

HESPERIA FIRE PROTECTION DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Fire Protection District
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Fire Protection District (a component unit of the City of Hesperia) as of and for the year ended June 30, 2017, 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 opinions 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 auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hesperia Fire Protection District as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1a, the financial statements present only the Hesperia Fire Protection District and do not purport to, and do not fairly present, the financial position of the City of Hesperia, California, as of June 30, 2017 and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are 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, Budgetary Comparison Schedule, Schedule of Funding Progress for DPHP, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Contributions, identified as Required Supplementary Information (RSI) in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

White Nelson Dick Evans LLP

Carlsbad, California
February 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year (FY) ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position decreased by approximately \$0.9 million, or 16.7%, which is primarily due to an increase of \$1.7 million net pension liability. The liability increase was offset by \$0.5 million of pension earnings (Total Deferred Outflow of Resources) and \$0.3 million in overall assets, which is explained in greater detail throughout this Management's Discussion and Analysis (MD&A).
- In Fiscal Year 2016-17, the District spent \$0.7 million in capital assets, with \$0.2 million on an ambulance and defibrillator, \$0.3 million on self-contained breathing apparatus, and \$0.2 million on building renovations. These purchases were part of the \$11.1 million expenditures that exceeded revenues of \$11.0 million.
- The Fire District Board of Directors has been considering alternatives to fiscally manage the ongoing issue of operating expenditures exceeding operating revenues. The District's operating fund ended Fiscal Year 2016-17 with an operating loss of \$0.3 million. At the November 1, 2016 Board Meeting, the Board approved a resolution requesting that the Local Agency Formation Commission (LAFCO) initiate proceedings to analyze the reorganization of the District, with the San Bernardino County Fire Protection District as the designated successor of a potential annexation. More detail can be found within Note 10.

USING THIS ANNUAL REPORT

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

REPORTING THE DISTRICT AS A WHOLE

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

Government-Wide Financial Statements

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

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

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

The government-wide financial statements can be found on pages 9-11 of this report.

REPORTING THE DISTRICT'S FUNDS

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

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

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

The basic governmental fund financial statements can be found on pages 12-15 of this report.

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

The notes to the financial statements can be found on pages 16-34 of this report.

THE DISTRICT AS A WHOLE

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

As shown in Table 1, the District's net position has decreased by \$0.9 million or 16.7% from FY 2015-16.

Table 1
Condensed Statement of Net Position

	2016	2017	Changes from 2016 to 2017	
			Amount	Percentage
Current and other assets	\$ 5,858,731	\$ 6,014,076	\$ 155,345	2.7%
Capital assets	9,015,577	9,179,497	163,920	1.8%
Total Assets	<u>14,874,308</u>	<u>15,193,573</u>	<u>319,265</u>	<u>2.1%</u>
Total deferred outflow of resources	494,024	1,025,000	530,976	107.5%
Current and other liabilities	2,843,067	3,037,026	193,959	6.8%
Long-term debt outstanding	95,224	116,274	21,050	22.1%
Net pension liability	6,246,032	7,897,864	1,651,832	26.4%
Total Liabilities	<u>9,184,323</u>	<u>11,051,164</u>	<u>1,866,841</u>	<u>20.3%</u>
Total deferred inflow of resources	1,027,387	874,085	(153,302)	-14.9%
Net Position:				
Investment in capital assets	9,015,577	9,179,497	163,920	1.8%
Unrestricted	(3,858,955)	(4,886,173)	(1,027,218)	-26.6%
Total Net Position	<u>\$ 5,156,622</u>	<u>\$ 4,293,324</u>	<u>\$ (863,298)</u>	<u>-16.7%</u>

The following are brief explanations for the balance change of each line of Table 1 above for the year ending June 30, 2017:

