,125	20,016,907
Noncurrent Assets:			
Other Noncurrent Assets:			
Prepaid expenses	136,258	-	136,258
Deposits for self-insurance	384,859	38,005	422,864
Total Other Noncurrent Assets	521,117	38,005	559,122
Capital Assets:			
Land	1,369,340	1,804,537	3,173,877
Water rights	13,520,460	-	13,520,460
Construction in progress	1,800,060	-	1,800,060
Land improvements	790,727	-	790,727
Vehicles	2,306,199	214,005	2,520,204
Machinery and equipment	4,421,703	312,533	4,734,236
Buildings and improvements	7,425,206	-	7,425,206
Water and sewer facilities	122,806,893	7,137,408	129,944,301
Less: Accumulated depreciation	(68,376,531)	(4,290,652)	(72,667,183)
Total Capital Assets	86,064,057	5,177,831	91,241,888
Total Noncurrent Assets	86,585,174	5,215,836	91,801,010
Total Assets	92,598,956	19,218,961	111,817,917
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	733,976	-	733,976
Deferred asset from derivative instrument	1,685,374	-	1,685,374
Deferred pension outflows	787,310	53,840	841,150
Total Deferred Outflows of Resources	3,206,660	53,840	3,260,500

See accompanying notes to financial statements.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016 (Continued)

LIABILITIES	Water Operations & Capital	Sewer Operations & Capital	Total
Current Liabilities:			
Accounts payable	$ 2,668,971	$ 248,440	$ 2,917,411
Accrued interest payable	52,239	-	52,239
Deposits	619,435	-	619,435
Due to other funds	7,407,049	-	7,407,049
Due to other governments	1,631,512	-	1,631,512
Current liabilities payable from restricted assets - due to bondholders	415,094	-	415,094
Liability from derivative instrument	1,685,374	-	1,685,374
Long term debt due within one year	1,200,660	27,383	1,228,043
Total Current Liabilities	15,680,334	275,823	15,956,157
Noncurrent Liabilities:			
Net OPEB obligation	877,476	-	877,476
Net pension liability	3,178,218	215,531	3,393,749
Unearned revenue	6,485	-	6,485
Compensated absences	5,957	1,141	7,098
Claims payable	381,881	57,117	438,998
Revenue bonds (net of unamortized discounts)	8,597,701	-	8,597,701
Certificates of participation	535,000	-	535,000
Total Noncurrent Liabilities	13,582,718	273,789	13,856,507
Total Liabilities	29,263,052	549,612	29,812,664
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	448,428	28,980	477,408
Total Deferred Inflows of Resources	448,428	28,980	477,408
NET POSITION			
Net investment in capital assets	75,973,661	5,177,831	81,151,492
Restricted for debt service	1,888,888	-	1,888,888
Unrestricted	(11,768,413)	13,516,378	1,747,965
Total Net Position	$ 66,094,136	$ 18,694,209	$ 84,788,345

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2016

	Water Operations & Capital	Sewer Operations & Capital	Total
OPERATING REVENUES			
Water sales	$ 14,237,303	$ -	$ 14,237,303
Water services	528,260	-	528,260
Sewer services	-	3,633,380	3,633,380
Other	56,638	-	56,638
Total Operating Revenues	14,822,201	3,633,380	18,455,581
OPERATING EXPENSES			
General and administrative	3,482,936	-	3,482,936
Engineering	811,127	-	811,127
Production	5,449,354	-	5,449,354
Distribution	1,139,214	-	1,139,214
Wastewater collection	-	2,833,197	2,833,197
Customer service	2,532,235	-	2,532,235
Depreciation and amortization	3,548,223	205,883	3,754,106
Total Operating Expenses	16,963,089	3,039,080	20,002,169
OPERATING INCOME (LOSS)	(2,140,888)	594,300	(1,546,588)
NONOPERATING REVENUES (EXPENSES)			
Unrestricted system improvement and replacement	575,453	-	575,453
Property taxes	320,523	-	320,523
Property taxes - debt service	67	-	67
Rent income	454,234	-	454,234
Interest income	12,338	16,271	28,609
Interest expense	(923,475)	-	(923,475)
Total Nonoperating Revenues (Expenses), Net	439,140	16,271	455,411
Change In Net Position	(1,701,748)	610,571	(1,091,177)
Net position at beginning of year	67,795,884	18,083,638	85,879,522
Net position at end of year	$ 66,094,136	$ 18,694,209	$ 84,788,345

