City of Victorville

Victorville, California

Basic Financial Statements
Together with
Independent Auditors' Report

For the year ended June 30, 2007

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City of Victorville
Basic Financial Statements
For the year ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Victorville
Victorville, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Victorville, California (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not maintained adequate internal control and accounting records for the year ended June 30, 2007. Generally accepted auditing standards define internal control as a process – effected by an entity's governing board, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. Internal control consists of five interrelated components:

a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
b. *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
d. *Information and communication systems* support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
e. *Monitoring* is a process that assesses the quality of internal control performance over time.

These internal control components listed above were not adequately maintained by the City for the year ended June 30, 2007. Because the City did not maintain adequate internal control and accounting records, the accompanying basic financial statements may be materially misstated and may not present fairly the financial position and the respective changes in financial position of the City for the year ended June 30, 2007.

Subsequent to the basic financial statements date of June 30, 2007 and the year then ended, the United States has entered into a financial credit crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this financial credit crisis, investments are subject to significant impairment and losses. To date, the City has not been informed and is not aware of any investment losses. Accordingly, investment losses, if any, have not been reflected in the accompanying basic financial statements.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, opinion on the City's basic financial statements for the year ended June 30, 2007.

As discussed in Note 13 to the basic financial statements, the City has continued to suffer significant reductions in net assets from operations, which raises uncertainties regarding future operations. Management's plans regarding those matters are also described in the Management's Discussion and Analysis. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson

Irvine, California
February 23, 2009

The following discussion has been updated for significant information and subsequent events from June 30, 2007 to the date of release of this Annual Financial Report.

PROFILE OF THE GOVERNMENT

The City of Victorville is located in the High Desert, along Interstate 15 about 40 miles north of the City of San Bernardino and serves an area of 74.09 square miles with a population of approximately 107,000.

The City of Victorville was incorporated as a general law city on September 21, 1962. The City operated under a Council-Manager form of government until 2008, when its form was changed to a Charter City following a vote of its citizens in June 2008. The City Manager is responsible for the efficient implementation of Council policy and the effective administration of all City government affairs. There are five elected council members.

The City provides a full range of services including public safety, highways and streets, sanitation, park and recreation, aviation, municipal utilities, public improvements, planning and zoning, community development, and general administrative services. In addition to general government activities, the City Council also serves as the Board of Directors of the Victorville Redevelopment Agency (RDA), Southern California Logistics Airport Authority (SCLAA), Southern California Logistics Rail Authority (SCLRA), Victorville Water District and the Victorville Library District. Therefore, these activities have been included as part of the City's financial report. Additional information on these entities is presented in the MD&A and can be found in the notes to the financial statements.

LOCAL ECONOMY

The local economy has been best described as strong and growing for several years up to June 2006. Construction activity had been increasing both for residential and commercial property. Residential activity was very strong, reflecting the growing population, which sought to relocate in the City to take advantage of the costs for housing, which were (and are) significantly lower than comparable housing in other cities in San Bernardino and other adjacent counties. Commercial construction activity naturally followed the population growth.

Beginning in 2007, the economy of the City, region, state, and indeed the nation, changed dramatically. Although changes were being seen early in 2007, many economists interpreted these changes as temporary or a short term anomaly. John Husing, a prominent economist held in very high regard with particular experience and expertise with matters involving the Inland Empire (consisting primarily of San Bernardino and Riverside Counties), maintained a forecast[1] of modest growth for 2007 in his April 2007 QER Report, based on factors in existence during the first quarter of 2007. In this report, he cautioned that his forecast contained risks, the most feared being an unexpectedly large economic decline caused by a slowdown in the construction industry and its side effects on related businesses such as mortgage finance, title insurance, home improvement stores, etc. He added that other risks existed, albeit somewhat more remote, of a potentially severe chain of economic events surrounding higher oil prices impacting consumer budgets (spending) and the auto industry. In retrospect, these fears were a precursor to subsequent events.

[1] Inland Empire Quarterly Economic Report – April 2007

Beginning in the first quarter of calendar year 2007, the economic sectors that had for so long sustained the local economy began to rapidly erode. In the Inland Empire, seasonally adjusted new home sales for the first quarter of 2007 declined 41.8% from the first quarter of 2006. Unsold inventories began to increase, causing a rapid decline in new home construction starts. The full impact to the economy was not felt for an additional one to two quarters, as homes under construction were being completed, and thus, construction related job losses were marginal. A major factor in the slowdown on construction was the rapid decline in net migration into the Inland Empire, declining from 80,630 in 2005, to 68,241 in 2006 and to 34,670 in 2007.

The recent history of strong growth ended in 2006. Construction activity slowed dramatically during the fiscal year ended June 2007, with a continuing trend into the current fiscal year ending in June 2009, as shown in the following table[2]:

	2005	2006	2007	2008	2009
Residential					
Dwelling Units	2,278	3,470	1,640	973	100
Value (000)	$ 387,094	$ 654,408	$ 319,481	$ 114,355	$ 15,674
Commercial					
Permits	316	378	512	332	114
Value (000)	$ 98,133	$ 82,112	$ 63,794	$ 79,762	$ 79,762
Combined Values	$ 485,226	$ 736,520	$ 383,275	$ 194,117	$ 95,435

The decline in permits and values of construction had a significant adverse impact on construction related revenues to the City, composed of permits and inspection fees, which are used to pay for professional and administrative staff in development related departments, and development impact fees ("DIF"), which are used to pay for operating and infrastructure costs impacted by development, covering public buildings, fire services, road services, public safety and recreational services. In addition, the declines in new construction resulted in declines in connection fees for water and sewer services. These fees are used to pay for capital costs associated with the basic infrastructure for water and sewer lines.

The decline in construction activity was reflected in increases in unemployment levels in the Inland Empire, where a significant amount of the City's residents work. Data for the Inland Empire is presented below since this is the area where jobs are located for most of the City's work force. Unemployment rates increased as follows (quarter-end data is presented)[3]:

Year	Month	Rate
2006	December	4.8%
2007	March	5.2%
	June	5.9%
	September	6.3%
	December	6.5%
2008	March	7.2%
	June	8.1%
	September	9.1%
	December	10.1%

[2] City of Victorville Permit Data. Information for Fiscal Year Ended June 30, 2009 is as of January 21, 2009.
[3] California Employment Development Department

The credit markets began recognizing the economic shifts as early as July 2007. Larger banks began to have significant difficulty is securitizing and selling home loans into the market. In August 2007, CountryWide, one of the largest residential home loan originators in the country, was forced to draw down its entire $11.5 billion credit line from a consortium of banks because it could no longer sell or borrow against home loans it had made[4]. Buyers of these loans refused to bid based on obvious signs of the degradation in loan quality, expressed in terms of higher delinquency rates and declining home values.

The stresses in the credit markets continued throughout 2007 and 2008. What started as impact to residential loans increased to virtually all areas of the credit markets – commercial lending, consumer lending, private sector bonds, state and local government bonds, international credit and interest rate hedge agreements. The impact on local governmental agencies was severe, especially in the market for weekly adjustable rate securities and in the market for taxable municipal bonds (bonds issued to finance projects that will benefit a private company). In retrospect, this was the third component of a recession scenario – stresses in the credit markets.

Beginning in August 2007, the effects of the slowdown in construction and increases in unemployment began to be seen in declining consumer spending levels within the City, which affected sales tax revenues to the City. The following table presents sales tax revenues to the City on a quarterly basis, beginning with the quarter ended November 2006, with a calculation of the change in revenues from the same quarter of the previous year[5] (amounts in thousands):

Year	Quarter Ended	Revenues	Year/Year Change
2006	November	$ 5,739	-1.91%
2007	February	$ 5,845	-6.86%
	May	$ 5,266	-1.94%
	August	$ 5,655	-3.55%
	November	$ 5,082	-11.39%
2008	February	$ 5,203	-10.88%
	May	$ 4,512	-14.31%
	August	$ 4,759	-15.75%
	November	$ 4,426	-12.80%

In summary, the local economy, like those of the State of California and many counties and cities in the state, is faced with significant fiscal challenges resulting from the economic dislocations that began in early 2007 and continue to the present. The City, specifically, is faced with challenges in its revenue streams, its ability to access the credit markets, its efforts to attract and retain jobs and to address fundamental structural changes that reflect the current conditions. At the same time, the City is focused on taking significant steps to alleviate the impacts to its citizens resulting from the current recession.

Looking ahead to the balance of 2009, the City is expecting an economic environment that is difficult, with increases in unemployment, further contraction in consumer spending, continuing foreclosure activity and continuing lack of construction related jobs. The City is hopeful that the current recession will abate by the end of 2009 and that the process of recovery will begin. With that recovery will come a restoration of revenues, population growth and construction activity.

[4] New York Times

[5] State of California Board of Equalization and San Bernardino County Remittance Records to City

The following discussion has been updated for significant information and subsequent events from June 30, 2007 to the date of release of this Annual Financial Report.

The purpose of this discussion is to focus on information about the City's financial condition and results of operations which may not otherwise be apparent from reading the Financial Statements. You should read the following discussion and analysis along with the Financial Statements and the related notes included elsewhere herein.

The format of the following discussion is divided into five components beginning with the Opinion Letter received from the City's external accounting firm, followed by a discussion of the Financial Statements and results of operation. The discussion of the Financial Statements and results of operation begins with a discussion of the financial accounting and reporting formats used by governmental entities, followed by three sections which address the three main components of the City's financial statements: a) Government-Wide Financial Statements, b) Fund Financial Statements and c) Notes to the Financial Statements.

EXTERNAL ACCOUNTING FIRM'S OPINION LETTER

As presented previously in this Annual Report, the City's external accounting firm, Caporicci & Larson, CPA's have declined to express an opinion of the Financial Statements, citing material weaknesses in internal control. A discussion of the concepts of internal control is presented below.

Internal Controls

The following discussion and analysis of internal control is taken from OMB Circular A-123, *Management's Responsibility for Internal Control*. This Circular governs entities that receive federal governmental revenues and are audited pursuant to requirements in OMB Circular A-133, both of which are applicable to the City. These standards are essentially identical to those issued by the Governmental Accounting Standards Board and by the State of California, also applicable to the City.

Internal control, in the broadest sense, includes the plan of organization, methods and procedures adopted by management to meet its goals. Internal control includes processes for planning, organizing, directing, controlling, and reporting on agency operations.

The three objectives of internal control are:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

The safeguarding of assets is a subset of all of these objectives. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use or disposition of assets.

Management is responsible for developing and maintaining internal control activities that comply with the following standards to meet the above objectives:

- Control Environment,
- Risk Assessment,
- Control Activities,
- Information and Communications, and
- Monitoring

These concepts are discussed in the following sections.

A. Control Environment

The control environment is the organizational structure and culture created by management and employees to sustain organizational support for effective internal control. When designing, evaluating or modifying the organizational structure, management must clearly demonstrate its commitment to competence in the workplace. Within the organizational structure, management must clearly define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating and disciplining personnel; and uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand the importance of maintaining effective internal control within the organization.

The organizational culture is also crucial within this standard. The culture should be defined by management's leadership in setting values of integrity and ethical behavior but is also affected by the relationship between the organization and central oversight agencies. Management's philosophy and operational style will set the tone within the organization. Management's commitment to establishing and maintaining effective internal control should cascade down and permeate the organization's control environment which will aid in the successful implementation of internal control systems.

B. Risk Assessment

Management should identify internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take into account relevant interactions within the organization as well as with outside organizations. Management should also consider previous findings; e.g., auditor identified, internal management reviews, or noncompliance with laws and regulations when identifying risks. Identified risks should then be analyzed for their potential effect or impact on the agency.

C. Control Activities

Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

Internal control also needs to be in place over information systems - general and application control. General control applies to all information systems such as the mainframe, network and end-user environments, and includes agency-wide security program planning, management, control over data center operations, system software acquisition and maintenance. Application control should be designed

to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks. General and application control over information systems are interrelated, both are needed to ensure complete and accurate information processing. Due to the rapid changes in information technology, controls must also adjust to remain effective.

D. Information and Communications

Information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely. It is also crucial that an agency communicate with outside organizations as well, whether providing information or receiving it. Examples include: receiving updated guidance from central oversight agencies; management communicating requirements to the operational staff; operational staff communicating with the information systems staff to modify application software to extract data requested in the guidance.

E. Monitoring

Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

Deficiencies found in internal control should be reported to the appropriate personnel and management responsible for that area. Deficiencies identified whether through internal review or by an external audit should be evaluated and corrected. A systematic process should be in place for addressing deficiencies.

The external CPA's comments relate primarily to weaknesses in organizational and management structures, comprehensive policies and procedures, information and computer systems and financial reporting. These issues are being reviewed in detail by management and the City Council and action plans are being prepared to address each of these concerns.

OVERVIEW OF THE FINANCIAL POSITION OF THE CITY

A discussion of the overall financial position of the City must be preceded by a discussion of the fiscal structures of the City. Essentially, the City is composed of separate types of funds, described as follows:

A. Government Funds

1. The General Fund is an unrestricted fund, meaning that revenues received by the fund are unrestricted as to use and accordingly, can be used for any public and legal purpose. The General Fund acts as a financial support instrument for all other funds needing support.

2. Special Revenue Funds are made up largely of taxes collected and to be expended for a particular purpose, such as Measure I Tax Revenues, whose revenues are derived from a special local sales tax whose use is restricted for use on roads.

3. Debt Service Funds are restricted for making debt service payments. These funds receive transfers from other funds that have received proceeds of debt issuances, such as the Redevelopment Agency.

4. Capital Projects Funds are used to report funding and use of capital improvements. These funds receive transfers from other funds and proceeds from debt and use the funds for the specified capital expenditures.

B. Proprietary Funds

1. The City's primary Proprietary Funds are Sanitary District, Municipal Utility, Water District, and the Golf Courses. These funds generate their own income stream from sales and services to third parties, such as sanitary services, water and electricity to the public. Within these funds may be revenues that are restricted, for example, capital improvement reserves, which are restricted to expenditures for capital expansion. Should any of these funds fail to generate sufficient revenues to cover expenses, the General Fund is typically required to cover deficits through transfers or loans.

2. The City's Internal Service Fund is composed of departments whose primary activity is to provide services to other fund categories. Included in this grouping are Information Services, Human Resources, Facilities, Fleet Maintenance and Finance. The costs for these supporting departments are allocated based on the City's Cost Allocation Plan, which was implemented for the first time for fiscal year 2008-2009.

C. Fiduciary Funds

1. The City has funds that are classified and typed as Pension and Employee Benefit Funds. Such fund types include withholdings and remittances of pension benefit payments to the City's pension administrator, CalPERS, and the same for medical plan activity. However, no separate statements are prepared on these funds, as all activity is on a pay-as-you go basis with the corresponding expense charged to the applicable fund or department.

From an overview, the financial condition of the City reflects the financial conditions that have affected the United States, the State of California and many local government entities. These adverse conditions have affected the City in the following:

1. General Fund Reserves have declined significantly and are expected to be depleted in the 2008-2009 fiscal year.
2. Certain Proprietary Funds are operating at a deficit.
3. The City has significant unmet financial obligations.

General Fund Reserves

The General Fund is typically the focal point in analyzing the health of a City because it is assumed that the General Fund will be able to cover both its costs and act as a financial backstop for other funds. The following table presents a summary of the results of operation for the General Fund over the last three years ended June 30, along with the budget for the year ended June 30, 2008:

	2005	2006	2007	2008*
Total revenues	$ 40,722,502	$ 53,132,941	$ 52,212,555	$ 48,242,376
Expenditures				
General government	6,879,232	8,098,740	11,989,343	14,253,250
Public safety	11,433,445	13,674,921	16,156,583	17,974,317
Public works	9,298,464	18,359,715	13,598,028	11,315,529
Parks and recreation	265,597	387,932	317,704	-
Capital	-	-	1,164,590	-
Total expenditures	27,876,738	40,521,308	43,223,248	43,543,096
Net revenues	12,845,764	12,611,633	8,989,307	4,699,280
Transfers and other	(9,508,082)	(13,929,905)	(14,293,522)	(18,630,950)
Net change in fund balance	3,337,682	($ 1,318,272)	(5,304,215)	(13,931,670)
Prior period adjustments	-	-	417,726	-
Fund balance	$ 28,872,262	$ 27,553,990	$ 22,667,501	$ 8,735,831

*Budgeted data for June 30, 2008, updated for forecasts.

The amounts reported for the 2007-2008 Budget as transfers represent funds transferred to other funds including Fire District ($4.4 million), Parks and Recreation District ($1.3 million) and Victorville Municipal Utilities Service ($10 million). At this level of transfers, the General Fund Balance is expected to decline to approximately $2.2 million, which is significantly less than recurring transfers required for the support of other funds. Looking forward to 2008-2009, it is likely that there will be insufficient funds available from the General Fund Balances to support these activities at these levels.

Deficit Operations for Proprietary Funds

Most proprietary funds of the City operate at a surplus. This is applicable to the Sanitary District and the Water District. These operating surpluses are generally required to be retained by these funds and used as a basis for calculating future rate increases. Generally, surpluses in these funds are not available to cover operating deficits in other funds.

Two proprietary funds have a history of operating at a significant deficit, calculated before transfers from other funds, these being Southern California Logistics Airport Authority ("SCLAA") and Victorville Municipal Utilities Service ("VMUS"). SCLAA has its own source of funding, derived from operating revenues of the airport and more significantly, from pass through transfers of tax increment received from the City of Victorville Redevelopment Authority ("RDA") that originate from the Victor Valley Economic Development Authority ("VVEDA"). In addition, SCLAA issues bonds and other debt to finance the construction of capital improvements on its behalf and for Southern California Logistics Rail Authority. Net revenues and transfers are used to cover both operating deficits and debt service and are considered both stable and adequate.

VMUS' financial reports have reflected net operating losses before transfers for the last four years. For the year ended June 30, 2007, the net operating loss before transfers and capital infusions was $76.8 million, which includes a non-cash charge of $60.2 million relating to asset impairment. Excluding the impairment charge, the adjusted net operating loss is approximately $16.6 million. The primary source of funds to cover the net operating losses is transfers and loans from the General Fund. As discussed above, the General

Fund is likely to have an unrestricted fund balance and cash balance at June 30, 2008 that is likely to be less than the amount needed to financially support VMUS during the fiscal year 2008-2009.
The following table presents a summary of the results of operation for VMUS for the last three fiscal years and as budgeted for the year ended on June 30 as indicated:

	2005	2006	2007	2008*
Total revenues	$ 1,306,714	$ 3,392,855	$ 4,175,760	$ 5,370,839
Total expenditures	6,591,372	11,340,233	17,910,704	17,361,286
Net operating (loss)	(5,284,658)	(7,947,378)	(13,734,944)	(11,990,447)
Nonoperating (expenses)				
Net interest (expense)	(870,095)	(541,489)	(2,919,023)	(3,051,875)
Asset impairment	-	-	(60,170,875)	-
Net operating loss before capital and transfers in	($ 6,154,753)	($ 8,488,867)	($ 76,824,842)	($ 15,042,322)

*Budgeted data for June 30, 2008.

Included in the above table for 2007 is an expense in the amount of $60,170,875 which represents an impairment charge relating to equipment and other assets that are no longer utilized or are planned for disconnection upon the implementation of interconnection. The bulk of this expense relates to equipment and infrastructure costs invested at the Foxborough Distribution Center. Essentially, this is the amount by which the cost or carrying value of specified assets and groups of assets exceeds their liquidation values. This write down will reduce the book value to the expected liquidation proceeds to be received.

Included in the budgeted data for 2008 is a loan from the General Fund in the amount of $10 million, the proceeds of which are to be used to cover a portion of the net operating loss. The balance of the operating loss is expected to be covered through the use of cash reserves. Looking forward to 2008-2009, it is likely that there will be insufficient funds available from the General Fund Balances to cover the anticipated cash flow loss in VMUS excluding proceeds received from the sale of excess equipment.