- Current and other assets increased by approximately \$0.2 million or 2.7% from Fiscal Year 2015-16. This is mainly the result of an increase in cash and accrued interest. This increase was offset by a decrease of \$15,431 due from other governmental agencies and decrease in accounts receivables of \$19,676 in outstanding paramedic billings during the fiscal year.
- Capital assets increased by \$0.7 million as a result of purchasing an ambulance and defibrillator, breathing apparatus' and roofing replacement and repairs. Total accumulated depreciation was \$0.5 million, therefore net capital assets increased by \$0.2 million.
- Total deferred outflow of resources increased by \$0.5 million in FY 2016-17 or from \$0.5 million to \$1.0 million. This increase is due to an increase in the net difference between projected and actual earnings on pension plan investments.
- Current and other liabilities increased by \$0.2 million or 6.8% from last Fiscal Year. This increase in accounts payable is due to the purchase of \$0.3 million for Self-Contained Breathing Apparatus (SCBA's) at June 30, 2017.
- Long-term debt outstanding increased by \$21,050, or 22.1% due to Fire claims for FY 2016-17.
- Net pension liability increased by \$1.7 million in FY 2016-17 from \$6.2 million to \$7.9 million.
- Deferred inflows of resources decreased by \$153,302 in Fiscal Year 2016-17. This decrease is primarily due to a decrease in Pension Plan Investments by \$75,128 and Employer's Pension Proportion by \$63,023.

Table 2
Changes in Net Position

	2016	2017	Changes from 2016 to 2017	
			Amount	Percentage
Revenues				
Program revenues:				
Charges for services	\$ 3,152,452	\$ 3,050,502	\$ (101,950)	-3.2%
Operating contributions and grants	29,023	29,964	941	3.2%
Capital grants and contributions	140,000	140,000	-	0.0%
General revenues:				
Property taxes	7,310,005	7,842,261	532,256	7.3%
Income from money and property	67,471	76,282	8,811	13.1%
Other revenues	17,800	-	(17,800)	-100.0%
Total revenues	10,716,751	11,139,009	422,258	3.9%
Expenses				
Public Safety-Fire	11,185,706	12,002,307	816,601	7.3%
Total expenses	11,185,706	12,002,307	816,601	7.3%
Excess/(Deficiency) of revenues over/				
(under) expenses	(468,955)	(863,298)	(394,343)	-84.1%
Loss on exchange of capital assets	(178,550)	-	178,550	-100.0%
Change in net position	(647,505)	(863,298)	(215,793)	-33.3%
Net Position at July 1, restated	5,804,127	5,156,622	(647,505)	-11.2%
Net position at June 30	\$ 5,156,622	\$ 4,293,324	\$ (863,298)	-16.7%

The cost of all District activities for Fiscal Year 2016-17 increased by 7.3% from last year's Total Expenses of \$11.2 million. Other significant changes of note in Table 2 are:

- Property Taxes revenue increased by \$0.5 million or 7.3% during 2016-17 to \$7.8 million. This increase is primarily due to RDA Pass Through which increased by \$0.3 million, as property values have increased.
- June 30, 2017 expenses increased by \$0.8 million which is primarily related to an increase of \$0.5 million in pension expense.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year-end, the District's Fire Operations fund reported a negative fund balance of \$99,046, which is a decrease of \$296,759 from the June 30, 2016 ending fund balance of \$197,713. Total revenues for 2016-17 totaled \$10.2 million, while total expenditures totaled \$10.5 million causing a negative ending balance. The Board of Directors are considering alternatives to manage this issue.

The Fire Capital fund at year-end had a balance of \$5.8 million which is an increase of about \$0.2 million from June 30, 2016's ending fund balance of \$5.6 million. The majority of the increase is from tax revenue of \$0.8 million exceeding expenditures of \$0.6 million.

CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions. At June 30, 2017, capital assets of the governmental activities, net of depreciation, totaled \$9.2 million. The increase of \$0.7 million is due to purchasing an ambulance with a defibrillator for \$0.2 million, building renovation of \$0.2 million, and purchasing forty-two (42) self-contained breathing apparatus' for \$0.3 million. Offsetting this increase is depreciation of \$0.5 million, which on capital assets is recognized in the Government-Wide financial statements (See Table 3 below).

Table 3
Capital Assets at Year-End

	Balance at June 30, 2016				Balance at June 30, 2017
	Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Net of Accumulated Depreciation
Land	\$ 676,779	\$ -	\$ -	\$ -	\$ 676,779
Land improvements	2,006	-	-	(1,659)	347
Vehicles	1,008,606	224,110	(26,900)	(283,198)	922,618
Machinery and equipment	226,575	286,327	-	(42,645)	470,257
Buildings and improvements	7,101,611	184,322	-	(176,437)	7,109,496
	<u>\$ 9,015,577</u>	<u>\$ 694,759</u>	<u>\$ (26,900)</u>	<u>\$ (503,939)</u>	<u>\$ 9,179,497</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, increased during FY 2016-17 to \$116,224 from \$95,224 in FY 2015-16 due to an increase in claims payable.