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Water Operations & Capital	Sewer Operations & Capital	Total
Cash Flows from Operating Activities:			
Cash received from water and sewer customers	$ 14,534,600	$ 3,620,232	$ 18,154,832
Cash received from other operating receipts	56,638	-	56,638
Cash payments for water purchases	(4,897,243)	-	(4,897,243)
Cash payments for sewer collection and maintenance	-	(2,967,620)	(2,967,620)
Cash payments for services and supplies	(1,260,907)	-	(1,260,907)
Cash payments to employees for services	(5,275,492)	(7,153)	(5,282,645)
Net Cash Provided by Operating Activities	3,157,596	645,459	3,803,055
Cash Flows from Noncapital and Related Financing Activities:			
Property taxes received	320,590	-	320,590
Cash received to/from other funds	(1,482,084)	1,482,084	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(1,161,494)	1,482,084	320,590
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(1,265,110)	(16,743)	(1,281,853)
Unrestricted system improvement and replacement receipts	575,453	-	575,453
Interest payments on long-term debt	(841,723)	-	(841,723)
Principal payments on long-term debt	(930,000)	-	(930,000)
Net Cash Used by Capital and Related Financing Activities	(2,461,380)	(16,743)	(2,478,123)
Cash Flows from Investing Activities:			
Rents received	454,234	-	454,234
Interest received	11,042	13,439	24,481
Net Cash Provided by Investing Activities	465,276	13,439	478,715
Net Increase (Decrease) in Cash and Cash Equivalents	(2)	2,124,239	2,124,237
Cash and cash equivalents at beginning of year	2,303,983	3,925,187	6,229,170
Cash and cash equivalents at end of year	$ 2,303,981	$ 6,049,426	$ 8,353,407

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

	Water Operations & Capital	Sewer Operations & Capital	Total
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:			
Operating income (Loss)	$ (2,140,888)	$ 594,300	$ (1,546,588)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3,548,223	205,883	3,754,106
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(230,963)	(18,916)	(249,879)
(Increase) decrease in deposits	(127,758)	(14,885)	(142,643)
(Increase) decrease in inventory	(121,693)	-	(121,693)
(Increase) decrease in prepaid expenses	67,730	-	67,730
(Increase) decrease in due from other governments	(477)	5,768	5,291
(Increase) decrease in deferred outflows on pension	(396,344)	(27,553)	(423,897)
Increase (decrease) in accounts and claims payable	484,381	(86,858)	397,523
Increase (decrease) in customer deposits	25,108	-	25,108
Increase (decrease) in due to other governments	1,631,512	(41,025)	1,590,487
Increase (decrease) in net OPEB obligation	137,088	-	137,088
Increase (decrease) in deferred revenue	(6,714)	-	(6,714)
Increase (decrease) in net pension liability	806,298	56,053	862,351
Increase (decrease) in compensated absences	(5,057)	8,345	3,288
Increase (decrease) in deferred inflows	(512,850)	(35,653)	(548,503)
Total Adjustments	5,298,484	51,159	5,349,643
Net Cash Provided (Used) by Operating Activities	$ 3,157,596	$ 645,459	$ 3,803,055
Supplemental Disclosures:			
Noncash Capital and Financing Activities			
Amortization Related to Long-Term Debt	$ 84,242		

See accompanying notes to financial statements.

June 30, 2016

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 on March 28, 1975 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:

   - GASB Statement No. 72 - In Fiscal Year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application." GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy or inputs used to measure fair value consisting of three levels. Level 1 inputs arc quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

   - GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", was required to be implemented in the current fiscal year, except for those provisions that address employers and governmental 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, and did not impact the District at June 30, 2016.