Please also read the section in this MD&A titled as *"Restructuring Operations of Victorville Municipal Utilities Services."*

Significant Financial Obligations

Over the course of the last three years, the City has undertaken a number of significant projects whose ultimate goal is to create new jobs, enhance the local housing and business markets through population increases and finally, to implement an income stream to the City that is protected from diversion by the State of California. These projects were undertaken during a period in which the economy was significantly stronger in both the State and in the local area. Therefore, significant reliance on external financial conditions was a key element in making these decisions. As noted above, these financial conditions deteriorated rapidly beginning in 2007 and this decline has continued through to the present.

To fund these efforts, the City and/or its component entities have borrowed and entered into contractual obligations. The two most significant obligations are: a) bond in the amount of $83,770,000 issued by the Victorville Joint Powers Financing Authority ("VJPFA") and b) Contract with General Electric ("GE"). Each is discussed below.

Victorville Joint Powers Financing Authority Bond - $83,770,000

The bond was issued in May 2007, with the proceeds being used to liquidate an earlier bond in the amount of $41 million and to provide certain improvements to the City's electrical system. The proceeds from both bond offerings were used to acquire generators and other equipment for VMUS for installation at the Foxborough Distribution Center and at Southern California Logistics Airport ("SCLA").

The bonds are structured in the form of Variable Rate Lease Revenue Bonds. Under this structure, the bonds were issued with a maturity schedule beginning in 2011 and ending in 2040, but are remarketed on a weekly basis with a weekly interest rate that is established through bids extended from buyers to the remarketing agent.

Security for the bonds is an assignment of lease revenues received by VJPFA on certain assets owned by the City, consisting primarily of fire stations, City Hall, certain parks and the Greentree Golf Course, which were leased to VJPFA for a nominal amount, then released back to the City for a lease amount equal to the debt service on the bonds.

The bonds have a credit enhancement instrument in the form of a letter of credit issued by Fortis Bank, S.A., a Belgium bank ("Fortis") which guarantees a weekly liquidity market for the bonds. This enables VJPFA to enjoy very low interest rates.

The financing agreements with Fortis contain the usual and customary terms imposed on the City and VJPFA. The financing agreements contain specific events or conditions that may constitute a default under the agreements. These include a failure to submit annual financial statements, a failure to pay any debt in excess of $1 million, a deterioration in the financial condition of the City that would have a material adverse impact on the ability of the City to pay the lease amounts and a failure to obtain an unqualified opinion from the City's external CPA firm on the City's financial statements. These conditions, unless cured or waived by Fortis, constitute a default of the financing agreements.

On January 26, 2009, Fortis notified the City that it considered the City to be in default of the financing agreements in that the City failed to deliver its annual financial statements to Fortis within 210 days of the close of the fiscal year ended June 30, 2007. During this meeting, and in accordance with the affirmative requirements to report on material events, the City advised Fortis of its failure to pay amounts owed to GE, which amounts exceed $1 million, and that prospectively, the City's external CPA's would not give the City an unqualified opinion on the City's financial statements for the year ended June 30, 2007. During this meeting, Fortis advised the City that the remarketing of bonds issued by VJPFA was unsuccessful during various weekly periods beginning in December 2008, and as a result and in accordance with its letter of credit enhancement for the bonds, Fortis had purchased bonds in the open market in the approximate amount on $72 million.

Pursuant to the financing agreements with Fortis, and more specifically, a Reimbursement Agreement, Fortis has a right to request reimbursement for its $72 million investment in the bonds. Fortis has not made this request. Conversely, Fortis has requested that it and the City work jointly on a financial plan that would result in continued financial performance by the City. It is important to note that the City has made all payments as required under the terms of the bonds and expects to continue to do so.

General Electric Purchase Contract

In 2005, the City began a process of evaluating the feasibility of constructing or causing to be constructed a power plant that was designated as Victorville #2 ("VV2"). To that end, the City signed a Services Agreement with Inland Energy, Inc. ("Inland'), which was charged with the responsibility of developing the project. Consistent with the agreement, Inland performed extensive pre-construction management

services, including site layout, permitting, discussions and negotiations with contractors and subcontractors, including General Electric, which was to construct the power block in accordance with plans and specifications developed by Inland.

The development plan adopted by the City was to take all steps required to bring the project to a "build ready" state and then to seek investors to assume an ownership position of all or substantially all of the project. The benefits to the City were many, including the creation of new and well-paying jobs at the plant, enhancement of the City's ability to attract other new businesses and jobs, and significant tax increment revenues for use in further economic development and investment in housing.

On November 20, 2007, SCLAA approved a purchase contract in the adjusted amount of approximately $183 million with GE that set forth the equipment design, delivery schedules, expected costs and termination charges. On December 4, 2007 the contract with GE was submitted to the City Council for ratification, which was approved. On December 5, 2007, the contract was signed by representatives of the City and SCLAA and returned to GE. Pursuant to the GE contract, SCLAA deposited the sum of $50,020,070 with GE to be applied against amounts owed under the contract.

The GE contract required periodic payments, which were negotiated to commence in November 2008, a period of approximately one year later, which time period would allow the City to complete other steps required to bring the project to build ready state. The GE contract also contained a schedule of termination charges, which were established in amounts similar to amounts that GE would have invested in the construction costs as the construction progressed. The GE contract provides that the City and SCLAA may terminate the contract subject to the payment of the termination charge and provides that the failure to make a payment when due, and following a cure period, may constitute a default that may trigger the application of the termination charge. The termination payment amount is approximately $100 million after deduction for the $50 million previously paid. To provide GE with additional security for payments due under the contract, SCLAA pledged and assigned certain proceeds of any new bond issue that it would issue during the period of construction.

The collapse in the credit markets that began in 2007 worsened during 2008 resulting in the failure of a number of large and nationally known financial institutions including CountryWide Financial, Washington Mutual and Lehman Brothers. The conditions that caused these firms to fail also have affected the ability of the City to implement its plan of bringing the project to a "build ready" state and selling the project to an energy company. As a result, the City has been unable to conclude the planned sale of its interests in the VV2 project and the City remains unable to pay the amounts owed to GE.

The first payment due under the contract was in the amount of $122.6 million which was due and payable on November 7, 2008. That payment due date was extended to November 21, 2008. Since November 7, 2008, the City has received additional periodic invoices from GE totaling $3.6 million, bringing the total amount owed to $126.2 million as of February 19, 2009.

On February 19, 2009, the City was notified by GE that GE considers the contract to be in default as a result of the failure by the City to make the periodic payments required in the contract and affords the City until March 6, 2009 to pay all amounts owed under the contract. In the event that the City and SCLAA are unable to conclude an agreement to transfer its interest in the contract and the assumption of the related liability to GE by March 6, 2009 (or such later date as may be agreed to by GE), the amount invested to date may be lost and the balance of the termination payment in the approximate amount of $100 million may become due and payable.

At the present time, the City is in active discussions to transfer its interest in the GE contract (and related liability) to a third party. While no assurances can be given as to the ultimate outcome, the City believes the prospects for a transfer of the equipment and related debt are good, and GE has been supportive of those efforts to date.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section of the MD&A is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The ***statement of activities*** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Victorville that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Victorville include general government, public safety, community development, public works, park and recreation and capital improvements. The business-type activities of the City of Victorville include Sanitary, Airport, Golf Courses, Water, Rail, and Municipal Utility.

The government-wide financial statements can be found beginning on page 30 of this report.

Fund Financial Statements. *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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.*

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, the governmental fund financial statements are based on the accounting principles of *current measurement focus.* Current measurement focus reports 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.

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.

The City maintains eighteen individual governmental funds which are classified as major or nonmajor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Low and Moderate Income Housing Special Revenue, Measure I Street Arterials, Victorville RDA Debt Service, Capital Impact Facilities and Victorville Redevelopment Agency Capital Projects. All these funds are considered to be major funds. Data from the twelve nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found beginning on page 36 of this report.

Proprietary funds. There are two different types of proprietary funds: enterprise and internal service funds. The City maintains only enterprise funds. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for Sanitary District, Southern California Logistics Airport Authority (SCLAA), Victorville Municipal Utility Service (VMUS) and Solid Waste management. All these funds are considered to be major funds. Data from the other three enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor proprietary funds is provided in the form of *combining statements* elsewhere in this report. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found beginning on page 41 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds in much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found beginning on page 46 of this report.

PRIOR YEAR FINANCIAL STATEMENTS

During the course of the preparation and auditing of the June 30, 2007 financial statements, it was determined that the prior period financial statements contained significant errors. The prior year financial statements have not been restated, and thus, are not available for comparative analysis with the current period financial statements.

The nature of the errors in the prior period financial statements relate primarily to the following areas:

1. As discussed above, government funds use the *current measurement focus* accounting methodology and principles, referred to as the *modified accrual method*. Essentially, these financial statements recognize transactions whose effects will be realized within a subsequent twelve month period. Transactions that will not result in a cash impact within the subsequent twelve month period are not recognized, except in certain circumstances. In addition, certain capital expenditures are reported as expenditures as opposed to the acquisition of long-term assets that would be subject to depreciation.

   GASB 34 requires that Government-wide financial statements be prepared for all elements of the City, including government funds, following full accrual accounting methods. Therefore, government funds must be converted from what is essentially a short-term cash basis to include all other long term elements and capital expenditures must be reclassified as capital asset acquisitions, followed by depreciation expense over the useful life of the asset.

   GASB 34 became effective in phases between June 15, 2001 and June 15, 2003, depending upon the revenue level of the governmental unit. The implementation of GASB requires that the governmental unit review all of its historical records to capture capital expenditures so that these expenditures may be capitalized and depreciated. For most governmental entities, records of expenditures going back twenty or more years were simply not available. In this circumstance, GASB 34 permits a governmental entity to derive its historical capital cost basis through estimation techniques, confirmations and regression analysis.

Late in 2007, during the preparation of the June 30, 2007 financial statements it was determined that errors were made in the techniques used to derive the historical capital costs. Therefore, the City undertook a major effort to recalculate the capitalized costs for all assets, which include roads, sewers, sidewalks, water lines, land, etc.

The current study of prior year costs was completed on or about January 27, 2009. The current study found that the City has overstated certain of its capitalizable and depreciable costs. The approximate adjustment in the original cost of assets, reduced by accumulated depreciation recorded as of June 30, 2006 was recorded as a reduction in the City's Net Assets.

The adjustment affected the general infrastructure for the City in the approximate amount of $134,714,000 and SCLAA in the approximate amount of $72,000,000. These amounts were recorded as a reduction of net assets.

2. The second error in the prior year financial statements relates to the costs of issuing debt by SCLAA. Under generally acceptable accounting principles, a proprietary fund generally follows full accrual accounting principles. These principles require that an issuer of debt capitalize all costs of issuing debt and amortize those costs over the life of the debt. The prior year financial statements expensed these costs. Therefore, the adjustment to restore the unamortized costs increased both assets and equity of SCLAA. The adjustment amount was approximately $10,968,000 and was recorded as an increase in net assets.

3. The third error in the prior year financial statements relates to miscellaneous accruals for receivables and payables, and in classifications of various assets and liabilities (these have no impact on Net Assets). The aggregate adjustment amount was approximately $7,564,000 and was recorded as a decrease in net assets.

The aggregate net adjustment as of June 30, 2006 for the City, in all components, was approximately $203,510,000 and is recorded as a reduction in net assets, or equity in the fund or entity to which the adjustment is applicable.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net Assets

Net assets serve as a useful indicator of a government's financial position. A significant portion of the City's net assets (28.8%) reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructures), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

An additional portion of the City's net assets ($181.3 million or 53.2%) represents resources that are subject to external restrictions on how they may be used. These restrictions include liabilities (or encumbrances), which are essentially earmarks for future liability costs. The remaining balance of net assets is *unrestricted net assets* ($61 million or 18%) may be used to meet the government's ongoing obligations to citizens and creditors.

The following table presents a summary statement of asset, liabilities and net assets from the government-wide financial statements as of June 30, 2007, categorized by fund types as follows:

City of Victorville's Net Assets

	Governmental Activities	Business-Type Activities	Total
	2007	2007	2007
Cash and investments	$ 104,883,872	$ 129,789,649	$ 234,673,521
Receivables	11,667,206	2,490,591	14,157,797
Due from other government	5,204,682	1,937,029	7,141,711
Deposits, inventory and prepaid items	1,556,646	210,552	1,767,198
Interfund balances	(3,402,052)	3,402,052	-
Land held for resaule	8,815,779		8,815,779
Capital assets	359,482,676	159,200,174	518,682,850
Other assets		10,423,599	10,423,599
Total assets	**488,208,809**	**307,453,646**	**795,662,455**
Other liabilities	17,187,418	19,711,851	36,899,269
Long-term liabilities	46,476,930	369,082,669	415,559,599
Total Liabilities	**63,664,348**	**388,794,520**	**452,458,868**
Net Assets:			
Invested in capital assets, net of related debt	311,739,061	(213,530,299)	98,208,762
Restricted	95,220,669	86,047,880	181,268,549
Unrestricted	17,584,731	46,141,545	63,726,276
Total Net Assets	**$ 424,544,461**	**$ (81,340,874)**	**$ 343,203,587**

The following table presents a summary statement of revenues, expenses and change in net assets from the government-wide financial statements as of June 30, 2007, categorized by fund types as follows:

	Governmental Activities	Business-Type Activities	Total
	2007	2007	2007
Revenues:			
Program revenues:			
Charges for services	37,621,974	$ 33,590,165	$ 71,212,139
Operating contributions and grants	17,852,989	-	17,852,989
Capital contributions and grants	35,552,647	13,634,023	49,186,670
General Revenues:			
Property taxes	23,076,789	-	23,076,789
Sales taxes	16,835,374	-	16,835,374
Transient occupancy tax	950,412	-	950,412
Other taxes	6,466,923	-	6,466,923
Pass through tax increment	9,803,784	13,748,846	23,552,630
Investment income	3,192,587	6,011,581	9,204,168
Motor vehicle license taxes	514,439		
Gain on sale of assets	-	147,732	147,732
Miscellaneous revenues	588,557	372,568	961,125
Total Revenues	152,456,475	67,504,915	219,446,951
Expenses:			
General government	34,539,027	-	34,539,027
Public safety	26,020,612	-	26,020,612
Public works	32,853,213	-	32,853,213
Parks and recreation	7,471,435	-	7,471,435
Community development	3,147,118	-	3,147,118
Sanitary District	-	5,654,714	5,654,714
Southern California Logistics Airport Authority	-	43,388,564	43,388,564
Municipal Utility	-	21,601,925	21,601,925
Solid Waste Management	-	11,572,199	11,572,199
Nonmajor proprietary funds	-	7,909,760	7,909,760
Interest and fiscal charges	2,825,367	-	2,825,367
Total Expenses	106,856,772	90,127,162	196,983,934
Change in Net Assets before Transfers	45,599,703	(22,622,247)	22,463,017
Extraordinary Items:			
Impairment loss on capital assets (Note 5e)		(96,423,467)	(96,423,467)
Transfers	(12,135,874)	12,135,874	-
Change in net assets	33,463,829	(106,909,840)	(73,446,011)
Net assets, beginning of year, as restated (Note 16)	391,080,632.0	25,568,966	416,649,598
Net assets, end of year	$ 424,544,461	$ (81,340,874)	343,203,587

A discussion of the net assets and changes in net assets for the components of government activities and business-type activities appears elsewhere in this report.

ANALYSIS OF THE GOVERNMENT'S FUNDS FINANCIAL STATEMENTS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. *The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Victorville's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.*

At June 30, 2007, the City's combined Governmental Funds reported combined fund balances of $118 million, which is a decrease of $7 million as compared with the prior year restated balances. Decreases were reported in the General Fund ($5 million), Redevelopment Agency Debt Service Fund ($11 million) and Capital Impact Facilities Capital Projects Funds ($4 million). The decrease in the General Fund is discussed elsewhere in this report. The decreases in the Redevelopment Agency Debt Service Fund and the Capital Impact Facilities Capital Projects Funds relate to expenditures for debt service, transfers and capital outlays, all of which are normal and recurring.

Analyses of Major Governmental Funds

General Fund

The General Fund is the chief operating fund of the City of Victorville. At the end of the current fiscal year, the unreserved, undesignated fund balance of the General Fund was $21 million, while the total fund balance reached $22.6 million. As discussed elsewhere, the budget for 2008-2009 anticipates that substantially all of the unreserved, undesignated fund balance will be used to support the operations of the City and its other funds.

General Fund revenues decreased $1 million this fiscal year. Almost all of the decrease in revenues was related to the slowdown in construction activity, which impacts fees and charges. General Fund expenditures increased by $2.7 million. Increases were reported in the expenses of general government and public safety, while expenditures for public works declined. General Fund transfers out increased, but only marginally.

Low and Moderate Income Housing Special Revenue Fund

This fund is used to account for restricted revenues received to support low and moderate income housing programs. Its revenues consist of property taxes and intergovernmental revenues, which are tax increment revenues that are set aside for this purpose. Fund balances increased this fiscal year as a result of revenues exceeding expenditures for these purposes. Ultimately, all fund balances are to be spent on these housing projects, and accordingly, all fund balances are reported as restricted for this purpose.

At June 30, 2006, the General Fund balance of $27.5 million contained $9.5 million reserved almost entirely for advances to other funds, with $17.9 million for unreserved and undesignated fund balance. The unreserved portions represent available liquid resources.

Budget Variations. The final budgeted amounts for General Fund Revenues and Transfers In was approximately $5.3 million lower than actual since the City budgets revenue conservatively. The positive variances occurred primarily within five revenue sources: taxes, licenses and permits, charges for services, fines and forfeitures, and investment income. The increases in these revenue sources are due to growth in population and construction. The final budget for General Fund Expenditures and Transfer Out were $.9 million under budget for fiscal year 2006. The City Department personnel are dedicated to keeping expenditures within the budgeted amounts.

Solid Waste Management

The Solid Waste Management total fund balance was $3 million at the fiscal year ended 2006. The increase is comprised of $11 million in revenues, netted off $10.4 million in expenditures. This positive net change in fund balance primary came from an increase in charges for service revenue. The total effect of the revenue increase resulted in actual revenue being $.25 million higher than the final budgeted amount.

Measure I Street Arterials

The Measure I Street Arterials fund balance increased by $1.2 million in fiscal year ended 2007, to a total of $20.6 million. This increase is comprised of $8.8 million in revenues, netted with $7.7 million in expenditures. Revenues for this fund are made up of sales taxes which are collected by the San Bernardino County government and passed through for use in constructing and maintaining roadways.

Redevelopment Agency Debt Service Fund

The RDA Debt Service Fund is comprised mostly of $13.5 million cash with fiscal agent. This cash received from the Tax Allocation bond will be used toward future development of capital projects at Foxborough Industrial Park and Valley Center Drive.

Capital Impact Facilities

This fund is used to account for capital impact fees collected from developers to offset the costs of infrastructure the City builds. At June 30, 2007, the fund had $19.8 million in restricted capital projects reserves, as compared to $23.7 million last year. Revenues in this fund declined from $20.2 million for 2006 to $14.7 million in this fiscal year, while expenditures increased from $15.7 million to $20.6 million. With the decrease in housing construction seen in this fiscal year and expected next year, it is anticipated that the level of expenditures will be reduced accordingly.

Redevelopment Agency Capital Projects Fund

The RDA Capital Projects Fund received $12.4 million in operating revenues, which included $5.4 million in pass through tax increment revenue from the Victor Valley Economic Development Authority ("VVEDA"). This compares to a total of $6.9 million in revenues received last year. This increase is primarily attributable to increases in tax increment originating with VVEDA that reflect the significant increases in property values at SCLA. Increases in revenues are anticipated for 2008-2009, based on reports from consultants using tax assessment data.

Nonmajor Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

ANALYSIS OF PROPRIETARY FUNDS FINANCIAL STATEMENTS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets totaled $85 million at June 30, 2006, a decrease of $2.7 million. This decrease was due primarily to an increase in operating expenses in all Major Proprietary Funds. Unrestricted net assets for Southern California Logistics Airport Authority at the end of the year amounted to $44.2 million, and those for the Sanitary District amounted to $19 million. Due to advances made from other funds, unrestricted net assets for Municipal Utilities and Nonmajor Enterprise Funds had negative balances of $12 million and $8.9 million, respectively. Other factors concerning the finances of these funds have already been discussed in the City of Victorville's business-type activities section.