Table 4
Outstanding Debt, at Year-End

	Principal Balance at June 30, 2016	Additions	Deletions	Principal Balance at June 30, 2017	Due Within One Year
Claims Payable	\$ 95,224	\$ 59,755	\$ (38,705)	\$ 116,274	\$ -
	<u>\$ 95,224</u>	<u>\$ 59,755</u>	<u>\$ (38,705)</u>	<u>\$ 116,274</u>	<u>\$ -</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During FY 2017-18 District revenue is expected to increase to \$11.7 million. Specifically, the increase is primarily due to property tax related revenue which is anticipated to increase by \$0.5 million. The Fiscal Year 2017-18 adopted expenditure budget of \$11.4 million is a 6% increase from Fiscal Year 2016-17. This expenditure is primarily due to a contract increase of \$0.6

million to continue the same level of fire protection and ambulance service into the new year. Additionally, general expense is anticipated to increase by \$64,000, while the CalPERS (retirement) obligation is increasing by approximately \$311,352.

The Fire District Board of Directors has been considering alternatives to fiscally manage the ongoing issue of operating expenditures exceeding operating revenues. The District's operating fund ended Fiscal Year 2016-17 with an operating loss of nearly \$0.3 million.

At the November 1, 2016 Board Meeting, the Board approved a resolution requesting that the Local Agency Formation Commission (LAFCO) initiate proceedings to analyze the reorganization of the District, with the San Bernardino County Fire Protection District as the designated successor of the potential annexation. More detail can be found within Note 10.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

HESPERIA FIRE PROTECTION DISTRICT

STATEMENT OF NET POSITION June 30, 2017

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 5,493,284
Accounts receivable	400,153
Accrued interest	8,787
Due from other governmental agencies	104,472
Total Current Assets	<u>6,006,696</u>
Noncurrent Assets:	
Prepaid Expenses	7,380
Capital assets:	
Not being depreciated:	
Land	676,779
Being depreciated:	
Land improvements	138,813
Vehicles	5,592,999
Machinery and equipment	1,019,636
Buildings and improvements	8,844,881
Less: Accumulated depreciation	<u>(7,093,611)</u>
Total Capital Assets	<u>9,179,497</u>
Total Noncurrent Assets	<u>9,186,877</u>
Total Assets	<u>15,193,573</u>

DEFERRED OUTFLOWS OF RESOURCES

Net Difference between Projected and Actual Earnings on Pension Plan Investments	513,961
Change in Employer's Proportion	146,849
District Contributions Subsequent to the Measurement Date	364,190
Total Deferred Outflows of Resources	<u>1,025,000</u>

See accompanying notes to financial statements.

HESPERIA FIRE PROTECTION DISTRICT

LIABILITIES

Current Liabilities:	
Accounts payable and other current liabilities	\$ 298,949
Total Current Liabilities	<u>298,949</u>
Noncurrent Liabilities:	
Claims Payable	186,937
Net OPEB obligation	27,545
Unearned revenue	2,523,595
Long-term debt-due in more than one year	116,274
Net pension liability	7,897,864
Total Noncurrent Liabilities	<u>10,752,215</u>
Total Liabilities	<u><u>11,051,164</u></u>

DEFERRED INFLOWS OF RESOURCES

Difference between Expected and Actual Experience	22,673
Change of Assumptions	104,372
Change in Employer's Proportion	113,441
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	<u>633,599</u>
Total Deferred Inflows of Resources	<u><u>874,085</u></u>

NET POSITION

Investment in capital assets	9,179,497
Unrestricted	<u>(4,886,173)</u>
Total Net Position	<u><u>\$ 4,293,324</u></u>

See accompanying notes to financial statements.

HESPERIA FIRE PROTECTION DISTRICT

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental activities:					
Public Safety- Fire	\$ 12,002,307	\$ 3,050,502	\$ 29,964	\$ 140,000	\$ (8,781,841)
Total governmental activities	<u>\$ 12,002,307</u>	<u>\$ 3,050,502</u>	<u>\$ 29,964</u>	<u>\$ 140,000</u>	<u>(8,781,841)</u>
General Revenues:					
					7,842,262
					76,281
					<u>7,918,543</u>
					(863,298)
					<u>5,156,622</u>
					<u>\$ 4,293,324</u>

See accompanying notes to financial statements.