   - GASB 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was required to be implemented in the current fiscal year and did not impact the District at June 30, 2016.

   - GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants", was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, 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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

   e. New Accounting Pronouncements (Continued):

      Pending Accounting Standards (Continued):

      - GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", 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.

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

      - GASB 78 - "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", effective for periods beginning after December 15, 2015.

      - GASB 79 - "Certain External Investment Pools and Pool Participants", the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015.

      - GASB 80 – "Blending Requirements for Certain Component Units", effective for periods beginning after June 30, 2016.

      - GASB 81 – "Irrevocable Split-In Interest Agreements ", effective for periods beginning after December 15, 2016.

      - GASB 82 – "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73", effective for periods beginning after June 15, 2016.

   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, 2015 and reported in fiscal year ending June 30, 2016. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

h. Compensated Absences:

Vacation pay is payable to employees at the time used or upon termination of employment. The cost of vacation is recorded as a liability when incurred. Compensated absences, once exercised, are paid out of the same fund, as they were originally accrued.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Capital Assets and Depreciation (Continued):

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

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, the Employer's Proportionate Share of Contributions, and the Differences between Expected and Actual Experience – These amounts are 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, 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 Inflows 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.
- Deferred Inflows related to Pensions for Changes in Assumptions, Changes in Employer's Proportion, and Differences between District's Contributions and Proportionate Share of Contributions – These amounts are 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, which is 3.8 years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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, 2016, 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.

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, 2016.

r. Interest Expense:

The District incurs interest charges on long-term debt. Interest expenses for the year ended June 30, 2016 was $923,475. No amounts were capitalized as a cost of construction projects.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows:

STATEMENT OF NET POSITION:	
Current Assets:	
Cash and cash equivalents	$6,049,426
Restricted assets:	
Cash and investments with fiscal agent	1,888,888
Cash held for bondholders	415,094
Total cash and investments	$8,353,408

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 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None
Supranational Obligations	5 years	30%	None

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

Investments Authorized by Debt Agreements:

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

Disclosures Related to Interest Rate Risk, Credit Risk, Custodial Credit Risk, and Fair Value Measurements:

The District's cash and investments are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding $6,049,426 in pooled investments related to interest rate risk, credit risk, custodial credit risk, and fair value measurements 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, 2016 was as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital assets, not being depreciated:				
Land	$ 3,173,877	$ -	$ -	$ 3,173,877
Water rights	13,428,460	92,000	-	13,520,460
Construction in progress	771,174	1,028,886	-	1,800,060
Total capital assets, not being depreciated	17,373,511	1,120,886	-	18,494,397
Capital assets being depreciated:				
Land improvements	790,727	-	-	790,727
Vehicles	2,492,769	27,435	-	2,520,204
Machinery and equipment	4,600,702	133,534	-	4,734,236
Buildings and improvements	7,425,206	-	-	7,425,206
Water facilities	123,054,326	-	(247,433)	122,806,893
Sewer facilities	7,137,408	-	-	7,137,408
Total capital assets, being depreciated	145,501,138	160,969	(247,433)	145,414,674
Less accumulated depreciation for:				
Land improvements	(650,297)	(19,170)	-	(669,467)
Vehicles	(2,188,218)	(87,702)	-	(2,275,920)
Machinery and equipment	(3,989,589)	(128,577)	-	(4,118,166)
Buildings and improvements	(6,635,063)	(230,461)	-	(6,865,524)
Water facilities	(51,815,224)	(3,109,444)	247,433	(54,677,235)
Sewer facilities	(3,882,119)	(178,752)	-	(4,060,871)
Total accumulated depreciation	(69,160,510)	(3,754,106)	247,433	(72,667,183)
Total capital assets, being depreciated,net	76,340,628	(3,593,137)	-	72,747,491
Total capital assets, net	$ 93,714,139	$ (2,472,251)	$ -	$ 91,241,888

Depreciation expense for the year ended June 30, 2016 was $3,548,223 for Water operating and capital and $205,883 for Sewer operating and capital.

4. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2016:

	Principal Balance at June 30, 2015	Additions	Deductions	Principal Balance at June 30, 2016	Due Within One Year
Certificates of Participation	$ 690,000	$ -	$ (75,000)	$ 615,000	$ 80,000
Revenue Bonds	10,400,000	-	(855,000)	9,545,000	885,000
Less deferred amounts:					
Bond discounts	(76,909)	-	7,305	(69,604)	(7,305)
Total Revenue Bonds	10,323,091	-	(847,695)	9,475,396	877,695
Compensated absences	174,158	176,584	(173,296)	177,446	170,348
Claims Payable	407,408	263,180	(131,590)	538,998	100,000
Total Long-term Debt	$ 11,594,657	$ 439,764	$ (1,227,581)	$ 10,806,840	$1,228,043

Long-term debt at June 30, 2016 is comprised of the following issues:

	Balance at June 30, 2016
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.	615,000

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, 2016 the amount fixed was $8,840,000.	8,840,000
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.	705,000
Compensated Absences	177,446
Claims Payable	538,998
Subtotal	10,876,444
Less: Bond Discounts	(69,604)
Total Long-Term Debt Before Current Portion	10,806,840
Less: Current Portion – Due Within One Year	(1,228,043)
Total Long-Term Portion of Long-Term Debt	$9,578,797

4. LONG-TERM DEBT (Continued):

The annual debt service requirements by year for the 1998 A & B Variable Rate Lease Revenue Refunding Bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2017	885,000	57,482	942,482
2018	920,000	52,140	972,140
2019	955,000	46,587	1,001,587
2020	995,000	40,823	1,035,823
2021	955,000	34,817	989,817
2022-2026	3,815,000	81,729	3,896,729
2027	1,020,000	6,120	1,026,120
	$ 9,545,000	$ 319,698	$ 9,864,698

Variable interest rate used for the 1998A Variable Rate Lease Revenue Refunding Bonds was 0.60%. 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 0.63%.

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

Ending	Principal	Interest	Total
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	115,000	21,600	136,600
2022	125,000	11,250	136,250
	$ 615,000	$ 207,450	$ 822,450

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, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2014 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, 2014 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 57 active employees in the miscellaneous plans as of 06/30/2015 measurement date. 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, 2016 was 10.958% for the Classic members and 6.237% 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):

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

For the fiscal year ended June 30, 2016, the District reported a liability of $3,393,749 for its proportionate share of the net pension liability, which was measured as of June 30, 2015 (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, 2015 measurement date, the District's proportion of net pension liability was 0.05%.

For the fiscal year ended June 30, 2016, the District recognized pension expense of $303,645 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 Experience	$ 26,140	$ -
Changes of Assumptions	-	(247,308)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(123,978)
Changes in Employer's Proportion	395,270	(29,545)
Differences between District Contributions and Proportionate Share of Contributions	6,046	(76,577)
District Contributions Subsequent to the Measurement Date	413,694	-
Total	$ 841,150	$ (477,408)

$413,694 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 fiscal year ended June 30, 2017. 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
2017	$	(72,375)
2018		(69,763)
2019		(66,287)
2020		158,473
2021		-
Thereafter		-

Actuarial Methods and Assumptions Used to Determine Total Pension Liability:

At June 30, 2015 measurement date, total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65% (net of administrative expenses)
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

[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, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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 7.65 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 short term and long term returns, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of 1%.

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.

	New Strategic Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	19.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	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

5. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent as of the measurement date, as well as, what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's Proportionate Share of Net Pension Liability	$ 5,870,824	$ 3,393,749	$ 1,348,636

Pension Plan Fiduciary Net Position:

The pension plan's fiduciary net position was calculated based on the ratios provided by CalPERS on its Schedules of Employer Allocations by Rate Plan and Collective Pension Amounts report for Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

c. Payables to the Pension Plan:

The District had no outstanding contributions payable to the pension plan required for the year ended June 30, 2016.