Sanitary District

Net Assets of the Sanitary District increased $10 million in the current year to a total of $53.5 million. Included in this increase is $7.1 million in the form of a capital contribution received from developers representing the value of infrastructure transferred to the Sanitary District. Operating revenues increased by $200,000 and operating expenses increased by $700,000, resulting in a decline in net operating revenue of $500,000. Operating revenue was $2.5 million as compared to $3.0 million last year.

Southern California Logistics Airport Authority

Southern California Logistics Airport Authority ("SCLAA") is the fund that operates the Southern California Logistics Airport and acts as the funding agent for bonds issued to finance capital improvements at the airport and the adjacent economic development parcels. Revenues for SCLAA consist of operating revenues associated with the airport, rents on hangars, interest income on cash held by bond trustees and intergovernmental revenues, which are transfers of tax increment received from VVEDA and passed through to SCLAA for debt service on bonds. Expenses of SCLAA consist of operating expenses and interest on bonds. SCLAA receives transfers primarily from the City's General Fund and expends those transfers primarily on related infrastructure expenditures for the Southern California Logistics Rail Authority, which is constructing the intermodal rail facility.

Although SCLAA reflects a recurring operating loss, it is essentially underwritten by the City's General Fund and RDA as needed to support its operations.

During the current year, it was determined that the basis of property received from Federal Government entities in 1993 was improperly recorded. As a result, the basis in these assets and the net assets of SCLAA was reduced by $63.9 million. This is a noncash transaction. The correction of this error resulted in the net assets of SCLAA being restated from $38.8 million to a deficit of $25.1 million.

Also during the current year, SCLAA recorded an impairment charge relating to the hangars at the airport. This charge relates to a restructuring of debt involving the original construction contractor of the hangers. The contractor was unable to secure sufficient financing for the project in excess of amounts loaned to it by SCLAA. As a result, the contractor ceased construction, which was followed by approximately $13 million in liens being filed on the property. SCLAA then negotiated for a termination of the contractors' interests in the project and the project was transferred to another party, which continued the project under the same development plan. In accordance with FASB Statement 15, SCLAA recognized a loss to the extent that the investment (loans to the contractor and liens paid by SCLAA) exceeded the fair value of the project. Fair value was determined based on the lease rates provided tenants and using a cash-on-cash return of 5%.

Victorville Municipal Utility Services

Victorville Municipal Utilities Services ("VMUS") is the fund established to create an electric and gas utility component of the City in order to attract and retain businesses. In this effort, VMUS undertook three primary projects at the Aspen Distribution Center, the Foxborough Distribution Center and SCLA. The business model for VMUS was based on self generated power, which would be priced to the commercial customers at levels that would generally be 10% less than the rates charged by Southern California Edison.

VMUS has operated at a deficit since its inception, and its losses have been funded primarily through transfers and loans from the City's General Fund. These losses have totaled as follows:

2004	$	1,447,588
2005		5,284,658
2006		7,947,378
2007		13,734,944

In addition to the operating losses, an impairment charge of $60,170,875 was recorded in this current year to write down the carrying value of certain assets that were either not installed, had been disconnected or are planned for disconnection and liquidation.

Please refer to the analysis at the beginning of this MD&A and to the analysis that follows this section titled as *"Restructuring Operations of Victorville Municipal Utilities Services."*

Nonmajor Enterprise Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

RESTRUCTURING OPERATIONS OF VICTORVILLE MUNICIPAL UTILITIES SERVICE

The City formed Victorville Municipal Utilities Services in 2001 to provide for a low-cost and guaranteed source of power for businesses seeking to locate to the City. The goal was, and remains, to attract and retain jobs. The business model that was employed was to self-generate power and sell the power to the businesses at a discount to rates charged by Southern California Edison.

The implementation and expansion of VMUS was in three phases:

1. Aspen Distribution Center
2. Foxborough Distribution Center
3. Southern California Logistics Airport area

Each is discussed below.

Aspen Distribution Center

In 2003, the City purchased a natural gas reciprocal engine generator and chiller to provide electrical energy and chilled water to M&M Mars Candy, a tenant of Aspen Distribution. This decision was to fulfill a City Council commitment made in 2000 to assist M&M Mars Candy with lower energy costs if they were to relocate to Victorville. The equipment was to replace approximately 90% of the electricity provided by Southern California Edison and would be sold at 11% below Edison's rate. The investment in this equipment was approximately $2.5 million less approximately $0.6 million of incentive payments from Southern California Edison.

However, by mid-2007, the cost of fuel, chemicals and maintenance on the equipment proved to be far more costly than originally planned. It was determined that the City would lose approximately $300,000 per year if the plant was operated or $55,730 per year if the City simply reimbursed M&M Mars Candy for 11% of their electricity bill from Southern California Edison. Accordingly, the equipment was placed into extended maintenance status. VMUS continues to honor the obligation to reimburse them for 11% of their costs of power purchased from Southern California Edison.

Foxborough Distribution Center

During the fiscal year 2005-2006, VMUS expanded its operating footprint through a decision to install a power plant at the Foxborough Distribution Center. The City began the project with the acquisition of equipment and construction of a Combined Cycle Co-generation power plant to provide electricity and steam to its customers. Initially, the plant was to produce 12.5 megawatts of power using two (2) 5 MW Combustion Turbine Generators (CTG) and one (1) 1.5 MW Steam Generator.

After construction began, the City decided to improve the plant to be positioned to provide up to 49.9 MW as it was anticipated that the Foxborough District would continue to attract new customers with additional electrical/steam loads and that SCLA would need additional power as it grew as well. Plans were completed for this additional distribution capability at Foxborough. The City also bought an additional 5MW CTG when Nutro Foods announced they were expanding and adding their third line of product.

During the fiscal year 2006-2007, construction costs and natural gas costs escalated. At the same time, customer load did not materialize at either Foxborough or SCLA as expected. An assessment made at the time concluded that substantial additional improvements would be required and the plant could not recover the capital investment spent to date. The investigation also uncovered some potential technical problems that would adversely impact the plant's performance. In any event, generation to meet customer load was needed and the City proceeded with the purchase and installation of bio-fuel diesel generators ("BFG").

However, given the steep increases in the cost of bio-diesel fuel, it was concluded that this generation method, like natural gas, could not become economically feasible. Accordingly, the decision was reached to move to the basic model of an interconnection with the California grid.

Southern California Logistics Airport

The development of power generation capability at SCLA followed the same generation model as at Foxborough, but in a delayed timeline. As with Foxborough, the decision was reached to modify the basic model to an interconnection with the California grid following the completion of the interconnection at Foxborough.

Results of Operations

As discussed above, VMUS has not been successful in operating island generation power plants at a level that would permit it to recover its costs over a reasonable period. The reasons are several and include the costs of plan and design changes and the relationship between the cost of fuels and the all-in sales price for electricity. Revenue has, through contract or practice, been set at 10% below Southern California Edison's rates. The result is that fuel and operating costs exceeded revenue and VMUS has sustained significant operating losses from 2004 through 2007 that have increased each year.

The following table presents a summary of the results of operation for VMUS for the last three fiscal years and as budgeted for the year ended on June 30 as indicated:

	2005	2006	2007	2008*
Total revenues	$ 1,306,714	$ 3,392,855	$ 4,175,760	$ 5,370,839
Total expenditures	6,591,372	11,340,233	17,910,704	17,361,286
Net operating (loss)	(5,284,658)	(7,947,378)	(13,734,944)	(11,990,447)
Nonoperating (expenses)				
Net interest (expense)	(870,095)	(541,489)	(2,919,023)	(3,051,875)
Asset impairment	-	-	(60,170,875)	-
Net operating loss before capital and transfers in	($ 6,154,753)	($ 8,488,867)	($ 76,824,842)	($ 15,042,322)

*Budgeted data for June 30, 2008.

Included in the above table for 2007 is an expense in the amount of $60,170,875 which represents an impairment charge relating to equipment and other assets that are no longer utilized or are planned for disconnection upon the implementation of interconnection. The bulk of this expense relates to equipment and infrastructure costs invested at the Foxborough Distribution Center. Essentially, this is the amount by which the cost or carrying value of specified assets and groups of assets exceeds their liquidation values. This write down will reduce the book value to the expected liquidation proceeds to be received.

Included in the budgeted data for 2008 is a loan from the General Fund in the amount of $10 million, the proceeds of which are to be used to cover a portion of the net operating loss. The balance of the operating loss is expected to be covered through the use of cash reserves.

The adoption of the interconnection based operational model is anticipated to significantly reduce the level of losses. This model was in process of implementation during the 2007-2008 fiscal year and is expected to be fully implemented by the end of the 2008-2009 fiscal year. Therefore, although VMUS is likely to sustain operating losses through fiscal year 2008-2009, it is expected to be in a position of marginal profitability for the fiscal year 2009-2010, especially if new industrial users come on line at SCLA.

The changes in the business model for VMUS include implementation of medium term hedge agreements and forward purchase contracts. The goal of these measures is to fix the cost of purchased power and fuel at levels below the sales values, thus assuring a positive gross operating margin (net revenues before overhead expenses). At this time, approximately 65% of electricity purchases have been hedged via a three year forward purchase agreement at a cost substantially lower than the corresponding sales price to customers. The balance of estimated future purchases has not been hedged at present. Finally, the proposed revisions to the 2009-2010 business plan for VMUS incorporate cost cutting measures across all expense categories, including personnel. The revised business plan is in process of completion and will be submitted to the City Council in the near term.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Victorville
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 88,022,715	$ 43,741,769	$ 131,764,484
Cash and investments with fiscal agents	16,861,157	86,047,880	102,909,037
Receivable:			
Accounts	7,408,879	1,766,072	9,174,951
Interest	1,114,896	724,519	1,839,415
Notes	3,143,431	-	3,143,431
Due from other governments and agencies	5,204,682	1,937,029	7,141,711
Inventories	310,573	58,773	369,346
Prepaid items	1,246,073	151,779	1,397,852
Internal balance	(3,402,052)	3,402,052	-
Land held for resale	8,815,779	-	8,815,779
Deferred charges, net	-	10,423,599	10,423,599
Capital assets, net	359,482,676	159,200,174	518,682,850
Total assets	488,208,809	307,453,646	795,662,455
LIABILITIES			
Accounts and retentions payable	8,798,590	12,324,666	21,123,256
Interest payable	214,763	1,741,253	1,956,016
Accrued wages payable	923,663	-	923,663
Deposits payable	126,113	83,952	210,065
Due to other governments	1,010	-	1,010
Unearned revenue	988,587	1,914,176	2,902,763
Compensated absences	3,786,209	-	3,786,209
Claims payable	1,081,798	-	1,081,798
Long-term debt - due within one year	1,266,685	3,647,804	4,914,489
Long-term debt - due in more than one year	46,476,930	369,082,669	415,559,599
Total liabilities	63,664,348	388,794,520	452,458,868
NET ASSETS (DEFICIT)			
Investments in capital assets, net of related debt	311,739,061	(213,530,299)	98,208,762
Restricted for:			
Capital projects	32,994,580	-	32,994,580
Debt service	13,502,640	86,047,880	99,550,520
Housing program	15,111,092	-	15,111,092
Special projects	33,612,357	-	33,612,357
Total restricted	95,220,669	86,047,880	181,268,549
Unrestricted	17,584,731	46,141,545	63,726,276
Total net assets (deficit)	$ 424,544,461	$ (81,340,874)	$ 343,203,587

See accompanying Notes to Basic Financial Statements.

City of Victorville
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Program Revenues: Total Program Revenues
Primary government:					
Governmental activities:					
General government	$ 34,539,027	$ 4,448,414	$ 815,320	$ -	$ 5,263,734
Public safety	26,020,612	5,306,577	1,136,034	-	6,442,611
Public works	32,853,213	18,485,243	14,990,713	35,552,647	69,028,603
Parks and recreation	7,471,435	9,355,850	340,209	-	9,696,059
Community development	3,147,118	25,890	570,713	-	596,603
Interest and fiscal charges	2,825,367	-	-	-	-
Total governmental activities	106,856,772	37,621,974	17,852,989	35,552,647	91,027,610
Business-Type activities:					
Sanitary District	5,654,714	8,102,147	-	7,142,176	15,244,323
Southern California Logistics Airport Authority	43,388,564	5,577,189	-	179,017	5,756,206
Municipal Utility	21,601,925	4,165,938	-	3,397,857	7,563,795
Solid Waste Management	11,572,199	12,325,451	-	-	12,325,451
Nonmajor proprietary funds	7,909,760	3,419,440	-	2,914,973	6,334,413
Total business-type activities	90,127,162	33,590,165	-	13,634,023	47,224,188
Total primary government	$ 196,983,934	$ 71,212,139	$ 17,852,989	$ 49,186,670	$ 138,251,798

See accompanying Notes to Basic Financial Statements.

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	$ (29,275,293)	$ -	$ (29,275,293)
Public safety	(19,578,001)	-	(19,578,001)
Public works	36,175,390	-	36,175,390
Parks and recreation	2,224,624	-	2,224,624
Community development	(2,550,515)	-	(2,550,515)
Interest and fiscal charges	(2,825,367)	-	(2,825,367)
Total governmental activities	(15,829,162)	-	(15,829,162)
Business-Type activities:			
Sanitary District	-	9,589,609	9,589,609
Southern California Logistics Airport Authority	-	(37,632,358)	(37,632,358)
Municipal Utility	-	(14,038,130)	(14,038,130)
Solid Waste Management	-	753,252	753,252
Nonmajor proprietary funds	-	(1,575,347)	(1,575,347)
Total business-type activities	-	(42,902,974)	(42,902,974)
Total primary government	(15,829,162)	(42,902,974)	(58,732,136)
General revenues:			
Taxes:			
Property taxes	23,076,789	-	23,076,789
Sales taxes	16,835,374	-	16,835,374
Motor vehicle license taxes	514,439	-	514,439
Transient occupancy taxes	950,412	-	950,412
Pass-through tax increment	9,803,784	13,748,846	23,552,630
Other taxes	6,466,923	-	6,466,923
Total taxes	57,647,721	13,748,846	71,396,567
Investment earnings	3,192,587	6,011,581	9,204,168
Gain on sale of assets	-	147,732	147,732
Miscellaneous	588,557	372,568	961,125
Extraordinary Items:			
Impairment loss on capital assets (Note 5c)	-	(96,423,467)	(96,423,467)
Transfers	(12,135,874)	12,135,874	-
Total general revenues, extraordinary items and transfers	49,292,991	(64,006,866)	(14,713,875)
Change in net assets	33,463,829	(106,909,840)	(73,446,011)
Net assets - beginning of year, as restated (Note 15)	391,080,632	25,568,966	416,649,598
Net assets - end of year	$ 424,544,461	$ (81,340,874)	$ 343,203,587

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund - to account for the general operations of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Low and Moderate Income Housing Special Revenue Fund - to account for the 20% set aside for redevelopment tax increment as required by California Redevelopment Law.

Measure I Street Arterials Special Revenue Fund - to account for the portion of sales tax revenue received from the county. The funds are legally restricted expenditures for the local street networks that have significant interjurisdictional or regional traffic.

Redevelopment Debt Service Fund - to account for the accumulation of resources for and payment of principal and interest on the Victorville Redevelopment Agency Tax Allocation Bonds.

Capital Impact Facilities Capital Projects Fund - to account for the acquisition or construction of major capital facilities related to public improvements needed as population increases. Revenue received from these funding sources are comprised of licenses and permits earned from impact fees.

Redevelopment Capital Projects Fund - to account for the financial resources to be used for acquisition or construction of major capital facilities. The fund is composed of the redevelopment project area in Bear Valley Road/Hook Boulevard, the Old Town/Midtown project area and Victorville's portion of the Victor Valley Project Area.

Other Governmental Funds - Other Governmental Funds is the aggregate of all the non-major governmental funds.

City of Victorville
Balance Sheet
Governmental Funds
June 30, 2007

	Major Funds			
	General	Low and Moderate Income Housing Special Revenue Fund	Measure I Street Arterials Special Revenue Fund	Redevelopment Agency Debt Service Fund
ASSETS				
Cash and investments	$ 19,969,379	$ 7,111,758	$ 20,163,580	$ -
Cash and investments with fiscal agents	-	-	-	13,509,240
Receivables:				
Accounts	3,511,301	99,237	545,132	-
Interest	1,114,896	-	-	-
Notes	-	2,352,905	-	-
Due from other governments and agencies	3,028,283	-	-	-
Inventories	310,573	-	-	-
Prepaid items	1,246,073	-	-	-
Advances to other funds	-	4,361,109	-	-
Land held for resale	-	1,499,070	-	-
Total assets	$ 29,180,505	$ 15,424,079	$ 20,708,712	$ 13,509,240
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 2,062,256	$ 1,878	$ 63,099	$ -
Accrued liabilities	923,663	-	-	-
Deposits payable	125,033	-	-	-
Due to other governments	-	-	-	-
Deferred revenue	-	311,109	-	6,600
Advances from other funds	3,402,052	-	-	-
Total liabilities	6,513,004	312,987	63,099	6,600
Fund Balances:				
Reserved	1,556,646	15,111,092	20,645,613	13,502,640
Undesignated				-
General fund	21,110,855	-	-	-
Special revenue funds	-	-	-	-
Total fund balances	22,667,501	15,111,092	20,645,613	13,502,640
Total liabilities and fund balances	$ 29,180,505	$ 15,424,079	$ 20,708,712	$ 13,509,240

See accompanying Notes to Basic Financial Statements.

Major Funds				
Capital Impact Facilities Capital Projects Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ 23,053,979	$ 9,161,491	$ 8,562,528	$ 88,022,715
3,220,335	-	131,582	16,861,157
-	358,781	2,894,428	7,408,879
-	-	-	1,114,896
-	788,726	1,800	3,143,431
-	121,037	2,055,362	5,204,682
-	-	-	310,573
-	-	-	1,246,073
-	-	-	4,361,109
-	7,316,709	-	8,815,779
$ 26,274,314	$ 17,746,744	$ 13,645,700	$ 136,489,294
$ 5,815,877	$ 178,614	$ 676,866	$ 8,798,590
-	-	-	923,663
-	-	1,080	126,113
-	-	1,010	1,010
642,271	28,607	-	988,587
-	4,361,109	-	7,763,161
6,458,148	4,568,330	678,956	18,601,124
19,816,166	13,178,414	13,366,728	97,177,299
-	-	-	21,110,855
-	-	(399,984)	(399,984)
19,816,166	13,178,414	12,966,744	117,888,170
$ 26,274,314	$ 17,746,744	$ 13,645,700	$ 136,489,294

City of Victorville

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets

June 30, 2007

Total Fund Balances - Total Governmental Funds	$ 117,888,170
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds.	
Nondepreciable	75,199,663
Depreciable, net of accumulated depreciation	284,283,013
Total capital assets	359,482,676
Long-term liabilities were not due and payable in the current period and therefore were not reported in the governmental funds.	
Compensated absences	(3,786,209)
Long-term liabilities - due within one year	(1,266,685)
Long-term liabilities - due in more than one year	(46,476,930)
Total long-term liabilities	(51,529,824)
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds.	(214,763)
Claims payable did not require current financial resources. Therefore, claims payable was not reported as a liability in the governmental funds.	(1,081,798)
Net Assets of Governmental Activities	$ 424,544,461

See accompanying Notes to Basic Financial Statements.