HESPERIA FIRE PROTECTION DISTRICTBALANCE SHEET
June 30, 2017

	<u>Fire Operations</u>	<u>Fire Capital</u>	<u>Total Governmental Funds</u>
Assets			
Assets:			
Cash and cash equivalents	\$ -	\$ 5,493,284	\$ 5,493,284
Accounts receivable	400,153	-	400,153
Prepaid items	7,380	-	7,380
Accrued interest	-	8,787	8,787
Due from other governmental agencies	104,472	-	104,472
Due from other funds	-	601,639	601,639
Total Assets	<u>512,005</u>	<u>6,103,710</u>	<u>6,615,715</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	\$ 5,817	\$ 293,132	\$ 298,949
Unearned revenue	3,595	-	3,595
Due to other funds	601,639	-	601,639
Total Liabilities	<u>611,051</u>	<u>293,132</u>	<u>904,183</u>
Fund Balances:			
Restricted:			
Public safety	<u>(99,046)</u>	5,810,578	5,711,532
Total Fund Balances	<u>(99,046)</u>	<u>5,810,578</u>	<u>5,711,532</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 512,005</u>	<u>\$ 6,103,710</u>	<u>\$ 6,615,715</u>

See accompanying notes to financial statements.

HESPERIA FIRE PROTECTION DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2017

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

Total fund balance - governmental funds	\$ 5,711,532
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	9,179,497
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position. This number represents the result of more claims than available funds.	(186,937)
The net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.	(27,545)
The lease agreement between the District and the County provides current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position.	(2,520,000)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.	(116,274)
Net pension liability applicable to the District is not due and payable in the current period and accordingly is not reported as a liability in the fund financial statements.	(7,897,864)
Deferred inflows and outflows of resources are not reported in the fund statements. Balances as of June 30, 2017 are as follows:	
Deferred outflows of resources	1,025,000
Deferred inflows of resources	<u>(874,085)</u> <u>150,915</u>
Total Net Position	\$ <u><u>4,293,324</u></u>

See accompanying notes to financial statements.

HESPERIA FIRE PROTECTION DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
For the Year Ended June 30, 2017

	Fire Operations	Fire Capital	Total Governmental Funds
Revenues:			
Taxes	\$ 7,038,738	\$ 803,524	\$ 7,842,262
Use of money and property	46,740	29,541	76,281
Charges for services	3,050,502	-	3,050,502
Grants	29,964	-	29,964
Total Revenues	<u>10,165,944</u>	<u>833,065</u>	<u>10,999,009</u>
Expenditures:			
Public safety- fire	10,462,703	-	10,462,703
Capital Outlay:			
Buildings and improvements	-	184,322	184,322
Vehicles	-	197,210	197,210
Machinery and equipment	-	286,327	286,327
Total Expenditures	<u>10,462,703</u>	<u>667,859</u>	<u>11,130,562</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(296,759)</u>	165,206	<u>(131,553)</u>
Fund balances at beginning of year	<u>197,713</u>	<u>5,645,372</u>	<u>5,843,085</u>
Fund balances at end of year	<u><u>\$ (99,046)</u></u>	<u><u>\$ 5,810,578</u></u>	<u><u>\$ 5,711,532</u></u>

See accompanying notes to financial statements.

HESPERIA FIRE PROTECTION DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds \$ (131,553)

The governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlays	\$ 667,859	
Depreciation expense	<u>(503,939)</u>	163,920

Decrease in long-term deposits are included in governmental activities in the government-wide Statement of Activities. (44,729)

OPEB expense is recognized when paid in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized in the period when incurred in the Statement of Activities. (2,332)

Increase in claims payable are included in governmental activities in the government-wide Statement of Activities. (21,050)

The revenue for the lease agreement between the District and the County is being recognized and deferred on the Statement of Activities over the life of the lease, and was previously recognized as a current financial resource on the governmental funds. This was previously recognized on the Statement of Revenues, Expenditures, and Changes in Fund Balances. 140,000

Contributions to the pension plan in the current year are not included in the statement of activities. (967,554)

Change in net position of governmental activities. \$ (863,298)

See accompanying notes to financial statements.

June 30, 2017

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a. Description of Reporting Entity:

The Hesperia Fire Protection District (the District) is a subsidiary district of the City of Hesperia. It was originally organized, circa 1957, as a subsidiary district under San Bernardino County, and later, on July 1 1988, became a subsidiary district of the City. Its mission is to protect the health and safety of the people who reside, visit, or work in the community. The District is the City of Hesperia's lead agency for dealing with natural disasters such as earthquakes, floods, storms, and other emergencies related to fire, explosion, hazardous materials, rescue, and medical services.