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 2016 was $125 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.

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

Annual OPEB Cost and Net OPEB Obligation:

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 5.6% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual Required Contribution (ARC)	$ 157,248
Interest on net OPEB obligation	30,816
Adjustment to Annual Required Contribution (ARC)	(37,728)
Annual OPEB cost (expense)	150,336
Contributions made	(13,248)
Increase in net OPEB obligation	137,088
Net OPEB obligation - beginning of year	740,388
Net OPEB obligation - end of year	$ 877,476

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 2016, 2015 and 2014 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	$ 150,336	8.8%	$ 877,476
6/30/2015	$ 141,408	5.7%	$ 740,388
6/30/2014	$ 129,953	8.6%	$ 607,044

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%

6. OTHER POST EMPLOYMENT BENEFITS (OPEB) (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, 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.

7. SELF-INSURANCE RISK POOL (Continued):

Public Entity Risk Management Authority (Continued):

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
$ 9,340,000	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, 2015	Change In Fair Value	Fair Value At June 30, 2016
$ 9,340,000	$ (1,859,252)	$ 173,878	$ (1,685,374)

Objective:

As of June 30, 2016, the negative fair value of $1,685,374 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.

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

Credit Risk:

As of June 30, 2016, the Water District was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Water District would not be exposed to credit risk in the amount of the derivative's fair value.

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

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

Basis Risk:

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

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, 2016 the swap had a negative fair value of $1,685,374.

Swap Payments and Associated Debt:

Using a fixed rate of 5.96% related to a swap agreement for $10,000,000, which has a remaining balance of $8,840,000, of the $18,040,000 Variable Rate Lease Revenue Refunding Bonds, Taxable Series 1998A, as of June 30, 2016, 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 0.60% 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
2017	$ 8,560,000	$ (1,440,000)	$ 55,655	$ 497,188	$ 552,843
2018	7,750,000	(810,000)	50,961	455,248	506,209
2019	6,910,000	(840,000)	46,086	411,699	457,785
2020	-	(6,910,000)	38,052	339,934	377,986

9. SUBSEQUENT EVENTS:

Events occurring after June 30, 2016 have been evaluated for possible adjustments to the financial statements or disclosures as of January 25, 2016, which is the date these financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded (Over Funded) AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B - A / C)
6/30/2014:						
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 biannually. An actuarial valuation will be prepared for the year ending June 30, 2016 that will be available for the financial statements for the year ending June 30, 2017. As seen in the table above, an actuarial valuation was not prepared for the years ending June 30, 2011, June 30, 2013, and June 30, 2015.

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

	2016	2015[1]
Contractually Required Contribution	$ 413,694	$ 407,848
Contributions in Relation to the Contractually Required Contribution	(413,694)	(407,848)
Contribution Deficiency (Excess)	$ -	$ -
District's Covered-Employee Payroll[2]	$ 2,856,162	$ 2,886,343
Contributions as a Percentage of Covered-Employee Payroll[2]	14.48%	14.13%

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

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65% (net of administrative expenses)
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table[1]	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

[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.

SCHEDULE OF THE HESPERIA WATER DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

CalPERS Pension Plan

Last 10 Fiscal Years[1]

	2016	2015
District's Proportion of the Net Pension Liability/(Asset)	0.05%	0.04%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$ 3,393,749	$ 2,531,398
Plan's Covered-Employee Payroll[2]	$ 2,886,343	$ 2,947,053
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll[2]	117.58%	85.90%
District's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	78.40%	79.82%
District's Proportionate Share of Aggregate Employer Contributions[3,4]	$ 511,774	$ 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 the measurement date. .

[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, 2016

Changes of Benefit Terms:

The District did not have any benefit terms changes after June 30, 2014 (Valuation Date).

Changes of Assumptions:

According to GASB 68, paragraph 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense. .