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City of Victorville

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2007

	Major Funds			
	General	Low and Moderate Income Housing Special Revenue Fund	Measure I Street Arterials Special Revenue Fund	Redevelopment Agency Debt Service Fund
REVENUES:				
Taxes	$ 36,840,987	$ 1,629,262	$ 7,737,516	$ -
Licenses and permits	6,182,612	-	-	-
Intergovernmental	1,074,653	5,308,462	-	-
Charges for services	6,786,612	-	116,671	-
Fines and forfeitures	283,763	-	-	-
Use of money and property	237,627	269,891	923,581	804,533
Other	806,301	70,254	97,069	-
Total revenues	52,212,555	7,277,869	8,874,837	804,533
EXPENDITURES:				
Current:				
General government	11,989,343	-	-	-
Public safety	16,156,583	-	-	-
Community development	-	1,297,998	-	-
Public works	13,598,028	-	4,184,491	-
Parks and recreation	314,704	-	-	-
Pass-through payments	-	-	-	-
Capital outlays	1,164,590	-	3,520,869	-
Debt service:				
Principal	-	-	-	1,345,000
Interest and fiscal charges	-	-	-	2,532,104
Total expenditures	43,223,248	1,297,998	7,705,360	3,877,104
REVENUES OVER (UNDER) EXPENDITURES	8,989,307	5,979,871	1,169,477	(3,072,571)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of City property	11,221	-	-	-
Proceeds from loans	-	-	-	-
Transfers in	354,247	-	-	3,664,454
Transfers out	(14,658,990)	(2,082,543)	-	(11,603,936)
Total other financing sources (uses)	(14,293,522)	(2,082,543)	-	(7,939,482)
NET CHANGE IN FUND BALANCES	(5,304,215)	3,897,328	1,169,477	(11,012,053)
FUND BALANCES (DEFICIT):				
Beginning of year, as previously reported	27,553,990	13,176,371	19,498,313	24,514,693
Prior period adjustments (Note 15)	417,726	(1,962,607)	(22,177)	-
Beginning of year, as restated	27,971,716	11,213,764	19,476,136	24,514,693
End of year	$ 22,667,501	$ 15,111,092	$ 20,645,613	$ 13,502,640

See accompanying Notes to Basic Financial Statements.

Major Funds			
Capital Impact Facilities Capital Projects Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ 6,325,656	$ 8,742,060	$ 61,275,481
14,175,420	-	-	20,358,032
-	5,424,392	6,608,458	18,415,965
-	25,890	5,192,560	12,121,733
-	-	383,418	667,181
496,535	110,117	350,303	3,192,587
-	484,937	343,358	1,801,919
14,671,955	12,370,992	21,620,157	117,832,898
48,374	-	350,601	12,388,318
170,718	-	9,188,397	25,515,698
-	1,556,277	255,960	3,110,235
396,321	-	9,085,688	27,264,528
2,994	-	6,303,317	6,621,015
-	929,070	-	929,070
20,007,940	5,803,571	3,243,967	33,740,937
-	-	110,000	1,455,000
-	211,002	24,130	2,767,236
20,626,347	8,499,920	28,562,060	113,792,037
(5,954,392)	3,871,072	(6,941,903)	4,040,861
2,172,063	(2,626,700)	-	(443,416)
-	-	1,300,000	1,300,000
-	11,603,936	8,491,337	24,113,974
(125,941)	(7,326,745)	(451,693)	(36,249,848)
2,046,122	1,650,491	9,339,644	(11,279,290)
(3,908,270)	5,521,563	2,397,741	(7,238,429)
23,724,436	10,229,473	10,377,028	129,074,304
-	(2,572,622)	191,975	(3,947,705)
23,724,436	7,656,851	10,569,003	125,126,599
$ 19,816,166	$ 13,178,414	$ 12,966,744	$ 117,888,170

City of Victorville

Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the year ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	$	(7,238,429)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds reported capital outlay as expenditures. Capital outlay expenditures were included in the Statement of Revenue, Expenditures, and Changes in Fund Balances throughout various departments. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.		
Capital outlay		28,823,637
Contribution from Developer was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not provided current financial resources. This amount represent the current year capital contributions by the developers.		35,552,647
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in governmental funds.		(23,846,293)
Sales of City property provides current financial resources to governmental funds, but selling capital assets decreases capital assets in the Government-Wide Statement of Net Assets.		
Loss on sale of City property		(106,322)
Long-term compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds.		(183,159)
Proceeds from long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.		
Proceeds from loans		(1,300,000)
Repayment of capital lease		241,349
Principal payment		1,455,000
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. This amount represents the change in accrued interest from prior year.		(58,131)
Claims payable were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. This amount represents the change in claims payable from the prior year.		123,530
Change in Net Assets of Governmental Activities	$	33,463,829

See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sanitary District - to account for capital acquisition of the City's sanitary district. Revenue received for these funding sources is comprised of sewer user fees and property taxes.

Southern California Logistics Airport Authority Fund - to account for both operation and capital acquisition of the activities surrounding the airport. The airport funding sources are comprised of federal grants, charges for services and tax allocation bonds.

Municipal District - to account for the operation, maintenance, and capital expenditures of the City's municipal utility, which is funded by user charges, and fees and loans.

Solid Waste Management - to account for all activities in the following programs: Solid Waste Management, Source Reduction and Recycling, Landfill Mitigation, Household Hazardous Waste, and the California Department of Conservation Grants.

Nonmajor Proprietary Funds - Other Enterprise Funds is the aggregate of all the nonmajor proprietary funds.

City of Victorville
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Major Funds			
	Sanitary District	Southern California Logistics Airport Authority	Municipal Utility	Solid Waste Management
ASSETS				
Current assets:				
Cash and investments	$ 15,632,628	$ 45,387,710	$ (18,159,251)	$ 5,242,840
Cash with fiscal agent	-	60,640,188	24,893,002	300,135
Receivables:				
Accounts	73,816	1,135,569	372,680	12,224
Interest	-	724,519	-	-
Due from other governments	-	1,937,029	-	-
Inventories		-		
Prepaid items	-	151,779	-	-
Total current assets	15,706,444	109,976,794	7,106,431	5,555,199
Noncurrent assets:				
Advances to other funds	3,402,052	-	-	-
Deferred charges, net	-	10,423,599	-	-
Capital assets:				
Nondepreciable	5,948,508	21,402,982	7,952,342	348,278
Depreciable, net	28,643,444	52,410,528	10,720,339	3,421,432
Total net capital assets	34,591,952	73,813,510	18,672,681	3,769,710
Total noncurrent assets	37,994,004	84,237,109	18,672,681	3,769,710
Total assets	53,700,448	194,213,903	25,779,112	9,324,909
LIABILITIES				
Current liabilities:				
Accounts payable	79,044	6,939,147	1,705,390	1,052,609
Interest payable	-	1,741,253	-	-
Deposits payable	70,000	-	-	-
Unearned revenue	102,103	1,812,073	-	-
Long-term debt - due within one year	-	2,904,705	460,556	282,543
Total current liabilities	251,147	13,397,178	2,165,946	1,335,152
Noncurrent liabilities:				
Long-term debt - due in more than one year	-	277,832,376	85,982,227	3,515,567
Total noncurrent liabilities	-	277,832,376	85,982,227	3,515,567
Total liabilities	251,147	291,229,554	88,148,173	4,850,719
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	34,591,952	(206,923,571)	(67,770,102)	(28,400)
Restricted for:				
Debt service	-	60,640,188	24,893,002	300,135
Unrestricted	18,857,349	49,267,732	(19,491,961)	4,202,455
Total net assets	$ 53,449,301	$ (97,015,651)	$ (62,369,061)	$ 4,474,190

See accompanying Notes to Basic Financial Statements.

Nonmajor Proprietary Funds	Total
$ (4,362,158)	$ 43,741,769
214,555	86,047,880
171,783	1,766,072
-	724,519
-	1,937,029
58,773	58,773
-	151,779
(3,917,047)	134,427,821
-	3,402,052
	10,423,599
25,037,775	60,689,885
3,314,546	98,510,289
28,352,321	159,200,174
28,352,321	173,025,825
24,435,274	307,453,646
2,548,476	12,324,666
-	1,741,253
13,952	83,952
-	1,914,176
-	3,647,804
2,562,428	19,711,851
1,752,499	369,082,669
1,752,499	369,082,669
4,314,927	388,794,520
26,599,822	(213,530,299)
214,555	86,047,880
(6,694,030)	46,141,545
$ 20,120,347	$ (81,340,874)

City of Victorville
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2007

	Major Funds			
	Sanitary District	Southern California Logistics Airport Authority	Municipal Utility	Solid Waste Management
OPERATING REVENUES:				
Charges for services	$ 8,102,147	$ 5,572,711	$ 4,165,938	$ 12,149,360
Licenses and permits	-	-	-	162,890
Fines and forfeitures	-	4,478	-	13,201
Other revenues	2,953	20,402	9,822	192,801
Total operating revenues	8,105,100	5,597,591	4,175,760	12,518,252
OPERATING EXPENSES:				
Personnel services	4,547,754	3,130,702	4,124,307	11,050,927
Maintenance and operations	160,578	24,465,362	3,334,142	151,549
Cost of purchased fuel	-	-	6,910,292	-
Cost of purchased water	-	-	-	-
Depreciation	946,382	1,968,174	3,541,963	190,294
Total operating expenses	5,654,714	29,564,238	17,910,704	11,392,770
OPERATING INCOME (LOSS)	2,450,386	(23,966,647)	(13,734,944)	1,125,482
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	504	13,724,939	-	23,203
Investment income	145,681	4,861,283	772,198	224,982
Interest expense	-	(13,824,326)	(3,691,221)	(179,429)
Impairment loss on capital assets (Note 5c)	-	(36,252,592)	(60,170,875)	-
Total nonoperating revenues (expenses)	146,185	(31,490,696)	(63,089,898)	68,756
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	2,596,571	(55,457,343)	(76,824,842)	1,194,238
CONTRIBUTIONS AND TRANSFERS:				
Capital contributions	7,142,176	179,017	3,397,857	-
Gain (loss) from sales of property	167,250	(19,518)	-	-
Transfers in	-	7,223,031	14,581,308	97,746
Transfers out	-	(23,835,186)	-	-
Total contributions and transfers	7,309,426	(16,452,656)	17,979,165	97,746
Change in net assets	9,905,997	(71,909,999)	(58,845,677)	1,291,984
NET ASSETS:				
Beginning of year, as previously reported	43,543,304	38,775,867	(4,647,545)	3,038,868
Prior period adjustments (Note 16)	-	(63,881,519)	1,124,161	143,338
Beginning of year, as restated	43,543,304	(25,105,652)	(3,523,384)	3,182,206
End of year	$ 53,449,301	$ (97,015,651)	$ (62,369,061)	$ 4,474,190

See accompanying Notes to Basic Financial Statements.

Nonmajor Proprietary Funds	Total
$ 3,419,440	$ 33,409,596
-	162,890
-	17,679
146,590	372,568
3,566,030	33,962,733
3,958,152	26,811,842
1,784,123	29,895,754
-	6,910,292
1,600,673	1,600,673
189,518	6,836,331
7,532,466	72,054,892
(3,966,436)	(38,092,159)
200	13,748,846
7,437	6,011,581
(377,294)	(18,072,270)
-	(96,423,467)
(369,657)	(94,735,310)
(4,336,093)	(132,827,469)
2,914,973	13,634,023
-	147,732
14,068,975	35,971,060
-	(23,835,186)
16,983,948	25,917,629
12,647,855	(106,909,840)
7,422,383	88,132,877
50,109	(62,563,911)
7,472,492	25,568,966
$ 20,120,347	$ (81,340,874)

City of Victorville
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2007

	Major Funds			
	Sanitary District	Southern California Logistics Airport Authority	Municipal Utility	Solid Waste Management
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 8,318,778	$ 5,915,479	$ 5,101,555	$ 12,356,565
Cash payments to suppliers for goods and services	(433,208)	(21,286,865)	(10,443,203)	(151,549)
Cash payments to employees for services	(4,547,754)	(3,130,702)	(4,124,307)	(11,050,927)
Others	2,953	20,402	9,822	192,801
Net cash provided (used) by operating activities	3,340,769	(18,481,686)	(9,456,133)	1,346,890
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental	504	14,943,144	-	23,203
Transfers in	-	7,223,031	14,581,308	97,746
Transfers out	-	(23,835,186)	-	-
Due from/to other funds	-	24,728,669	(11,505,073)	-
Net cash provided (used) by noncapital financing activities	504	23,059,658	3,076,235	120,949
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net changes in capital assets	(7,242,237)	(58,367,061)	(33,546,187)	1,027,944
Capital contributions	7,142,176	179,017	3,397,857	-
Proceeds from issuance of long-term debt	-	136,341,496	107,415,000	-
Principal paid on long-term debt	-	(25,386,445)	(65,083,490)	(270,264)
Interest paid on long-term debt	(91,019)	(12,176,998)	(3,691,221)	(179,429)
Net cash provided (used) by capital and related financing activities	(191,080)	40,590,009	8,491,959	578,251
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	145,681	4,719,935	772,198	224,982
Net cash provided (used) by investing activities	145,681	4,719,935	772,198	224,982
Net increase (decrease) in cash and cash equivalents	3,295,874	49,887,916	2,884,259	2,271,072
CASH AND CASH EQUIVALENTS:				
Beginning of year	12,336,754	56,139,982	3,849,492	3,271,903
End of year	$ 15,632,628	$ 106,027,898	$ 6,733,751	$ 5,542,975
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 2,450,386	$ (23,966,647)	$ (13,734,944)	$ 1,125,482
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	946,382	1,968,174	3,541,963	190,294
Changes in operating assets and liabilities:				
Accounts receivable	214,381	436,864	935,617	31,114
Prepaid items and deposits	-	(39,983)	-	-
Inventories	-	-	-	-
Accounts payable	(272,630)	3,218,480	(198,769)	-
Deposits payable	-	(1,910,647)	-	-
Unearned revenue	2,250	1,812,073	-	-
Total adjustments	890,383	5,484,961	4,278,811	221,408
Net cash provided (used) by operating activities	$ 3,340,769	$ (18,481,686)	$ (9,456,133)	$ 1,346,890

See accompanying Notes to Basic Financial Statements.

Nonmajor Proprietary Funds	Total
$ 3,519,697	$ 35,212,074
(1,650,206)	(33,965,031)
(3,958,152)	(26,811,842)
146,590	372,568
(1,942,071)	(25,192,231)
200	14,967,051
14,068,975	35,971,060
(13,223,596)	(37,058,782)
-	13,223,596
845,579	27,102,925
(8,319,522)	(106,447,063)
2,914,973	13,634,023
2,200,000	245,956,496
(447,501)	(91,187,700)
(377,294)	(16,515,961)
(4,029,344)	45,439,795
7,437	5,870,233
7,437	5,870,233
(5,118,399)	53,220,722
970,796	76,568,927
$ (4,147,603)	$ 129,789,649
$ (3,966,436)	$ (38,092,159)
189,518	6,836,331
105,076	1,723,052
-	(39,983)
(8,664)	(8,664)
1,743,254	4,490,335
(4,819)	(1,915,466)
-	1,814,323
2,024,365	12,899,928
$ (1,942,071)	$ (25,192,231)

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FIDUCIARY FUND FINANCIAL STATEMENTS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds.

City of Victorville
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Agency Funds
ASSETS	
Cash and investments	$ 15,978,450
Cash and investments with fiscal agents	2,753,467
Accounts receivable	2,917,258
Assets used for operations	139,788
Total assets	$ 21,788,963
LIABILITIES	
Deposits payable	$ 8,847,036
Due to other governments	12,941,927
Total liabilities	$ 21,788,963

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Victorville, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City was incorporated in April 1962, under the General Laws of the State of California and enjoys all the rights and privileges pertaining to such "General Law" cities. It is governed by an elected five member council.

As required by generally accepted accounting principles in the United States, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and either the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. Component units for which the City is considered financially accountable are described below:

Victorville Redevelopment Agency

The Victorville Redevelopment Agency (Agency) was established in September 1980 pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City. The Agency was included within the scope of the reporting entity of the City because its governing body is composed in its entirety of council members of the City.

Southern California Logistics Airports Authority

The Southern California Logistics Airport Authority (SCLAA), was formed in 1997 between the City and the Agency to provide for the coordination of long range planning of the territory of George Air Force Base. SCLAA's financial data and transactions are included as an enterprise fund of the City. SCLAA prepares a budget in sufficient detail to constitute an operating outline for the source and amount of funds available to SCLAA and expenses to be made during the ensuing fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Financial Reporting Entity, Continued

Southern California Logistics Rail Authority

The Southern California Logistics Rail Authority (SCLRA) was formed on October 17, 2001 by the City of Victorville, The Victorville Redevelopment Agency and the Southern California Logistics Airport Authority (SCLAA). The purpose of SCLRA is to provide for the coordination of long range planning of the development of rail facilities and adjoining land surrounding and including Southern California Logistics Airport. SCLRA's financial data and transactions are included as an enterprise fund of the City. SCLRA prepares a budget in sufficient detail to constitute an operating outline for the source and amount of funds available to SCLRA and expenses to be made during the ensuing fiscal year. SCLRA revenues consist primarily of grants and loans received by SCLRA.

Since the City Council serves as the governing board for these entities, they are considered blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with the interfund data of the primary government. Upon completion, the financial statements of these component units can be obtained at City Hall.

B. Basis of Accounting and Measurement Focus

The accounting policies of the City conform to generally accepted accounting principles in the United States for local governmental units. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purpose which they are to be spent and means by which spending activities are controlled.

Government – Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These government-wide financial statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Government – Wide Financial Statements, Continued

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to and from other funds
- Advances to and from other funds
- Transfers in and out

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are real and personal property tax, other local taxes, franchise fees, forfeitures and penalties, motor license fees, rents and concessions, interest revenue, and state and federal grants and subventions. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the balance sheet and revenue is recognized.

Certain indirect costs are included as part of the program expenses reported for individual functions and activities.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The City determined the following funds to be major funds in fiscal year 2007:

- **General Fund** – To account for the general operations of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.
- **Low and Moderate Income Housing Special Revenue Fund** – To account for the 20% set aside for redevelopment tax increment as required by California Redevelopment Law.
- **Measure I Street Arterials Special Revenue Fund** – To account for the portion of sales tax revenue received from the County. This fund is legally restricted for the local street networks that have significant inter-jurisdictional or regional traffic.
- **Redevelopment Agency Debt Service Fund** – To account for the accumulation of resources for the payment of principal and interest on the Victorville Redevelopment Agency Tax Allocation Bonds.
- **Capital Impact Facilities Capital Projects Fund** – To account for the acquisition or construction of major capital facilities related to public improvements needed as population increases.
- **Redevelopment Agency Capital Projects Fund** – To account for financial resources to be used for acquisition or construction of major capital facilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City determined all enterprise funds to be major funds in fiscal year 2007:

- **Sanitation District Fund** – To account for capital acquisition of the City's sanitary district. Revenue received for these funding sources is comprised of sewer user fees and property taxes.
- **Southern California Logistics Airport Authority Fund** – To account for both operation and capital acquisition of the activities surrounding the airport. The airport funding sources are comprised of federal grants, charges for services and Tax Allocation Bonds.
- **Municipal Utility Fund** – To account for the operation, maintenance, and capital expenditures of the City's municipal utility, which is funded by user charges, other fees and loans.
- **Solid Waste Management Fund** – To account for all activities in the following programs: Solid Waste Management, Source Reduction and Recycling, Landfill Mitigation, Household Hazardous Waste, and the California Department of Conservation Grants.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds only, are purely custodial in nature (assets equal liabilities), and are accounted for according to the nature of the fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The fiduciary funds of the City are used primarily to account for certain deposits being held as security for individuals and companies performing construction activity within the City, assessment collections from property owners to pay debt service on bonds for which the City has no obligation, and pass through monies that are due to other governmental agencies.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute GAAP basis expenditures or liabilities because the commitments will be honored during the subsequent year. The commitments will be re-appropriated and honored in the subsequent year.

D. *Cash, Cash Equivalents and Investments*

The City pools its available cash for investment purposes. The City considers pooled cash and highly liquid investments held with financial institutions, a fiscal agent, and in a pooled account with the State, to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled *Local Agency Investment Fund* (LAIF) which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3), certain disclosure requirements,* if applicable for deposit and investment risk are specified for the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentration of Credit Risk
- Foreign Currency Risk

E. *Interfund Transactions*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., current portion of interfund loans)." Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. *Inventories*

Inventories within the various fund types consist of materials and supplies which are valued at cost on a first-in, first-out basis. Reported expenditures reflecting the purchase of supplies have been restated to reflect the consumption method of recognizing inventory-related expenditures. A reservation of fund balance has been reported in the governmental funds to show that inventories do not constitute *"available spendable resources"*, even though they are a component of net current assets.