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

b. Basis of Presentation:

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

Government-Wide Financial Statements:

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

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

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

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

Pursuant to Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the fund balance reported on the fund statements now consist of the following category:

- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

In the government-wide statements, the District considers restricted funds to be spent first, then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available.

The District has two major funds described below:

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

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

c. Measurement Focus:

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

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

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

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

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

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

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

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

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

d. Basis of Accounting:

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

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

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

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

e. New Accounting Pronouncements:**Current Year Standards:**

- 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", the 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.
- GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", effective for periods beginning after June 15, 2016 and did not impact the District.
- GASB Statement No. 77 - "Tax Abatement Disclosures", the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 and did not impact the District.
- GASB Statement No. 78 - "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", effective for periods beginning after December 15, 2015 and did not impact the District.
- GASB Statement No. 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 and did not impact the District.
- GASB Statement No. 80 - "Blending Requirements for Certain Component Units", effective for periods beginning after June 15, 2016 and did not impact the District.
- GASB Statement No. 81 - "Irrevocable Split-In Interest Agreements", effective for periods beginning after December 15, 2016 and did not impact the District.
- GASB Statement No. 82 - "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73", effective for periods beginning after June 15, 2016 and did not impact the District.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**e. New Accounting Pronouncements (Continued):**Pending Accounting Standards:

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

- GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for periods beginning after June 15, 2017.
- GASB Statement No. 83 - "Certain Asset Retirement Obligations", effective for periods beginning after June 15, 2018.
- GASB Statement No. 84 - "Fiduciary Activities", effective for periods beginning after December 15, 2018.
- GASB Statement No. 85 - "Omnibus 2017", effective for periods beginning after June 15, 2017.
- GASB Statement No. 86 - "Certain Debt Extinguishment Issues", effective for periods beginning after June 15, 2017.
- GASB Statement No. 87 - "Leases", effective for periods beginning after December 15, 2019.

f. Property Taxes:

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

g. Cash and Investments:

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

h. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2017, in the opinion of the District's Attorney, the District had no material unrecorded claims, which would require loss provision in the financial statements, including losses for claims, which are incurred but Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

i. Capital Assets:

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

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

i. Capital Assets (Continued):

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

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

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

j. Deferred Outflows/Inflows of Resources:

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

- Deferred Outflow Related to Pensions – This amount is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred Outflow Related to Pensions for the Changes in Employer’s Proportion and Differences between Employer Contributions and the Employer’s Proportionate Share of Contributions – This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred Outflow Related to Pensions - These items are the difference in projected and actual earnings on investments of the pension plan and are amortized over five 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:

- Unavailable Revenue - This item arises only under a modified accrual basis of accounting. Accordingly, the item, *unavailable revenues*, is reported only in the District’s governmental fund balance sheet.
- Deferred Outflow Related to Pensions - For the difference in projected and actual earnings on investments of the pension plan, difference between expected and actual experience, changes in assumptions, and differences between the District’s contributions and proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees provided with pensions through the plans, which is 3.8 years.

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

k. Pensions:

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office for the measurement period ended June 30, 2016 and reported in fiscal year ending June 30, 2017. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

l. Receivables:

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

m. Use of Estimates:

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2017 are classified in the accompanying financial statements as follows on the following page:

STATEMENT OF NET POSITION	
Current Assets	<u>June 30, 2017</u>
Cash and cash equivalents	<u>\$ 5,493,284</u>
Total cash and investments	<u>\$ 5,493,284</u>

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

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

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

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

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

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

The District has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Hesperia. The District is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Hesperia. The District has not adopted an investment policy separate from that of the City of Hesperia. The fair value of the District's investment in this pool is reported in the accompanying financial statements of amounts based upon the District's pro-rata share of the fair value calculated by the City for the entire City's portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value. Additional disclosures regarding \$5,493,284 pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report.

3. LEASE AGREEMENT:

During the fiscal year ended June 30, 2010, the Fire District entered into an agreement with the County of San Bernardino for the joint use of fire station 305. The lease agreement is for a term of twenty-five (25) years, with a total County contribution of the fire station and related improvements of \$3,500,000. During the year ended June 30, 2008, the County paid the Fire District the entire \$3,500,000, which is being reported as unearned revenue on the Statement of Net Position. Revenue is being recognized for the amount paid by the County to the Fire District on a straight line basis over the life of the lease of twenty-five (25) years. The construction of the fire station was completed on June 30, 2010. The Fire District is responsible for major structural repairs and seventy percent (70%) of the maintenance and utilities, while the County is responsible for thirty percent (30%) of the maintenance and utilities. In the event that the lease is terminated, there are provisions in the agreement that dictate the fiscal impact upon each party. Through June 30, 2017, the remaining balance of the unearned revenue is \$2,520,000.

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Capital Assets, not being depreciated				
Land	\$ 676,779	\$ -	\$ -	\$ 676,779
Total capital assets, not being depreciated	676,779	-	-	676,779
Capital Assets being depreciated:				
Land Improvements	138,813	-	-	138,813
Vehicles	5,422,689	197,210	(26,900)	5,592,999
Machinery and equipment	733,309	286,327	-	1,019,636
Buildings and improvements	8,660,559	184,322	-	8,844,881
Total capital assets, being depreciated	14,955,370	667,859	(26,900)	15,596,329
Less accumulated depreciation for:				
Land Improvements	(136,807)	(1,659)	-	(138,466)
Vehicles	(4,414,083)	(286,868)	26,900	(4,674,051)
Machinery and equipment	(506,734)	(38,975)	-	(545,709)
Building and improvements	(1,558,948)	(176,437)	-	(1,735,385)
Total accumulated depreciation	(6,616,572)	(503,939)	26,900	(7,093,611)
Total capital assets, being depreciated, net	8,338,798	163,920	-	8,502,718
Governmental-type activities capital assets, net	<u>\$ 9,015,577</u>	<u>\$ 163,920</u>	<u>\$ -</u>	<u>\$ 9,179,497</u>

Note: The decrease in vehicles and vehicle depreciation of \$26,900 is due to the disposition of a vehicle in FY 2012-13 that was omitted from this note at June 30, 2013.

Depreciation expense for the year ended June 30, 2017 charged to the Public Safety-Fire function was a net \$503,939.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2017:

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

	Principal Balance at June 30, 2016	Additions	Deletions	Principal Balance at June 30, 2017	Due Within One Year
Claims Payable	\$ 95,224	\$ 59,755	\$ (38,705)	\$ 116,274	\$ -
	<u>\$ 95,224</u>	<u>\$ 59,755</u>	<u>\$ (38,705)</u>	<u>\$ 116,274</u>	<u>\$ -</u>

6. 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, but not accounting purposes), and membership information is listed in the June 30, 2015 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2015 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, 2015 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS’ website under Forms and Publications or from CalPERS Executive Office: 400 P Street, Sacramento, CA 95814.

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

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):**a. General Information about the Pension Plans (Continued):**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.

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

For the fiscal year ended June 30, 2017, the District reported a liability of \$7,897,864 for its proportionate share of the net pension liability, which was measured as of June 30, 2016 (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. As of the measurement date of June 30, 2016, the District's proportion of net pension liability was 0.09%.

The District recognized pension expense of \$1,331,744 for the fiscal year ended June 30, 2017 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ (22,673)
Changes of Assumptions	-	(104,372)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	513,961	-
Change in Employer's Proportion	146,849	(113,441)
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	-	(633,599)
District Contributions Subsequent to the Measurement Date	364,190	-
Total	<u>\$ 1,025,000</u>	<u>\$ (874,085)</u>

\$364,190 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ (299,723)
2019	(220,313)
2020	172,990
2021	133,771
2022	-
Thereafter	-

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Actuarial Methods and Assumptions Used to Determine Total Pension Liability:

As of the measurement date of June 30, 2016, total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
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

¹The 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 (based on CalPERS demographic date from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

All other actuarial assumptions used in the June 30, 2015 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. Further details of the Experience Study can be found on CalPERS' website.

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 long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability for all plans. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

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

Discount Rate (Continued):

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 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.

	Assumed Asset Allocation	Real Return Years 1-10¹	Real Return Years 11+²
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	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	1.00%	-0.55%	-1.05%

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued):

- b. Pension Liabilities, Pension Expenses 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%	Current	Discount Rate + 1%
	(6.65%)	(7.65%)	(8.65%)
District's Proportionate Share of Net Pension Liability	\$ 11,773,788	\$ 7,897,864	\$ 4,715,700

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 fiscal year ended June 30, 2017.

7. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

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

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Funding Policy:

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

Annual OPEB Cost and Net OPEB Obligation/Asset:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 3% of the annual covered payroll.