G. *Prepaid Items*

Prepaid items in governmental funds consist of goods and or services paid for in the current fiscal year that will not be received until the subsequent fiscal year. These items are accounted for using the consumption method, and accordingly, the expenditure is recorded in the period in which the goods and or services are received.

H. *Land Held for Resale*

Land held for resale is carried at lower of cost or market, but not greater than the net realizable value. An amount equal to the carrying value of land is reserved in fund balance because such assets are not available to finance current operations.

I. *Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. City policy has set the capitalization threshold for reporting capital assets at $5,000. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated assets are valued at their estimated fair market value on the date donated.

Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and improvements	10-50 years
Furniture and Equipment	3-7 years
Computer and Communications	5 years
Vehicles	8-15 years
Infrastructure	20-100 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included all infrastructures within the Basic Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. *Capital Assets, Continued*

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, bridges, sidewalks, drainage systems, and lighting systems, etc. Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction-related debt incurred during the period of construction for business-type and proprietary funds assets is capitalized as a cost of the constructed assets. Capital assets acquired under capital lease are capitalized at the net present value of the total lease payments. For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City appraised City owned infrastructure and property as of June 30, 2002. The City determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

Capital Assets Acquired Under Lease Purchase Contracts

The long-term principal portion of debt on non-proprietary capital assets acquired through lease purchase contracts is accounted for in the government-wide financial statements as "capital lease obligations". A capital asset is recorded at the net present value of total lease payments in the government-wide financial statements.

J. *Compensated Absences*

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness), which is outside the control of the City and the employee.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Compensated Absences, Continued

The balance of compensated absences (unpaid vacation and sick leave) at year end is recorded as a long-term liability in the government-wide financial statements. Compensated absences are primarily liquidated by the General Fund.

K. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Fund Financial Statements

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

L. Net Assets

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Reservations represent those portions of fund equity which are not appropriable for expenditure or which are legally segregated for specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated fund balance indicates that portion of the fund balance which is available for appropriation in future periods.

M. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. *Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds. This pooled cash is invested by the City Treasurer to enhance earnings. The pooled interest earned is allocated to the funds based on average month-end cash balances of the various funds.

The following is a summary of cash and investments at June 30, 2007:

	Government-Wide Statement of Net Assets			
	Governmental Activities	Business-Type Activities	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	$ 88,022,715	$ 43,741,769	$ 15,978,450	$ 147,742,934
Cash and investments with fiscal agents	16,861,157	86,047,880	2,753,467	105,662,504
Total	$ 104,883,872	$ 129,789,649	$ 18,731,917	$ 253,405,438

Cash, cash equivalents, and investments consisted of the following at June 30, 2007:

Cash and cash equivalents:	
Petty Cash	$ 7,050
Demand Deposit	3,888,119
Total Cash and cash equivalents	3,895,169
Investments:	
Local Agency Investment Fund	127,517,092
U.S. Government Securities:	
Federal Home Loan Bank (FHLB)	16,330,673
Investments with fiscal agents	105,662,504
Total Investments	249,510,269
Total Cash and Investments	$ 253,405,438

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

A. *Cash Deposits*

The carrying amounts of the City's cash deposits were $3,888,119 at June 30, 2007. Bank balances at June 30, 2007, were $9,712,193 which were fully insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. *Investments Authorized by the California Government Code and the City's Investment Policy*

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if 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 bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity *	Maximum Percentage of Portfolio *	Maximum Investment In One Issuer *
Local Agency Bonds	No	5 Years	None	None
U.S. Treasury Obligations	Yes	2 Years	70%	None
U.S. Agency Securities	Yes	5 Years	75%	None
Banker's Acceptance	No	180 Days	40%	30%
Commercial Paper	No	270 Days	25%	10%
Negotiable Certificates of Deposit	Yes	2 Years	15%	None
Repurchase Agreements	No	1 Year	None	None
Reverse Repurchase Agreements	No	92 Days	20% of base value	None
Medium-Term Notes	No	5 Years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	5 Years	5%	10%
Mortgage Pass-Through Securities	No	5 Years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	No	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

C. *Investments Authorized by Debt Agreements*

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreement, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	30 days - 1 year	None	None
Commercial Paper	180 - 270 days	None	None
Money Market Mutual Funds	None	None	None
Repurchase Agreements	30 days	None	None
Investment Contracts	None	None	None
Federal Housing Admin Debentures	None	None	None
Certificates of Deposits	30 days	None	None
State Obligations	None	None	None
Local Agency Investment Fund	None	None	None
California Common Law Trust Shares	None	None	None
Pre-refunded Municipal Obligations	None	None	None

D. *Risk Disclosures*

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy (Policy) limits investments to a maximum maturity of five years. The average maturity of the investment portfolio does not exceed three years. The City is in compliance with this provision of the Policy.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

Interest Rate Risk, Continued

At June 30, 2007, the City had the following investment maturities:

Investment Type	Fair Value	Investment Maturities (In Years) Less than 1	1 to 2
Local Agency Investment Fund	$ 127,517,092	$ 127,517,092	$ -
Federal Home Loan Bank	16,330,673	-	16,330,673
Held by Bond Trustee:			
Money Market Funds	105,662,504	105,662,504	-
	$ 249,510,269	$ 233,179,596	$ 16,330,673

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following presentation is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

	Moody's	Standard & Poor's
Investment Pool		
Local Agency Investment Fund	Not Rated	Not Rated
U.S. Government Securities		
Federal Home Loan Bank (FHLB)	Aaa	AAA
Held by Bond Trustee		
Money Market Funds	Exempt	Exempt

Concentration of Credit Risk

The City's Policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The following is a chart of the City's investment portfolio:

Investments	Amount Invested	Percentage of Investments
Local Agency Investment Fund	$ 127,517,092	51.11%
Federal Home Loan Bank (FHLB)	16,330,673	6.55%
Money Market Funds	105,662,504	42.35%
Total	$ 249,510,269	100.00%

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

Custodial Credit Risk

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

E. Investment in Local Agency Investment Funds

The City invests in the Local Agency Investment Fund (LAIF), a State of California investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

The City valued its investments in LAIF as of June 30, 2007 at fair value. The fair value is calculated by multiplying the account balance with LAIF times a fair value factor of 0.999545022 which is determined by LAIF. This fair value factor was determined by dividing total value by all LAIF participants' total cost.

The City's investments with Local Agency Investment Funds (LAIF) at June 30, 2007 included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2007, the City had $127,517,092 invested in LAIF, which had invested 3.466% of the pooled investment funds in Structured Notes and Asset-Backed Securities.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

F. *Cash Overdrawn*

At June 30, 2007, the following individual funds have significant cash overdrawn:

	Amount
Governmental Funds:	
CDBG Grants Special Revenue Fund	$ (455,098)
Other Federal Grants Special Revenue Fund	(1,621,711)
Total Governmental Funds	(2,076,809)
Proprietary Funds:	
Municipal Utility Enterprise Fund	(18,159,251)
City Golf Course Enterprise Fund	(4,678,135)
Southern California Logistics Rail Authority Enterprise Fund	(326,559)
Total Proprietary Funds	(23,163,945)
Total Cash Overdrawn	$ (25,240,754)

3. INTERFUND TRANSACTIONS

A. *Advances To and Advances From Other Funds*

Advances for the year ended June 30, 2007, were as follows:

	Advances from Other Funds		
Advances to Other Funds	General Fund	Redevelopment Agency Capital Projects Fund	Total
Low and Moderate Housing Special Revenue Fund:	$ -	$ 4,361,109	$ 4,361,109
Sanitation District Enterprise Fund	3,402,052	-	3,402,052
Total	$ 3,402,052	$ 4,361,109	$ 7,763,161

3. INTERFUND TRANSACTIONS, Continued

A. Advances To and Advances From Other Funds, Continued

At June 30, 2007, the outstanding balance of the advances between Redevelopment Agency Capital Projects Fund and Low and Moderate Housing Special Revenue Fund was $4,361,109 and consisted of two advances:

On March 8, 1999, the Agency entered into a loan agreement in the amount of $300,000. The proceeds of the advance were to be used to undertake redevelopment activities in the Oldtown/Midtown Project Area. The advance was set up because at the time there was no tax increment generating from the Oldtown/Midtown Project Area. The advance took place on July 1, 1999, with a term of repayment of five years. The advance bears an interest rate of 5.69%. At June 30, 2007, the outstanding balance of the advances was $467,081.

On October 3, 2006, the Agency entered into a loan agreement in the amount of $3,750,000. The proceeds of the advance were to be used to fund the costs of the project activities. The advance has a term of repayment of three years, with annualized Local Agency Investment Fund (LAIF) as the interest rate. At June 30, 2007, the outstanding balance was $3,894,028.

At June 30, 2007, the outstanding balance of the advance between the General Fund and the Sanitary District Enterprise Fund was $3,402,052. During the fiscal year ended June 30, 1993, loans were made to the General Fund from the Sanitary District. There are no terms relating to interest rate or period of repayment. During the fiscal year ended June 30, 2008, the loan was forgiven.

B. Transfers To and From Other Funds

Transfers for the year ended June 30, 2007, were as follows:

Fund	Transfers In	Transfers Out
General Fund	$ 354,247	$ 14,658,990
Low and Moderate Income Housing Special Revenue Fund	-	2,082,543
Redevelopment Agency Debt Service Fund	3,664,454	11,603,936
Capital Impact Facilities Capital Projects Fund	-	125,941
Redevelopment Agency Capital Projects Fund	11,603,936	7,326,745
Fire Protection Special Revenue Fund	5,119,618	97,746
Parks and Recreation Special Revenue Fund	1,896,368	-
Traffic Safety Special Revenue Fund	-	353,947
Gas Tax Special Revenue Fund	1,349,410	-
Parks and Recreation COP Debt Service Fund	125,941	-
Total governmental funds	24,113,974	36,249,848
Southern California Logistics Airport Authority Enterprise Fund	7,223,031	23,835,186
Municipal Utility Enterprise Fund	14,581,308	-
Solid Waste Management Enterprise Fund	97,746	-
City Golf Course Enterprise Fund	1,354,134	-
Southerna Caliofnria Logistics Rail Authority Enterprise Fund	12,714,841	-
Total proprietary funds	35,971,060	23,835,186
Grand total	$ 60,085,034	$ 60,085,034

- The transfers resulted from the normal course of the City's operations.

4. LAND HELD FOR RESALE

As of June 30, 2007, the Agency has acquired and developed parcels of land in the Low and Moderate Income Housing fund and Capital Projects Fund (Bear Valley and Oldtown/Midtown project areas). These parcels were purchased for the purpose of providing incentives to developers in order to construct future commercial projects on the property, and are recorded as land held for resale at the value of $8,815,779.

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2006	Prior Period Adjustments	Additions	Deletions	Reclassifications	Balance June 30, 2007
Non-depreciable Assets:						
Land	$ 24,352,666	$ 69,758	$ 4,781,150	$ (187,516)	$ -	$ 29,016,058
Right-of-Way	179,427,590	(179,427,590)	-	-	-	-
Construction in progress	27,086,016	2,412,905	22,013,911	(341,305)	(4,987,922)	46,183,605
Investment in Joint Venture	3,412,500	(3,412,500)	-	-	-	-
Total non-depreciable assets	234,278,772	(180,357,427)	26,795,061	(528,821)	(4,987,922)	75,199,663
Depreciable Assets:						
Buildings and improvements	22,743,008	-	251,515	-	4,096,289	27,090,812
Furniture and equipment	10,277,389	-	1,635,514	(72,107)	-	11,840,796
Computer and communications	3,015,269	-	902,238	(56,042)	-	3,861,465
Vehicles	3,712,802	-	130,942	(265,602)	-	3,578,142
Infrastructure	357,359,508	48,867,143	34,661,014	-	891,633	441,779,298
Total depreciable assets, at cost	397,107,976	48,867,143	37,581,223	(393,751)	4,987,922	488,150,513
Less accumulated depreciation:						
Buildings and improvements	(8,236,350)	-	(1,444,169)	-	-	(9,680,519)
Furniture and equipment	(6,380,291)	-	(772,673)	505,627	-	(6,647,337)
Computer and communications	(2,221,255)	-	(291,962)	61,545	-	(2,451,672)
Vehicles	(2,146,584)	-	(324,583)	249,078	-	(2,222,089)
Infrastructure	(158,629,381)	(3,223,596)	(21,012,906)	-	-	(182,865,883)
Total accumulated depreciation	(177,613,861)	(3,223,596)	(23,846,293)	816,250	-	(203,867,500)
Total depreciable assets, net	219,494,115	45,643,547	13,734,930	422,499	4,987,922	284,283,013
Total governmental activities	$ 453,772,887	$ (134,713,880)	$ 40,529,991	$ (106,322)	$ -	$ 359,482,676

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Governmental activities depreciation expense for capital assets for the year ended June 30, 2007 is as follows:

General government	$ 21,782,691
Public safety	504,914
Community development	36,883
Public works	671,385
Parks and recreation	850,420
Total depreciation expense	$ 23,846,293

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2006	Adjustments/ Transfers	Prior Period Adjustments	Additions	Deletions	Reclassification	Impairment Loss	Balance June 30, 2007
Non-depreciable Assets:								
Land	$ 20,152,454	$ 48,000	$ 822,157	$ 3,984,079	$ (330,681)	$ -	$ -	$ 24,676,009
Intangibles	7,597,500	-	-					7,597,500
Construction in progress	52,402,857	(3,204,858)	1,124,151	122,415,350	(128,943)	(67,285,681)	(76,906,471)	28,416,405
Total non-depreciable assets	80,152,811	(3,156,858)	1,946,308	126,399,429	(459,624)	(67,285,681)	(76,906,471)	60,689,914
Depreciable Assets:								
Buildings and improvements	135,386,354	-	(114,182,519)	20,650	-	53,729,597	(16,747,324)	58,206,758
Furniture and equipment	9,134,220	-	-	1,023,861	(2,014,494)	9,046,160	(2,769,672)	14,420,075
Computer and communications	96,728	56,042	-	16,600	-	-	-	169,370
Vehicles	550,286	44,532	-	56,145	(30,440)	-	-	620,523
Infrastructure	77,592,065	-	(46,510,994)	7,870,305	183,705	4,496,084	-	43,631,165
Total depreciable assets, at cost	222,759,653	100,574	(160,693,513)	8,987,561	(1,861,229)	67,271,841	(19,516,996)	117,047,891
Less accumulated depreciation:								
Buildings and improvements	(80,918,463)	-	76,330,806	(2,003,795)	-	-	-	(6,591,452)
Furniture and equipment	(2,179,514)	-	-	(498,978)	546,884	13,840	-	(2,117,768)
Computer and communications	(66,557)	(28,806)	-	(17,562)	-	-	-	(112,925)
Vehicles	(246,203)	(22,906)	-	(34,074)	30,440	-	-	(272,743)
Infrastructure	(25,098,356)	-	15,705,409	(2,445,677)	1,495,879	-	-	(10,342,744)
Total accumulated depreciation	(107,609,092)	(51,712)	92,036,215	(5,000,086)	2,073,203	13,840	-	(18,537,632)
Total depreciable assets, net	115,150,561	48,862	(68,657,298)	3,987,475	211,974	67,285,681	(19,516,996)	98,510,260
Total business-type activities	$ 195,303,372	$ (3,107,996)	$ (66,710,990)	$ 130,386,904	$ (247,650)	$ -	$ (96,423,467)	$ 159,200,174

Business-type activities depreciation expense for capital assets for the year ended June 30, 2007 is as follows:

Sanitary District	$ 944,342
Southern California Logistics Airport Authority	3,466,094
Municipal Utility	209,841
Solid Waste Management	190,295
City Golf Course	94,787
Water	94,727
Total depreciation expense	$ 5,000,086

5. CAPITAL ASSETS, Continued

B. *Fund Financial Statements*

The fund financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

C. *Impairment Loss on Capital Assets and Debt Restructuring Charge*

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

- Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.
- Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset.
- Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.
- Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance.
- Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

In accordance with FASB Statement 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings,* in cases where Governments restructure or forgive debt in exchange for property received, the Government is required to evaluate the fair value of the property received, taking into consideration all facts and circumstances, and to record the receipt of the property at its fair value and to charge any difference between the amount of the debt and the fair value as a loss.

5. CAPITAL ASSETS, Continued

C. *Impairment Loss on Capital Assets and Debt Restructuring Charge, Continued*

During the fiscal year ended June 30, 2007, the City identified the following events:

- Utility Generation Assets at Foxborough Co-generation Facility
- Airport Hangars at Southern California Logistics Airport

Utility Generation Assets at Foxborough Co-generation Facility

The City formed Victorville Municipal Utilities Services in 2001 to provide for a low-cost and guaranteed source of power for businesses seeking to locate to the City. The business model that was employed was to self-generate power and sell the power to the businesses at a discount to rates charged by Southern California Edison.

Between 2003 and 2007, VMUS made significant investments in power generation equipment in its three service locations: a) Aspen Distribution Center, b) Foxborough Distribution Center and c) Southern California Logistics Airport. In each installation site, the operating plan was based on self-generated power, created through the use of generators that were fueled by either natural gas or diesel (or bio-diesel) fuel. In addition, in 2005, VMUS commenced a project to create an energy center at the Foxborough Distribution Center that would act as a centralized point of generation and distribution.

In late 2006, VMUS suspended construction on the Foxborough Distribution Center co-generation facility because of significant cost overruns and the operating losses caused by significant increases in fuel that could not be recovered. By mid-2007, it was determined that it was not economically feasible to generate power using natural gas and diesel generators and that the cost of the investment could not be recovered through income generated by the equipment. The decision was made to move to a business model utilizing interconnection with the California grid.

In connection with the preparation of its financial statements as of June 30, 2007, VMUS noted certain conditions:

a. The construction of the Foxborough Co-generation Facility had been suspended because of cost overruns, design efficiency issues and economic issues with self-generated power.
b. Demand for power within the Foxborough Distribution Center was significantly lower than the original estimates used in the design and as partially constructed. Therefore, there was little likelihood of utilizing the existing infrastructure and equipment as envisioned.
c. That given the overall financial condition of VMUS and its desire to use funds in other business incentive initiatives, it is more likely than not that VMUS will sell the equipment significantly before the end of its estimated useful life.

Based upon the above factors, VMUS performed an impairment test as of June 30, 2007, which included the costs of assets acquired and placed in service, as well as the costs of assets acquired and not yet placed in service.

5. CAPITAL ASSETS, Continued

C. *Impairment Loss on Capital Assets and Debt Restructuring Charge, Continued*

Utility Generation Assets at Foxborough Co-generation Facility, Continued

In accordance with GASB 42, an impairment loss is required to be recognized to the extent that the carrying value exceeds the fair value if the future cash flows are insufficient to recover the carrying value. Given that the revenues produced by the equipment were less that the costs of operating the equipment, it was determined that the amount invested could not be ultimately recovered. Accordingly, impairment must be recognized to the extent that the carrying value exceeds the fair value of the assets. Further, since there are no plans to use the majority of the assets, but rather to sell them, the assets are required to be written down to their fair value.

For purposes of determining the fair value of the impaired assets, the assets of VMUS were grouped into categories which were based on the planned use of the assets. These groups contained both infrastructure, such as underground lines, fixed in-place assets and separate equipment items such as generators. The fair value of infrastructure and fixed in-place assets were valued in accordance with their utility value, or ability to generate a positive revenue stream. The separately identified tangible and moveable equipment items such as generators were individually valued. The valuations for all assets involved obtaining at least two quotes for similar assets obtained from third parties having expertise in the field.

A summary of the carrying value and the fair (or liquidation) value of the affected assets is as follows:

Aggregate cost	$	74,535,803
Less: accumulated depreciation		(4,007,929)
Net carrying value at June 30, 2007		70,527,874
Aggregate fair value		10,357,000
Impairment loss recognized	$	60,170,874

Airport Hangars at Southern California Logistics Airport

SCLAA has as one of its primary goals to provide for the coordination of long range planning of the territory George Air Force Base (now Southern California Logistics Airport, or the Airport). In connection with this effort, SCLAA has undertaken a number of developmental initiatives, including entering into agreements with developers.

In connection with the development of airport property consisting primarily of the hangars and related assets, in 2005 SCLAA entered into agreements with CBS Aviation Development, LLC ("CBS") whereby CBS leased land owned by SCLAA. However, CBS was unable to secure financing independent of SCLAA for this project. Accordingly, SCLAA agreed to lend CBS funds to be utilized in this project. Thereafter, CBS began construction of aircraft hangers and other related assets, such as tarmacs, office improvements, etc.

5. CAPITAL ASSETS, Continued

C. Impairment Loss on Capital Assets and Debt Restructuring Charge, Continued

Airport Hangars at Southern California Logistics Airport, Continued

Between December 2, 2005 and February 17, 2006, loans were made to CBS in the aggregate amount of $25,383,425 in direct cash transfers. No further funds were provided directly to CBS. However, some construction work continued after February 2006, for which CBS was unable to pay for, as subcontractors began to file liens on the project in the second quarter of 2006. By July, 2006, the total of liens filed reached approximately $13 million and construction efforts by CBS had been essentially suspended. In addition, a dispute arose as to the use of loan proceeds in the construction costs.

In June or July 2006, the City began negotiations toward a resolution of matters related to the debt owed to SCLAA and the restarting of construction of the hangars. A Mutual Release and Settlement Agreement was signed in August 2006 between SCLAA, CBS and KND Affiliates, LLC ("KND") whereby CBS was released from its obligations to SCLAA in exchange for the complete transfer of the project to KND. Thereafter, SCLAA advanced loans to KND and expended funds for other related costs in the approximate amount of $62.9 million, bringing its total investment to $88.3 million. In addition, SCLAA was granted the option to purchase the hangars following their completion from KND in exchange for the debt that would ultimately be loaned to KND for construction costs. Ultimately, SCLAA is expected to exchange, or has exchanged, the debt owed to it for the property.

In accordance with FASB Statement 15, SCLAA is required to determine the fair value of the property received in exchange for debt that is restructured or forgiven. Given all facts and circumstances, including the plan on continuation of the project to completion through loans that are expected to be exchanged for the property, SCLAA concluded that the requirements of FASB Statement 15 are applicable to the transactions entered into with both CBS and KND.

Based upon the above factors, SCLAA made a determination of projected costs and loans made or committed and a determination of fair value of the property as of June 30, 2007, which included the remaining costs of construction incurred and leases originated thereafter. SCLAA determined that its ultimate carrying value of its investment in loans and other costs exceeded the fair value of the property, based on the capitalized values of the lease revenues.

The result of this assessment is as follows:

Current value for investment in loans and other costs:		
At June 30, 2007	$	77,899,969
Committed advances		10,400,000
Total Investments		88,299,969
Fair value of the property		(52,047,377)
Loss recognized	$	36,252,592

6. LONG-TERM DEBT

The following is a summary of long-term debt for the year ended June 30, 2007:

	Balance July 1, 2006	Prior Period Adjustments	Debt Issued	Debt Retired	Balance June 30, 2007	Classification: Due in One Year	Classification: Due in more than One Year
Governmental Activities:							
Tax Allocation Bonds	$ 47,070,000	$ -	$ -	$ (1,345,000)	$ 45,725,000	$ 780,000	$ 44,945,000
Certificates of Participation	480,000	-	-	(110,000)	370,000	115,000	255,000
Installment Purchase Agreement	2,549,700	(2,549,700)	-	-	-	-	-
Capital Leases	-	589,964	1,300,000	(241,349)	1,648,615	371,685	1,276,930
Compensated absences	3,603,050	-	1,239,780	(1,056,621)	3,786,209	-	3,786,209
Total governmental activities	$ 53,702,750	$ (1,959,736)	$ 2,539,780	$ (2,752,970)	$ 51,529,824	$ 1,266,685	$ 50,263,139
Business-Type Activities:							
Tax Allocation Bonds	$ 149,782,030	$ -	$ 136,725,043	$ (5,344,070)	$ 280,737,081	$ 2,904,705	$ 277,832,376
Lease Revenue Bonds	41,000,000	-	107,415,000	(64,645,000)	83,770,000	-	83,770,000
Installment Purchase Agreement	-	2,549,700	-	(135,871)	2,413,829	143,371	2,270,458
Notes Payable	20,000,000	-	-	(20,000,000)	-	-	-
Capital Leases	-	1,518,674	-	(134,392)	1,384,282	139,172	1,245,110
Lease Purchase Agreements	3,111,273	2,200,000	-	(885,992)	4,425,281	460,556	3,964,725
Total business-type activities	$ 213,893,303	$ 6,268,374	$ 244,140,043	$ (91,145,325)	$ 372,730,473	$ 3,647,804	$ 369,082,669

A. Governmental Activities Long-Term Debt

Tax Allocation Bonds

Tax Allocation Bonds at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
2002 Tax allocation bonds, Series A	$ 9,345,000	$ -	$ (205,000)	$ 9,140,000	$ 210,000	$ 8,930,000
2003 Tax allocation bonds, Series A	9,890,000	-	(215,000)	9,675,000	220,000	9,455,000
2003 Tax allocation bonds, Series B	4,860,000	-	(105,000)	4,755,000	110,000	4,645,000
2006 Tax allocation bonds, Series A	22,975,000	-	(820,000)	22,155,000	240,000	21,915,000
Total Tax Allocation Bonds	$ 47,070,000	$ -	$ (1,345,000)	$ 45,725,000	$ 780,000	$ 44,945,000

6. LONG-TERM DEBT, Continued

A. *Governmental Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2002 Tax Allocation Bonds, Series A

In August 2002, the Redevelopment Agency issued $9,710,000 principal amount of Tax Allocation Bonds, Series A. The proceeds were used to finance certain redevelopment activities within and of the benefit to the project area. Bonds maturing in the years 2003 to 2021 are serial bonds payable December 1 in annual installments of $80,000 to $290,000. Bonds maturing on December 1, 2014, December 1, 2031 and December 1, 2031 in the amounts of $455,000, $1,545,000 and $3,890,000 are term bonds. The bonds (serial and term) bear interest at 1.40% to 5.13% due December 1 of each year. The bonds are subject to redemption prior to maturity as described in the bond covenants. The serial bonds maturing on December 1, 2013 are subject to optional redemption in whole or in part by lot, with premium of 2%, 1% and 0% for periods December 1, 2012 to November 30, 2013, December 1, 2013 to November 30, 2014 and December 1, 2014 and thereafter, respectively. The term bonds maturing on December 1, 2014, December 1, 2031 and December 1, 2031 are subject to mandatory redemption in part by lot, without premium commencing December 1, 2005, December 1, 2015 and December 1, 2022 respectively, from sinking fund payments made by the Agency.

The required reserve for the Bonds is $200,000. As of June 30, 2007, the reserve amount was $201,640. The bonds are payable solely from the tax revenues allocated and paid to the Victorville Redevelopment Agency with respect to the Redevelopment Project Area. The outstanding amount at June 30, 2007 was $9,140,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 210,000	$ 431,679	$ 641,679
2009	215,000	424,066	639,066
2010	225,000	415,729	640,729
2011	235,000	407,052	642,052
2012	240,000	398,026	638,026
2013-2017	1,365,000	1,826,144	3,191,144
2018-2022	1,695,000	1,478,930	3,173,930
2023-2027	2,165,000	1,003,091	3,168,091
2028-2032	2,790,000	371,563	3,161,563
Total	$ 9,140,000	$ 6,756,280	$ 15,896,280

6. LONG-TERM DEBT, Continued

A. *Governmental Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2003 Tax Allocation Bonds, Series A

In September 2003, the Redevelopment Agency issued $10,195,000 principal amount of Tax Allocation Bonds, Series A. The proceeds were used to refund the 1994 Tax Allocation Bonds, Series A, as well as finance certain redevelopment activities within and of the benefit to the project area. Bonds maturing in the years 2004 to 2020 are serial bonds payable December 1 in annual installments of $95,000 to $380,000. Bonds maturing on December 1, 2023, December 1, 2027 and December 1, 2031 in the amounts of $1,250,000, $1,975,000 and $2,410,000 are term bonds. The bonds (serial and term) bear interest at 2.00% to 5.25% due December 1 of each year. The term bonds maturing on December 1, 2023, December 1, 2027 and December 1, 2031 are subject to mandatory redemption in part by lot, without premium commencing December 1, 2021, December 1, 2024 and December 1, 2028 respectively, from sinking fund payments made by the Agency.

The required reserve for the Bonds is $280,000. As of June 30, 2007, the reserve amount was $282,288. The bonds are payable solely from the tax revenues allocated and paid to the Victorville Redevelopment Agency with respect to the Redevelopment Project Area. The outstanding amount at June 30, 2007 was $9,675,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 220,000	$ 459,675	$ 679,675
2009	225,000	451,325	676,325
2010	235,000	442,125	677,125
2011	245,000	432,525	677,525
2012	260,000	422,425	682,425
2013-2017	1,445,000	1,939,825	3,384,825
2018-2022	1,805,000	1,571,100	3,376,100
2023-2027	2,300,000	1,063,625	3,363,625
2028-2032	2,940,000	401,225	3,341,225
Total	$ 9,675,000	$ 7,183,850	$ 16,858,850

6. LONG-TERM DEBT, Continued

A. *Governmental Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2003 Tax Allocation Bonds, Series B

In September 2003, the Redevelopment Agency issued $5,025,000 principal amount of Tax Allocation Bonds, Series B. The proceeds were used to refund the 1994 Tax Allocation Bonds, Series C, as well as finance certain redevelopment activities within and of the benefit to the project area. Bonds maturing in the years 2004 to 2022 are serial bonds payable December 1 in annual installments of $60,000 to $205,000. Bonds maturing on December 1, 2027 and December 1, 2031 in the amounts of $1,185,000 and $1,185,000 are term bonds. The bonds (serial and term) bear interest at 2.00% to 5.25% due December 1 of each year. The term bonds maturing on December 1, 2027 and December 1, 2031 are subject to mandatory redemption in part by lot, without premium commencing December 1, 2023 and December 1, 2028 respectively, from sinking fund payments made by the Agency.

The required reserve for the Bonds is $140,000. As of June 30, 2007, the reserve amount was $141,189. The bonds are payable solely from the tax revenues allocated and paid to the Victorville Redevelopment Agency with respect to the Redevelopment Project Area. The outstanding amount at June 30, 2007 was $4,755,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 110,000	$ 225,888	$ 335,888
2009	110,000	221,763	331,763
2010	115,000	217,263	332,263
2011	120,000	212,563	332,563
2012	125,000	207,663	332,663
2013-2017	710,000	953,788	1,663,788
2018-2022	890,000	772,413	1,662,413
2023-2027	1,130,000	522,563	1,652,563
2028-2032	1,445,000	196,944	1,641,944
Total	$ 4,755,000	$ 3,530,848	$ 8,285,848

6. LONG-TERM DEBT, Continued

A. *Governmental Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2006 Tax Allocation Parity Bonds, Series A

In May 2006, the Redevelopment Agency issued $22,975,000 principal amount of Taxable Tax Allocation Parity Bonds, Series A. The proceeds were used to finance certain redevelopment activities benefiting the project area. Bonds maturing on December 1, 2011, December 1, 2021 and December 1, 2036 in the amounts of $2,185,000, $4,175,000 and $16,615,000 are term bonds. The bonds bear interest at 5.375% to 6.000% due June 1 and December 1 of each year. The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on December 1, 2011 , December 1, 2021 and December 1, 2036 are subject to mandatory redemption in part by pro rata, without premium commencing December 1, 2006, December 1, 2012 and December 1, 2022 respectively, from sinking fund payments made by the Agency.

The required reserve for the Bonds is $1,043,706. As of June 30, 2007, the reserve amount was $1,052,235. The bonds are payable solely from the tax revenues allocated and paid to the Victorville Redevelopment Agency with respect to the Redevelopment Project Area. The outstanding amount at June 30, 2007 was $22,155,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 240,000	$ 1,309,100	$ 1,549,100
2009	265,000	1,295,528	1,560,528
2010	275,000	1,281,016	1,556,016
2011	285,000	1,265,966	1,550,966
2012	300,000	1,250,244	1,550,244
2013-2017	1,790,000	5,960,044	7,750,044
2018-2022	2,385,000	5,350,953	7,735,953
2023-2027	3,165,000	4,532,250	7,697,250
2028-2032	4,230,000	3,429,900	7,659,900
2033-2037	9,220,000	958,200	10,178,200
Total	$ 22,155,000	$ 26,633,201	$ 48,788,201

6. LONG-TERM DEBT, Continued

A. *Governmental Activities Long-Term Debt, Continued*

Certificates of Participation

Certificates of participation at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
1997 Refunding COP, Series EE	$ 480,000	$ -	$ (110,000)	$ 370,000	$ 115,000	$ 255,000
Total Certificates of Participation	$ 480,000	$ -	$ (110,000)	$ 370,000	$ 115,000	$ 255,000

1997 Refunding Certificates of Participation, Series EE

In December 1997, the California Special Districts Association Finance Corporation issued the 1997 Series EE Refunding Certificates of Participation in the amount of $6,795,000. The City of Victorville portion of this debt issuance is $1,315,000. The proceeds were used to refinance the costs of constructing a new Community Center evidenced by the CSDA 1989 Series C Certificates of Participation. Certificates maturing in the years 1997 to 2013 are payable December 1 in annual installments of $125,000 to $610,000. The bonds bear interest at 4.1% to 6.0%, which is due June 1 and December 1 of each year. The certificates maturing on or after December 1, 2007 are subject to optional prepayment in whole or in part by lot with premium of 2%, 1% and 0% for periods December 1, 2007 to November 30, 2008, December 1, 2008 to November 30, 2009 and December 1, 2009 and thereafter, respectively.

The required reserve for the Bonds is $131,500. As of June 30, 2007, the reserve amount was $131,570. The bonds are a special obligation of the City payable from tax increment revenues. The outstanding amount at June 30, 2007 total $370,000.

The annual requirements to amortize the certificates outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 115,000	$ 17,885	$ 132,885
2009	125,000	11,103	136,103
2010	130,000	3,770	133,770
Total	$ 370,000	$ 32,758	$ 402,758

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Capital Leases

Capital Leases at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Prior Period Adjustments	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
Bank of America Public Capital Corp	$ -	$ -	$ 1,300,000	$ (118,453)	$ 1,181,547	$ 244,242	$ 937,305
Municipal Finance Corporation	-	589,964	-	(122,896)	467,068	127,443	339,625
Total certificates of participation	$ -	$ 589,964	$ 1,300,000	$ (241,349)	$ 1,648,615	$ 371,685	$ 1,276,930

Bank of America Public Capital Corp

In November 2006, the City entered into an agreement with Bank of America Public Capital Corp to set up a $1,300,000 equipment lease purchase agreement. The proceeds were used to lease Pierce Inforcer pumper trucks and Pierce Arrow aerial quint truck for the Fire Station No. 311 and recorded at its acquisition cost of $1,300,000.

The lease has an interest rate of 4.10%. Repayments will be made semiannually on each May 10 and November 10, commencing May 10, 2007 and continue through November 10, 2011. The outstanding amount at June 30, 2007 was $1,181,547.

The annual requirements to amortize the lease outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 244,242	$ 45,965	$ 290,207
2009	254,358	35,849	290,207
2010	264,894	25,313	290,207
2011	275,865	14,341	290,206
2012	142,188	2,915	145,103
Total	$ 1,181,547	$ 124,383	$ 1,305,930

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Capital Leases, Continued

Municipal Finance Corporation

On November 19, 2004, the City entered into a capital lease agreement with Municipal Finance Corporation for the purchase of equipment used in retrofitting the City's heating and air conditioner systems. The lease has an interest rate of 3.65%. Repayments will be made quarterly on each February 19, May 19, August 19 and November 19, commencing in February 2005 and continue through November 10, 2010. At June 30, 2007, the outstanding balance of the lease is $467,068.

The annual requirements to amortize the lease outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 127,443	$ 15,317	$ 142,760
2009	132,159	10,602	142,761
2010	137,050	5,711	142,761
2011	70,416	966	71,382
Total	$ 467,068	$ 32,596	$ 499,664

Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) in the governmental activities has been accrued and amounts to $3,786,209 at June 30, 2007.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt*

Tax Allocation Bonds

Tax Allocation Bonds at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
2005 Tax allocation parity bonds, Series A	$ 26,850,000	$ -	$ (625,000)	$ 26,225,000	$ 655,000	$ 25,570,000
Bond discount	(146,451)	(53,703)	-	(200,154)	(13,937)	(186,217)
2006 Tax allocation parity bonds, Non-housing	62,780,000	-	(2,225,000)	60,555,000	715,000	59,840,000
Bond discount	(796,835)	-	32,908	(763,927)	(31,386)	(732,541)
2006 Tax allocation parity bonds, Housing Set-aside	16,855,000	-	(595,000)	16,260,000	190,000	16,070,000
Bond discount	(216,934)	-	8,969	(207,965)	(8,555)	(199,410)
2006 Tax allocation parity bonds, Taxable	45,020,000	-	(2,045,000)	42,975,000	70,000	42,905,000
Bond discount	(562,750)	-	19,135	(543,615)	(18,175)	(525,440)
2006 Tax allocation parity bonds, Taxable Forward	-	34,980,000	-	34,980,000	50,000	34,930,000
Bond discount	-	-	-	(425,922)	(17,036)	(408,886)
2006 Tax allocation bonds, Tax Subordinate	-	64,165,000	-	64,165,000	395,000	63,770,000
Bond discount	-	(3,240,333)	78,128	(3,162,205)	(127,847)	(3,034,358)
2007 Tax allocation bonds, Housing Set-aside	-	41,460,000	-	41,460,000	1,070,000	40,390,000
Bond discount	-	(585,921)	6,790	(579,131)	(23,359)	(555,772)
Total Tax Allocation Bonds	$ 149,782,030	$ 136,725,043	$ (5,344,070)	$ 280,737,081	$ 2,904,705	$ 277,832,376

2005 Tax Allocation Parity Bonds, Series A

In June 2005, the Southern California Logistics Airport Authority issued $42,185,000 principal amount of Tax Allocation Parity Bonds, Series 2005A. The proceeds were used to finance certain public capital improvements benefiting the Southern California Logistics Airport. Bonds maturing on December 1, 2010, December 1, 2015, December 1, 2020, December 1, 2025, December 1, 2030, and December 1, 2035 in the amounts of $2,765,000, $3,365,000, $5,140,000, $6,335,000, $7,870,000 and $15,335,000 are term bonds. The outstanding bonds bear interest at 3.50% to 5.00% due June 1 and December 1 of each year. The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on or after June 1, 2015 are subject to optional redemption in whole or in part by lot, without premium.

The bonds maturing on December 1, 2010, December 1, 2015, December 1, 2020, December 1, 2025, December 1, 2030, and December 1, 2035 are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2007, December 1, 2012, December 1, 2016, December 1, 2021, December 1, 2026, and December 1, 2031, respectively, from sinking fund payments made by SCLAA. In the fiscal year ended June 30, 2006 these bonds have been partially defeased by the issuance of the Tax Allocation Revenue Parity Bonds, Refunding Series 2006 (Non-Housing).