This table on the following page shows the components of the District's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

Annual Required Contribution (ARC)	\$ 2,684
Interes on net OPEB obligation	476
Adjustment on Annual Required Contribution (ARC)	<u>(644)</u>
Annual OPEB cost (expense)	2,516
Contributions made	<u>(184)</u>
Increase in net OPEB obligation	2,332
Net OPEB obligation - beginning of year	<u>25,213</u>
Net OPEB obligation - end of year	<u><u>\$27,545</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2017, 2016, and 2015 were as follows:

THREE-YEAR TREND INFORMATION CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contribution	Net OPEB Obligation
6/30/2017	2,516	7.3%	27,545
6/30/2016	2,088	8.8%	25,213
6/30/2015	1,964	5.7%	23,309

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Funded Status and Funding Progress:

The funded status of the plan as of the most recent actuarial valuation date 6/30/2016 is:

Actuarial Accrued Liability (AAL)	\$	63,000
Actuarial Value of Plan Assets		-
Unfunded Actuarial Accrued Liability (UAAL)		63,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0.0%
Covered Payroll (Active Members)		-
UAAL as a Percentage of Covered Payroll		0.0%

Actuarial Methods and Assumptions:

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

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, 2016
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	22 Years as of the Valuation Date
Actuarial Assumptions:	
Investment Rate of Return	3.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	2.75%
PEMHCA Minimum Growth	4.25%
Individual Salary Growth	CalPERS 1997-2011 Experience Study

8. FIRE PROTECTION SERVICES AGREEMENT:

The Hesperia Fire Protection District entered into a fire protection services agreement with the San Bernardino County Consolidated Fire District (County) effective June 1, 2004. The agreement calls for the County to provide to the District fire prevention, fire investigation, fire suppression, advanced life support services, ambulance transportation service, hazardous materials, and rescue services. The District paid \$9,808,986 to the County for these services during the fiscal year ending June 30, 2017. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

9. SELF INSURANCE RISK POOL:**Public Entity Risk Management Authority:**

The Fire District is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 32 California cities and districts, for the purpose of pooling the District's risk for worker's compensation and general liability insurance with those of other member cities and districts. The Governing Board of PERMA is comprised of directors nominated and selected by each member city and district. Each governing board member has one vote regarding all financial and management issues coming before the Board.

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

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

9. SELF INSURANCE RISK POOL (Continued):

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

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2017</u>
Unpaid Claims, Beginning of Fiscal Year	\$ 173,909	\$ 95,224
Incurred Claims	119,154	59,755
Claim Payments	<u>(197,839)</u>	<u>(38,705)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 95,224</u>	<u>\$ 116,274</u>

The Unpaid claims of \$116,244 from the chart above are a component of long-term debt (Note 5). Due to the uncertainty of when the claims will be paid none are considered due within one year.

10. SUBSEQUENT EVENT:

On November 1, 2016, the Board of Directors approved Resolution Number HFPD 2016-19 requesting the Local Agency Formation Commission (LAFCO) take proceedings for reorganization to annex the Hesperia Fire Protection District to the San Bernardino County Fire Protection District. As such, an application to LAFCO, along with supporting documentation, must be made to justify the reorganization.

REQUIRED SUPPLEMENTARY INFORMATION

HESPERIA FIRE PROTECTION DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
 FIRE DISTRICT OPERATIONS FUND
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	<u>\$ 197,713</u>	<u>\$ 197,713</u>	<u>\$ 197,713</u>	<u>\$ -</u>
Resources (Inflows):				
Taxes	6,983,929	6,983,929	7,038,738	54,809
Use of money and property	42,970	42,970	46,740	3,770
Grants	-	-	29,964	29,964
Charges for services	<u>3,561,034</u>	<u>3,561,034</u>	<u>3,050,502</u>	<u>(510,532)</u>
Amount available for appropriations	<u>10,587,933</u>	<u>10,587,933</u>	<u>10,165,944</u>	<u>(421,989)</u>
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	<u>10,433,516</u>	<u>10,462,703</u>	<u>10,462,703</u>	<u>-</u>
Total charges to appropriations	<u>10,433,516</u>	<u>10,462,703</u>	<u>10,462,703</u>	<u>-</u>
Excess of Resources Over (Under) Charges To Appropriations	<u>154,417</u>	<u>125,230</u>	<u>(296,759)</u>	<u>(421,989)</u>
Fund Balance, June 30	<u><u>\$ 352,130</u></u>	<u><u>\$ 322,943</u></u>	<u><u>\$ (99,046)</u></u>	<u><u>\$ (421,989)</u></u>

See accompanying note to required supplementary information.