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2005 Tax Allocation Parity Bonds, Series A, Continued

The required reserve for the Bonds is $1,797,890. As of June 30, 2007 the reserve amount was $2,620,616. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The outstanding amount at June 30, 2007 was $26,225,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 655,000	$ 1,136,940	$ 1,791,940	$ 13,937
2009	680,000	1,114,016	1,794,016	13,646
2010	705,000	1,090,216	1,795,216	13,344
2011	725,000	1,065,540	1,790,540	13,033
2012	750,000	1,040,166	1,790,166	12,707
2013-2017	4,310,000	4,655,580	8,965,580	56,248
2018-2022	5,360,000	3,606,032	8,966,032	43,106
2023-2027	6,610,000	2,351,550	8,961,550	27,053
2028-2031	6,430,000	739,575	7,169,575	7,080
Total	$ 26,225,000	$ 16,799,615	$ 43,024,615	$ 200,154

2006 Tax Allocation Parity Bonds, Non-Housing

In June 2006, the Southern California Logistics Airport Authority issued $62,780,000 principal amount of Tax Allocation Revenue Parity Bonds, Refunding Series 2006. The proceeds were used to refund the 2001 Tax Allocation Bonds, a portion of 2003 Tax Allocation Bonds, and a portion of 2005 Tax Allocation Bonds. As a result, the 2001 and 2003 Tax Allocation Bonds are considered to be defeased, and the 2005 Tax Allocation Bonds are considered to be partially defeased. The respective liabilities have been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by $2,421,895 and resulted in an economic gain of $1,665,044. Bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 in the amounts of $6,895,000, $8,595,000, $10,810,000 and $20,335,000 are term bonds. The bonds bear interest at 3.25% to 5.00% due June 1 and December 1 of each year. The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on or after June 1, 2016 are subject to optional redemption in whole or in part by lot without premium. The bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2022, December 1, 2027, December 1, 2032 and December 1, 2037, respectively, from sinking fund payments made by the Agency.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2006 Tax Allocation Parity Bonds, Non-Housing, Continued

The required reserve for the Bonds is $4,504,646. As of June 30, 2007, the reserve amount was $4,541,304. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The outstanding amount at June 30, 2007 was $60,555,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 715,000	$ 2,789,173	$ 3,504,173	$ 31,386
2009	740,000	2,764,974	3,504,974	31,112
2010	760,000	2,739,094	3,499,094	30,819
2011	790,000	2,711,969	3,501,969	30,512
2012	820,000	2,683,281	3,503,281	30,187
2013-2017	4,550,000	12,928,188	17,478,188	145,415
2018-2022	5,545,000	11,902,164	17,447,164	133,799
2023-2027	6,895,000	10,522,813	17,417,813	118,202
2028-2032	8,595,000	8,787,613	17,382,613	98,590
2033-2037	10,810,000	6,487,500	17,297,500	72,545
2038-2042	13,800,000	3,426,750	17,226,750	37,940
2043	6,535,000	330,875	6,865,875	3,420
Total	$ 60,555,000	$ 68,074,394	$ 128,629,394	$ 763,927

2006 Tax Allocation Parity Bonds, Housing Set-Aside

In June 2006, the Southern California Logistics Airport Authority issued $16,855,000 principal amount of Housing Set-Aside Revenue Bonds, Refunding Series 2006. The proceeds were used to refund a portion of the 2003 Tax Allocation Bonds. As a result the 2003 Tax Allocation Bond is considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by $1,563,960 and resulted in an economic gain of $533,504. Bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 in the amounts of $1,855,000, $2,305,000, $2,905,000 and $5,460,000 are term bonds. The bonds bear interest at 3.25% to 5.00% due June 1 and December 1 of each year. The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on or after June 1, 2016 are subject to optional redemption in whole or in part by lot without premium. The bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2022, December 1, 2027, December 1, 2032 and December 1, 2037, respectively, from sinking fund payments made by the Agency.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2006 Tax Allocation Parity Bonds, Housing Set-Aside, Continued

The required reserve for the Bonds is $1,209,395. As of June 30, 2007, the reserve amount was $1,219,277. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The outstanding amount at June 30, 2007 was $16,260,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 190,000	$ 750,244	$ 940,244	$ 8,555
2009	195,000	743,841	938,841	8,481
2010	205,000	736,939	941,939	8,402
2011	210,000	729,676	939,676	8,319
2012	220,000	721,821	941,821	8,228
2013-2017	1,225,000	3,473,244	4,698,244	39,585
2018-2022	1,490,000	3,195,993	4,685,993	36,406
2023-2027	1,855,000	2,825,763	4,680,763	32,164
2028-2032	2,305,000	2,360,013	4,665,013	26,829
2033-2037	2,905,000	1,742,625	4,647,625	19,746
2038-2042	3,705,000	919,875	4,624,875	10,319
2043	1,755,000	88,875	1,843,875	931
Total	$ 16,260,000	$ 18,288,909	$ 34,548,909	$ 207,965

2006 Tax Allocation Parity Bonds, Taxable

In June 2006, the Southern California Logistics Airport Authority issued $45,020,000 principal amount of Tax Allocation Revenue Parity Bonds, Taxable Series 2006. The proceeds were used to finance certain redevelopment activities benefiting the Southern California Airport. Bonds maturing on December 1, 2036, and December 1, 2043 in the amounts of $20,080,000, and $24,940,000 are term bonds. The bonds bear interest at 6.10% due June 1 and December 1 of each year. The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds are subject to optional redemption in whole or in part by lot, subject to a premium. The bonds maturing on December 1, 2036, December 1, 2043 are subject to mandatory redemption in part by pro rata, without premium, commencing December 1, 2006, December 1, 2037, respectively, from sinking fund payments made by SCLAA.

The required reserve for the Bonds is $3,230,315. As of June 30, 2007, the reserve amount was $3,256,711. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The outstanding amount at June 30, 2007 was $42,975,000.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2006 Tax Allocation Parity Bonds, Taxable, Continued

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 70,000	$ 2,619,340	$ 2,689,340	$ 18,175
2009	70,000	2,615,070	2,685,070	18,145
2010	75,000	2,610,648	2,685,648	18,115
2011	80,000	2,605,920	2,685,920	18,082
2012	85,000	2,600,888	2,685,888	18,046
2013-2017	520,000	12,916,750	13,436,750	89,621
2018-2022	700,000	12,730,395	13,430,395	88,321
2023-2027	940,000	12,483,040	13,423,040	86,596
2028-2032	3,055,000	12,094,013	15,149,013	83,823
2033-2037	12,440,000	9,593,775	22,033,775	66,140
2038-2042	16,735,000	5,174,478	21,909,478	35,320
2043	8,205,000	507,673	8,712,673	3,231
Total	$ 42,975,000	$ 78,551,990	$ 121,526,990	$ 543,615

2006 Tax Allocation Parity Bonds, Taxable Forward

In November 2006, the Southern California Logistics Airport Authority issued tax allocation revenue parity bonds, taxable forward series in the amount of $34,980,000. The purpose of the bonds was to finance and refinance certain redevelopment activities benefiting the Southern California Logistics Airport. The bonds mature from December 1, 2007 to December 1, 2043 in varying amounts. Principal is payable in annual installments ranging from $50,000 to $2,320,000, commencing December 1, 2007. The bonds accrue interest at rates between 6.25% and 6.30%. Interest on the bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2007. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by pledged tax revenues. The required reserve for the Bonds is $2,476,455. As of June 30, 2007, the reserve amount was $2,496,607. The outstanding amount at June 30, 2007 was $34,980,000.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2006 Tax Allocation Parity Bonds, Taxable Forward, Continued

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 50,000	$ 2,287,630	$ 2,337,630	$ 17,036
2009	240,000	2,186,980	2,426,980	16,935
2010	295,000	2,170,210	2,465,210	16,802
2011	315,000	2,151,083	2,466,083	16,653
2012	330,000	2,130,858	2,460,858	16,496
2013-2017	1,990,000	10,305,288	12,295,288	79,764
2018-2022	2,715,000	9,573,261	12,288,261	74,062
2023-2027	3,670,000	8,579,093	12,249,093	66,321
2028-2032	4,980,000	7,232,925	12,212,925	55,838
2033-2037	6,745,000	5,409,339	12,154,339	41,637
2038-2042	9,140,000	2,929,815	12,069,815	22,328
2043	4,510,000	288,225	4,798,225	2,050
Total	$ 34,980,000	$ 55,244,707	$ 90,224,707	$ 425,922

2006 Tax Allocation Bonds, Tax Subordinate

In November 2006, the Southern California Logistics Airport Authority issued taxable subordinate tax allocation revenue bonds in the amount of $64,165,000. The purpose of the bonds was to finance certain redevelopment activities benefiting the Southern California Logistics Airport. The bonds mature from December 1, 2007 to December 1, 2043 in varying amounts. Principal is payable in annual installments ranging from $395,000 to $4,135,000, commencing December 1, 2007. The bonds accrue interest at 6.05%. Interest on the bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2007. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by pledged tax revenues. The required reserve for the Bonds is $4,389,930. As of June 30, 2007, the reserve amount was $4,407,901. The outstanding amount at June 30, 2007 was $64,165,000.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2006 Tax Allocation Bonds, Tax Subordinate, Continued

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 395,000	$ 3,923,950	$ 4,318,950	$ 127,847
2009	530,000	3,842,053	4,372,053	126,726
2010	560,000	3,809,080	4,369,080	125,632
2011	595,000	3,774,141	4,369,141	124,473
2012	630,000	3,737,085	4,367,085	123,244
2013-2017	3,780,000	18,045,033	21,825,033	594,980
2018-2022	5,070,000	16,715,243	21,785,243	550,872
2023-2027	6,800,000	14,932,610	21,732,610	491,746
2028-2033	9,120,000	12,541,650	21,661,650	412,442
2033-2037	12,235,000	9,332,881	21,567,881	306,012
2038-2042	16,415,000	5,029,819	21,444,819	163,287
2043	8,035,000	493,226	8,528,226	14,944
Total	$ 64,165,000	$ 96,176,771	$ 160,341,771	$ 3,162,205

2007 Tax Allocation Bonds, Housing Set-Aside

In March 2007, the Southern California Logistics Airport Authority (Authority) issued taxable housing set-aside revenue parity bonds series 2007 in the amount of $41,460,000. The purpose of the bonds was to finance certain low and moderate income housing programs of the Authority.

The bonds mature from December 1, 2007 to December 1, 2043 in varying amounts. Principal is payable in annual installments ranging from $400,000 to $2,460,000, commencing December 1, 2007. The bonds accrue interest at rates between 5.00% and 5.55%. Interest on the bonds is payable semiannually on each June 1 and December 1, commencing December 1, 2007. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by pledged tax revenues. The required reserve for the Bonds is $1,301,205. As of June 30, 2007, the reserve amount was $1,311,575. The bonds were acquired at a discount amounting to $585,921, which is amortized on a straight-line method over 37 years. The outstanding amount at June 30, 2007 was $41,460,000.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Tax Allocation Bonds, Continued

2007 Tax Allocation Bonds, Housing Set-Aside, Continued

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 1,070,000	$ 2,629,592	$ 3,699,592	$ 23,359
2009	400,000	2,191,885	2,591,885	23,473
2010	415,000	2,171,510	2,586,510	23,254
2011	435,000	2,150,260	2,585,260	23,026
2012	460,000	2,127,885	2,587,885	22,785
2013-2017	2,665,000	10,253,100	12,918,100	109,762
2018-2022	3,440,000	9,462,145	12,902,145	101,247
2023-2027	4,445,000	8,422,860	12,867,860	90,057
2028-2032	5,800,000	7,035,233	12,835,233	75,112
2033-2037	7,595,000	5,188,001	12,783,001	55,224
2038-2042	9,945,000	2,768,756	12,713,756	29,181
2043	4,790,000	269,453	5,059,453	2,651
Total	$ 41,460,000	$ 54,670,680	$ 96,130,680	$ 579,131

Lease Revenue Bonds

Lease Revenue Bonds at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
2005 Variable rate lease revenue bonds, Series A	$ 41,000,000	$ -	$ (41,000,000)	$ -	$ -	$ -
2006 Variable rate lease revenue bonds, Series A	-	23,645,000	(23,645,000)	-	-	
2007 Variable rate lease revenue bonds, Series A	-	83,770,000	-	83,770,000	-	83,770,000
Total Lease Revenue Bonds	$ 41,000,000	$ 107,415,000	$ (64,645,000)	$ 83,770,000	$ -	$ 83,770,000

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Lease Revenue Bonds, Continued

2005 Variable Rate Lease Revenue Bonds, Series A

In April 2005, the Victorville Joint Powers Financing Authority issued the 2005 Variable Rate Lease Revenue Bonds in the amount of $41,000,000. The bonds were issued to refinance a cogeneration power plant and other related facilities, to fund capitalized interest on the bonds through May 1, 2007, to fund a reserve fund for the bonds, and to pay costs of issuance of the bonds. The bonds bear interest at a weekly or daily rate payable on the first business day of each month, commencing June 1, 2005. After conversion to a fixed interest rate, interest will be payable semi-annually on May 1 and November 1. The bonds are subject to optional redemption in whole or in part by lot, without premium.

The required reserve for the Bonds is $2,296,900. As of June 30, 2007, the reserve amount was $11,801. The bonds are a special obligation of the Authority payable from revenues consisting primarily of base rental lease payments paid by the City and amounts held in the funds as established under the indenture. On May 1, 2007, the bonds were refunded by the 2007 Variable Rate Lease Revenue Bonds.

2006 Variable Rate Lease Revenue Bonds, Series A

In July 2006, the Victorville Joint Powers Financing Authority issued the 2006 Variable Rate Lease Revenue Bonds in the amount of $23,645,000. The bonds were issued to finance a cogeneration power plant and other related facilities, to fund capitalized interest on the bonds through May 1, 2007, to fund a reserve fund for the bonds, and to pay costs of issuance of the bonds. The bonds bear interest at a weekly or daily rate payable on the first business day of each month, commencing August 1, 2006. After conversion to a fixed interest rate, interest will be payable semi-annually on May 1 and November 1. The bonds are subject to optional redemption in whole or in part by lot, without premium.

The required reserve for the Bonds is $1,435,691. As of June 30, 2007, the reserve amount was $7,245. The bonds are a special obligation of the Authority payable from revenues consisting primarily of base rental lease payments paid by the City and amounts held in the funds as established under the indenture. On May 1, 2007, the bonds were refunded by the 2007 Variable Rate Lease Revenue Bonds.

On May 1, 2007, the Victorville Joint Powers Financing Authority issued the 2007 Variable Rate Lease Revenue Bonds in the amount of $83,770,000. The bonds were issued to refund the 2005 Variable Rate Lease Revenue Bonds and 2006 Variable Rate Lease Revenue Bonds, to finance certain improvements to the City's electric system, to fund capitalized interest on the bonds, to fund a reserve fund for the bonds, and pay costs of issuance if the bonds. The bonds mature from December 1, 2011 to December 1, 2040 in varying amounts. The bonds bear interest at a weekly or daily rate payable on the first business day of each month, commencing June 1, 2007. The bonds are subject to an optional conversion to a fixed rate. After conversion to a fixed interest rate, interest will be payable semi-annually on May 1 and November 1. The bonds are subject to optional and mandatory redemption prior to maturity.

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Lease Revenue Bonds, Continued

2007 Variable Rate Lease Revenue Bonds, Series A, Continued

The required reserve for the Bonds is $5,872,900. As of June 30, 2007, the reserve amount was $5,889,710. The bonds are a special obligation of the Authority payable from revenues consisting primarily of base rental lease payments paid by the City and amounts held in the funds as established under the indenture. The outstanding amount at June 30, 2007 was $83,770,000.

The annual requirements to amortize the bonds outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal
2008	$ -
2009	-
2010	-
2011	300,000
2012	400,000
2013-2017	5,575,000
2018-2022	9,995,000
2023-2027	12,955,000
2028-2032	16,785,000
2033-2037	21,740,000
2038-2040	16,020,000
Total	$ 83,770,000

Installment Purchase Agreement

Installment Purchase Agreement at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
2004 Project revenue bonds	2,677,500	-	(145,000)	2,532,500	152,500	2,380,000
Bond discount	(127,800)	-	9,129	(118,671)	(9,129)	(109,542)
Total certificates of participation	$ 2,549,700	$ -	$ (135,871)	$ 2,413,829	$ 143,371	$ 2,270,458

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Installment Purchase Agreement, Continued

2004 Project Revenue Bonds

In November 1994, the City entered into an installment purchase agreement to acquire a one-half undivided interest in the Victor Valley Materials Recovery Facility. The design and construction of the Facility was completed in October 1995 and was funded by the issuance of $6,825,000 Project Revenue Bonds, Series 1994 through the Mojave Desert and Mountain Solid Waste Joint Powers Authority (Authority). On May 1, 2004, the $5,910,000 Project Revenue Refunding Bonds, Series 2004 were used to currently refund the 1994 bonds, which have no balance. The City is obligated to make monthly installment purchase payments to the Authority equal to the sum of (1) one-twelfth of the next principal payment and (2) one-sixth of the next interest payment. Interest on the installment purchase obligation ranges from 2.0% to 5.1% and total annual principal installments range from $135,000 to $252,500. The City will pay to the Authority the installment payments solely from service revenues, which consist primarily of rates and charges imposed by the City for solid waste management services. Covenants within the installment purchase agreement require the City of Victorville to establish annual rates sufficient to pay operating expenses and debt service payments in such fiscal year. In addition, such rates shall be charged to produce net revenues equal to at least 125% of the debt service payments due and payable in such fiscal year. Since the beginning of the fiscal year on July 1, 2006 through June 30, 2007, the City was in compliance with the rate covenants.

The required reserve for the bonds is $536,070. As of June 30, 2007, the reserve amount was $540,308. The outstanding amount at June 30, 2007 was $2,532,500.

The annual requirements to amortize the certificates outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total	Amortization of Bond Discount
2008	$ 152,500	$ 114,940	$ 267,440	$ 9,129
2009	155,000	110,213	265,213	9,129
2010	160,000	104,943	264,943	9,129
2011	167,500	98,943	266,443	9,129
2012	172,500	92,075	264,575	9,129
2013-2017	1,000,000	334,398	1,334,398	45,645
2018-2020	725,000	74,868	799,868	27,381
Total	$ 2,532,500	$ 930,380	$ 3,462,880	$ 118,671

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Notes Payable

Notes payable at June 30, 2007, consisted of the following:

	Balance June 30, 2007	Debt Issued	Debt Retired	Balance June 30, 2008	Classification Due in one year	Classification Due in more than one year
2006 Taxable Industrial Development Revenue Notes, Series A	$ 20,000,000	$ -	$ (20,000,000)	$ -	$ -	$ -
Total	$ 20,000,000	$ -	$ (20,000,000)	$ -	$ -	$ -

2006 Taxable Industrial Development Revenue Notes, Series A

In February 2006, the Southern California Logistics Airport Authority issued the Taxable Industrial Development Revenue Notes in the amount of $30,000,000. The proceeds were used to refund the $20,000,000 Taxable Industrial Development Revenue Notes, Series 2005A and to make a loan to a developer to construct certain hangar facilities within the Southern California Logistics Airport. The notes bear interest at 5.50% from the date of issuance to November 1, 2007 and at three month Libor rate plus 5% each interest period thereafter, due February 1, May 1, August 1, and November 1 of each year, commencing May 1, 2006. The notes were paid off at June 30, 2007.

Capital Leases

Capital Leases at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Prior Period Adjustments	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
Burrtec Waste Industry	$ -	$ 1,518,674	$ (134,392)	$ 1,384,282	$ 139,172	$ 1,245,110
Total certificates of participation	$ -	$ 1,518,674	$ (134,392)	$ 1,384,282	$ 139,172	$ 1,245,110

Burrtec Waste Industry

In March 2004, the Mojave Desert and Mountain Integrated Waste Management Authority (Authority) entered into an agreement with Burrtec Waste Industries to set up a $3,124,875 lease purchase agreement. The debt was issued on behalf of the City of Victorville (City) and the Town of Apple. The proceeds were used to make certain facility improvements in order to increase materials recovery and reduce operating costs. The lease has an interest rate of 3.50%. Repayments by the Authority will be made in monthly payments of $30,901. Monthly payments from the Authority began in March of 2006 and continue through February of 2016. The outstanding amount at June 30, 2007, which represents the

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Capital Leases, Continued

City's portion of the obligation, was $1,384,282.