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded (Over Funded) AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B - A / C)
6/30/2016						
Fire	\$ -	\$ 63,000	\$ 63,000	0.0%	\$ -	0.0%
Total	<u>\$ -</u>	<u>\$ 63,000</u>	<u>\$ 63,000</u>	<u>0.0%</u>	<u>\$ -</u>	<u>0.0%</u>
6/30/2014						
Fire	\$ -	\$ 48,000	\$ 48,000	0.0%	\$ -	0.0%
Total	<u>\$ -</u>	<u>\$ 48,000</u>	<u>\$ 48,000</u>	<u>0.0%</u>	<u>\$ -</u>	<u>0.0%</u>
6/30/2012:						
Fire	\$ -	\$ 110,000	\$ 110,000	0.0%	\$ -	0.0%
Total	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 110,000</u>	<u>0.0%</u>	<u>\$ -</u>	<u>0.0%</u>

The Fire District is only required to perform actuarial valuations biannually. An actuarial valuation was prepared for year ending June 30, 2016 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, 2013, and June 30, 2015.

**SCHEDULE OF THE HESPERIA FIRE PROTECTION DISTRICT CONTRIBUTIONS
CalPERS Pension Plan
Last 10 Fiscal Years¹**

	<u>2015¹</u>	<u>2016</u>	<u>2017</u>
Contractually Required Contribution	\$ 245,096	\$ 303,974	\$ 364,190
Contributions in Relation to the Contractually Required Contribution	<u>(245,096)</u>	<u>(303,974)</u>	<u>(364,190)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll ²	N/A	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll ²	N/A	N/A	N/A

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

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

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
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

¹The 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 (based on CalPERS demographic data from 1997 to 2011) available online at <https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf>.

**SCHEDULE OF THE HESPERIA FIRE PROTECTION DISTRICT
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CalPERS Pension Plan
Last 10 Fiscal Years¹**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's Proportion of the Net Pension Liability/(Asset)	0.08%	0.09%	0.09%
District's Proportionate Share of the Net Pension Liability/(Asset)	\$ 5,000,861	\$ 6,246,032	\$ 7,897,864
District's Covered-Employee Payroll ²	N/A	N/A	N/A
District's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll ²	N/A	N/A	N/A
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of its Total Pension Liability	79.82%	78.40%	74.06%
District's Proportionate Share of Aggregate Employer Contributions ^{3,4}	\$ 625,338	\$ 711,616	\$ 714,904

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

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

³The 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.

⁴This 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.

June 30, 2017

1. BUDGETARY DATA:

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

**Notes to Required Supplementary Information
for the Fiscal Year Ended June 30, 2017**

Changes of Benefit Terms:

The District did not have any benefit terms changes after June 30, 2015 (Valuation Date).

Changes of Assumptions:

There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of the changes of assumptions related to prior measurement periods.

BUDGETARY COMPARISON SCHEDULE
 FIRE DISTRICT CAPITAL FUND
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	<u>\$ 5,645,372</u>	<u>\$ 5,645,372</u>	<u>\$ 5,645,372</u>	<u>\$ -</u>
Resources (Inflows):				
Taxes	807,739	807,739	803,524	(4,215)
Use of money and property	20,609	20,609	29,541	8,932
Amount available for appropriations	<u>828,348</u>	<u>828,348</u>	<u>833,065</u>	<u>4,717</u>
Charges to Appropriations (Outflows):				
Capital outlay:				
Land	129,000	-	-	-
Buildings and improvements	-	184,322	184,322	-
Vehicles	215,000	197,210	197,210	-
Machinery and equipment	-	286,327	286,327	-
Total charges to appropriations	<u>344,000</u>	<u>667,859</u>	<u>667,859</u>	<u>-</u>
Excess of Resources Over (Under) Charges To Appropriations	<u>484,348</u>	<u>160,489</u>	<u>165,206</u>	<u>4,717</u>
Fund Balance, June 30	<u><u>\$ 6,129,720</u></u>	<u><u>\$ 5,805,861</u></u>	<u><u>\$ 5,810,578</u></u>	<u><u>\$ 4,717</u></u>

See accompanying note to required supplementary information.