The annual requirements to amortize the lease outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 139,172	$ 46,232	$ 185,404
2009	144,122	41,282	185,404
2010	149,248	36,154	185,402
2011	154,557	30,847	185,404
2012	160,054	25,350	185,404
2013-2016	637,130	42,684	679,814
Total	$ 1,384,282	$ 222,548	$ 1,606,830

Lease Purchase Agreements

Lease purchase agreements at June 30, 2007, consisted of the following:

	Balance July 1, 2006	Prior Period Adjustments	Additions	Deletions	Balance June 30, 2007	Amount Due Within One Year	Amount Due More Than One Year
Zions First National Bank	$ 1,609,124	$ -	$ -	$ (289,339)	$ 1,319,785	$ 304,739	$ 1,015,046
Comerica Leasing Corporation	1,502,149	-	-	(149,152)	1,352,997	155,817	1,197,180
Key Government Finance, Inc.	-	2,200,000	-	(447,501)	1,752,499	-	1,752,499
Total Lease Purchase Agreements	$ 3,111,273	$ 2,200,000	$ -	$ (885,992)	$ 4,425,281	$ 460,556	$ 3,964,725

Zions First National Bank

In May 2003, the Victorville Municipal Utility Authority entered into a lease/purchase agreement with Zions First National Bank to set up a $2,300,000 lease purchase agreement. The proceeds were used to lease co-generation equipment necessary for ongoing activities, recorded at its acquisition cost of $2,730,173. The lease has an interest rate of 5.22%. Repayments by the Municipal Utility will be made in quarterly payments of $91,933. Quarterly payments from the Municipal Utility began in November of 2003 and continue through May of 2011. The outstanding amount at June 30, 2007 was $1,319,785.

6. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt, Continued

Lease Purchase Agreements, Continued

Zions First National Bank, Continued

The annual requirements to amortize the lease outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 304,739	$ 62,992	$ 367,731
2009	320,961	46,771	367,732
2010	338,046	29,686	367,732
2011	356,039	11,691	367,730
Total	$ 1,319,785	$ 151,140	$ 1,470,925

Comerica Leasing Corporation

In November 2004, the City entered into an agreement with Comerica Leasing Corporation to set up a $2,054,000 equipment lease purchase agreement. The proceeds were used to lease a natural gas generator necessary for ongoing activities, recorded at its acquisition cost of $2,054,000. The lease has an interest rate of 4.396%. An initial payment of $340,000 was made on November of 2004. Remaining repayments are being made quarterly, which began in February of 2005 and continue through November of 2014. The outstanding amount at June 30, 2007 was $1,352,997.

The annual requirements to amortize the lease outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 155,817	$ 56,933	$ 212,750
2009	162,781	49,969	212,750
2010	170,057	42,694	212,751
2011	177,656	35,094	212,750
2012	185,595	27,155	212,750
2013-2015	501,091	30,785	531,876
Total	$ 1,352,997	$ 242,630	$ 1,595,627

6. LONG-TERM DEBT, Continued

B. *Business-Type Activities Long-Term Debt, Continued*

Lease Purchase Agreements, Continued

Key Government Finance, Inc.

In June 2006, the City entered into an agreement with Key Government Finance Inc. to set up a $2,200,000 equipment lease purchase agreement. The proceeds were used to purchase a Rainbird Golf Irrigation System necessary for repair, maintenance parts and minimal repair training technique. Repayments will be made annually on July 15, commencing July 15, 2006 and continue through July 15, 2015. The outstanding amount at June 30, 2007 is $1,752,499.

The annual requirements to amortize the lease outstanding at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ -	$ -	$ -
2009	180,320	6,248	186,568
2010	190,224	86,345	276,569
2011	200,671	75,898	276,569
2012	211,692	64,877	276,569
2013	223,318	53,250	276,568
2014-2016	746,274	83,432	829,706
Total	$ 1,752,499	$ 370,050	$ 2,122,549

7. DEBT WITHOUT GOVERNMENT COMMITMENT

At June 30, 2007, debt without City commitment consisted of the followings:

	Original Issuance	Balance at June 30, 2007
Community Facilities District No. 90-1	$ 7,935,000	$ 6,330,000
Community Facilities District No. 01-01	1,040,000	985,000
Community Facilities District No. 01-01	3,245,000	3,205,000
Total	$ 12,220,000	$ 10,520,000

7. DEBT WITHOUT GOVERNMENT COMMITMENT, Continued

Community Facilities District 90-1

The City is the collection and paying agent for the Community Facilities District No. 90-1 of the City of Victorville Special Tax Refunding Bonds, 2005 Series A. The special tax bonds were issued to refund the District's Special Tax Bonds, 1991 Series A. The special tax bonds are secured by valid assessment liens upon certain lands within the special assessment district and are not direct liabilities of the City and, accordingly, are not included in the accompanying general purpose financial statements. The City has no obligation beyond the balances in the designated agency funds for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the faith, credit nor taxing power of the City is pledged to the payment of the bonds. The City acts solely as an agent for those paying assessments and for the bondholders. The outstanding balance at June 30, 2007 was $6,330,000.

Community Facilities District 01-01

The City is the collection and paying agent for the Community Facilities District No. 01-01 of the City of Victorville Special Tax Bonds, 2002 Series A. The special tax bonds are secured by valid assessment liens upon certain lands within the special assessment district and are not direct liabilities of the City and, accordingly, are not included in the accompanying general purpose financial statements. The City has no obligation beyond the balances in the designated agency funds for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the faith, credit or taxing power of the City is pledged to the payment of the bonds. The City acts solely as an agent for those paying assessments and for the bondholders. The outstanding balance at June 30, 2007 was $985,000.

Community Facilities District 01-01

The City is the collection and paying agent for the Community Facilities District No. 01-01 of the City of Victorville Special Tax Bonds, 2005 Series A. The special tax bonds are secured by valid assessment liens upon certain lands within the special assessment district and are not direct liabilities of the City and, accordingly, are not included in the accompanying general purpose financial statements. The City has no obligation beyond the balances in the designated agency funds for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the faith, credit or taxing power of the City is pledged to the payment of the bonds. The City acts solely as an agent for those paying assessments and for the bondholders. The outstanding balance at June 30, 2007 was $3,205,000.

8. RETIREMENT BENEFITS

A. *California Public Employees' Retirement Plan (PERS)*

Plan Description

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% for miscellaneous member, and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the 2006-2007 rates are 12.146% for miscellaneous employees, and 20.327% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For the fiscal year ended June 30, 2007, the City's annual pension cost of $3,969,323 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases range from 3.25% to 14.45% for miscellaneous employees and 3.25% to 14.45% for safety employees depending on age, service, and type of employment, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis over twenty years.

Three-Year Trend Information
Annual Pension Cost (Employer Contribution)

Fiscal Year	Safety	Miscellaneous	Total	Percentage of APC Contributed	Net Pension Obligation
6/30/05	$ 754,192	$ 1,735,988	$ 2,490,180	100%	$ -
6/30/06	869,858	2,596,591	3,466,449	100%	-
6/30/07	980,955	2,988,368	3,969,323	100%	-

9. OTHER POST EMPLOYMENT BENEFITS

Employees who retire from the City are eligible to receive health care benefits covering themselves only. The City pays based on years of service, a percentage of all premiums charged under a health benefit plan administered by the Public Employee's Retirement System (PERS) in which the individuals are able to select, on an annual basis, an insurance carrier from a number of insurance carriers. Expenditures for post-retirement health care benefits for the fiscal year ended June 30, 2007 amounted to $41,730, which included 18 participants.

10. PROPERTY TAX

Property taxes are levied on March 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is March 1. The County of San Bernardino, California (County) bills and collects property taxes and remits them to the Authority according to a payment schedule established by the County.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The Agency receives a share of this basic tax levy proportionate to what it received during the years 1983-1984.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the Authority and, therefore, are not recorded as revenue until collected.

No allowance for doubtful accounts was considered necessary.

11. JOINT VENTURES

The City participates in joint ventures through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint ventures, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint ventures.

11. JOINT VENTURES, Continued

Regional Fire Protection Authority

Regional Fire Protection Authority (RFPA) was formed in 1979 between the City of Victorville, Apple Valley Fire Protection Agency and Hesperia Fire Protection District on an equal basis to provide fire protection, emergency dispatch, and related functions in order to reduce individual agency financial and personnel requirements. An Advisory Committee was established with a representative appointed by each member agency. The Advisory Committee shall consider and adopt an annual budget for RFPA. Each member contributes its pro rata share of operating costs to RFPA. As of June 30, 2004, Hesperia Fire Protection District terminated membership in RFPA. The City contributed $281,193 to RFPA for the year ended June 30, 2007 for fire protection services. Financial statements may be obtained by mailing a request to City of Victorville, 14343 Civic Drive, Victorville, CA 92392.

Mojave Desert and Mountain Integrated Waste Management Authority

Mojave Desert and Mountain Integrated Waste Management Authority (MDMA) was formed in September of 1991 between the cities of Victorville, Barstow, Big Bear Lake, Needles, Twenty-Nine Palms, the Towns of Apple Valley and Yucca Valley and the County of San Bernardino to operate the recycling processing center known as Victor Valley Materials Recovery Facility (MRF). The City of Victorville maintains a 50% interest in the MRF. The City's net investment in the Joint Venture at June 30, 2007 was $3,412,500. The remaining 50% interest is maintained by the Town of Apple Valley. Contribution rates from member agencies are based on each member's current population as a percentage of the total population of the MDMA. The City's contribution toward the cost of operating and maintaining the facility during the year June 30, 2007 was $83,118. Financial statements may be obtained by mailing a request to the City of Victorville, 14343 Civic Drive, Victorville, CA 92392.

Victor Valley Economic Development Authority

The Victor Valley Economic Development Authority (VVEDA) was formed in 1992 between the Cities of Victorville and Hesperia, the Town of Apple Valley and the County of San Bernardino to provide the mechanism and funding to acquire George Air Force Base, facilitate the successful reuse of the property and promote economic development within the area surrounding the Air Base. In 2000, the City of Adelanto was added as a member of the Authority. Financial statements may be obtained by mailing a request to the City of Victorville, 14343 Civic Drive, Victorville, CA 92392.

Victor Valley Transit Authority

The Victor Valley Transit Authority (VVTA) was formed in 1993 between the Cities of Victorville, Adelanto, and Hesperia, the Town of Apple Valley, and the County of San Bernardino for the purpose of implementing a public transit system to serve the Victor Valley and to provide connecting services to all other areas. The governing body of VVTA is made up of representatives from each significant participant in VVTA. Budgeting and financing are the responsibility of VVTA. The City of Victorville has agreed to sell monthly bus passes issued by VVTA and to remit between the first and tenth day of each month the previous month's sales receipts and proceeds. Financial statements may be obtained by sending a written request to Victor Valley Transit Authority, 11741 E. Santa Fe Avenue, Hesperia, CA 92345.

11. JOINT VENTURES, Continued

Victor Valley Wastewater Reclamation Authority

The Victor Valley Wastewater Reclamation Authority (VVWRA) was formed in 1999 between the Cities of Victorville, Adelanto, and Hesperia, the Town of Apple Valley, and the County of San Bernardino for the purpose of construction, operation and maintenance of sewer collection, transmission and treatment facilities within the high desert region. The governing body of VVWRA is made up of representatives of each significant participant in VVWRA. Budgeting and financing are the responsibility of the VVWRA. The City makes monthly payments to VVWRA for sewer treatment and connection fee services. The City made payments totaling $10,535,998 to VVWRA for the year ended June 30, 2007. Financial statements may be obtained by sending a written request to Victor Valley Wastewater Reclamation Authority, 20111 Shay Road, Victorville, CA 92394.

12. RISK MANAGEMENT

The City is a member of the Public Entity Risk Management Authority (PERMA), formerly Coachella Valley Joint Powers Insurance Authority (CVJPIA), a joint powers authority formed under Section 990 of the California Government Code for the purpose of jointly funding programs of insurance coverage for its members. PERMA is comprised of twenty-five participating member agencies, eighteen cities with populations ranging from 1,500 to 100,000, three transit agencies, and five special districts. The City participates in the liability and worker's compensation insurance programs of PERMA.

The liability program provides coverage up to $40 million per occurrence for personal injury, bodily injury, property damage and public officials' errors and omissions. The City has selected a self-insured retention of $50,000 and participates in risk sharing pools for losses up to $1 million followed by PERMA's membership in the California Joint Powers Risk Management Authority (CFPRMA) for excess coverage to the limits.

The workers' compensation program provides $150 million per accident for workers' compensation and $5 million each accident for employers' liability. The City self-insures up to a level of $250,000 per accident or employee and participates in a risk sharing pool for losses up to $500,000 followed by PERMA's membership in the Local Agency Worker' s Compensation Excess Joint Powers Authority (LAWCX) and the California Public Entity Insurance Authority (CPEIA) for excess coverage to the limits.

Changes in the amount of claims payable for the fiscal year ended June 30, 2007 are as follows:

	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2006-2007	$ 1,205,328	$ 336,510	$ (460,040)	$ 1,081,798

13. COMMITMENTS AND CONTINGENCIES

A. *Litigation*

The City is a defendant in certain legal actions arising in the normal course of operations. The accompanying basic financial statements reflect a liability for the probable amounts of loss associated with these claims.

B. *Taxes*

The California Supreme Court recently upheld the constitutionality of Proposition 62, a 1986 initiative which required voter approval of all new or increased taxes. Because the City has operated as a general law city in the past, certain taxes previously collected by the City may be disallowed in the future. The City believes that it has no previously collected taxes that are subject to challenge.

C. *Construction*

Various construction projects were in progress at June 30, 2007 with an estimated cost to complete of approximately $46,183,604 in all fund types.

D. *Redevelopment Agency*

The Agency had the following developer agreement payments at June 30, 2007:

a. The Agency has entered into an Owner Participation Agreement with M&M/Mars, Inc., which provides for annual payments of $50,000 from fiscal year 2002-2003 through fiscal year 2011-2012 for reimbursement of certain capital equipment costs.

b. The Agency also entered into a Disposition and Development Agreement with Sagebrush Properties, LLC, which provides for annual payments from fiscal year 2007-2008 through fiscal year 2011-2012 for reimbursement of certain capital equipment costs. Such payments shall be equal to 55.75% of the actual property taxes paid by the project.

c. The Agency also entered into an Owner Participation Agreement with ConAgra Foods, Inc., which provides for annual payments from fiscal year 2006-2007 through fiscal year 2015-2016 for certain capital equipment costs. Such payments shall be equal to 35% of the actual property taxes paid by the project.

13. COMMITMENTS AND CONTINGENCIES, Continued

E. *Southern California Logistics Airport Authority*

Stirling Enterprises, LLC

Background

In the early 1990's the US Air Force closed George Air Force Base ("former Base"). In response the local communities formed the Victor Valley Economic Development Authority (VVEDA). VVEDA and the Air Force entered into agreements to lease and ultimately transfer title to the former Base to VVEDA. The subject land is designated as either Public Benefit Transfer (PBT) Parcels or Economic Development Conveyance (EDC) Parcels. The PBT Parcels are made up of approximately 2,200 acres previously used by the U.S. Air Force and are restricted to use as an airport. These parcels were transferred to SCLAA at no cost. The EDC Parcels are made up of approximately 1,800 acres of adjacent property which may be developed for use as commercial property. SCLAA paid or is required to pay $1,673,655 for these EDC Parcels.

In 1993 a Redevelopment Plan was adopted by VVEDA establishing a redevelopment project area encompassing the former Base as well as approximately 55,000 additional acres. VVEDA delegated its decision making authority relative to the former Base, now known as Southern California Logistics Airport or SCLA, to the Southern California Logistics Airport Authority ("SCLAA"). SCLAA is a component entity of the City of Victorville.

SCLAA adopted a Specific Plan in conformity with the Redevelopment Plan and adopted a Master Development Plan establishing its goal to develop the area as a cargo and aircraft maintenance facility and a business/industrial center thereby creating jobs and improving economic conditions in the Victor Valley.

In July 1998 SCLAA and Stirling Enterprises, LLC and its related entities ("Stirling") entered into the first of several agreements for the marketing, acquisition, operation and development of SCLA. The Third Amended and Restated Master Agreement ("Stirling Agreement") is the current agreement superseding all previous versions.

Revenues from Sales of Land

Pursuant to the Stirling Agreement, SCLAA agreed to transfer a portion of the EDC Parcels to Stirling at the original cost, with future revenue sharing based on the profit earned by Stirling. The revenue sharing formula states that to the extent that sales proceeds exceed the transfer price to Stirling, SCLAA and Stirling will share in the excess proceeds as follows:

- The first $1.00 in excess is all allocated to Stirling
- The second $1.00 is split 50%/50% between Stirling and Authority
- Thereafter, excess proceeds are split 80% to Stirling and 20% to Authority

The terms of sale and transfer are to be documented in a Disposition and Development Agreement (DDA).

13. COMMITMENTS AND CONTINGENCIES, Continued

E. Southern California Logistics Airport Authority, Continued

Stirling Enterprises, LLC, Continued

Revenues from Sales of Land, Continued

Pre-development costs and infrastructure improvement costs shall be borne by SCLAA. Prior to transfer, sources of revenue to finance SCLAA's infrastructure costs shall be identified, said financing to be made up primarily of tax increment revenues received by SCLAA as a pass through from VVEDA. To the extent tax increment revenues are not available, the obligations of SCLAA to contribute infrastructure financing shall be modified or deferred.

Management

Stirling is allowed to lease or cause to be leased both the EDC and PBT Parcels and shall participate in 20% of the Net Lease Revenue. To incentivize Stirling's marketing of the Airport, Stirling is paid 20% of the increase in Airport revenues over and above a base year factor. Such Airport revenues include leases, landing fees, fuel flowage fees and any tariffs or fees pertaining to Airport operations. Additionally, any revenues from other interim uses such as filming will be shared on a 50%/50% basis between Stirling and Authority.

14. CITY'S FINANCIAL CONDITION

At June 30, 2007, the City had a net decrease of its net assets in the amount of $(76,211,434) on the Government-Wide Financial Statements, which raises uncertainties regarding the City's ability to conduct future operations.

The overall financial condition of the City has weakened over the course of the last two years, based on the sudden decline in the economy of the United States, the State of California and the local area. These factors have resulted in declines in revenues to the City, and are reflected in three primary areas:

1. General Fund Reserves have been substantially depleted.
2. Deficit operations for proprietary funds
3. Significant unmet financial obligations

General Fund Reserves

The General Fund is typically the focal point in analyzing the health of the City because it is assumed that the General Fund will be able to cover both its costs and act as a financial backstop for other funds. For the year ended June 30, 2007, the General Fund had a net loss of $(8,069,638) which reduces the fund balance to $19,902,078. Based on the budget forecast prepared by the City's Finance Department, the City is expecting a net loss of $(17,663,709) for the fiscal year ended June 30, 2008 which reduces the fund balance to $2,238,369.

14. CITY'S FINANCIAL CONDITION, Continued

Deficit Operations for Proprietary Funds

The Southern California Logistics Airport Authority (SCLAA) and the Municipal Utilities (VMUS) enterprise funds have a history of operating at significant deficits. During the fiscal year ended June 30, 2007, the SCLAA and VMUS have accumulated deficits of $(97,015,651) and $(62,369,061), respectively. The primary source of funds to cover the net operating losses is transfers and loans from the General Fund. The General Fund is likely to have an unrestricted fund balance and cash balance at June 30, 2008 that is at a level less than the amount needed to financially support VMUS during the fiscal year 2008-2009.

Significant Financial Obligations

Over the course of the last three years, the City has undertaken a number of significant projects whose ultimate goal is to create new jobs, enhance the local housing and business markets through population increases and finally, to implement an income stream to the City that is protected from diversion by the State of California. To fund these efforts, the City entered into significant obligations. The two most significant obligations are: a) 2007 Variable Rate Lease Revenue Bonds Series A in the amount of $83,770,000 and b) Contract with General Electric.

15. NET ASSETS DEFICITS

Government-Wide Financial Statements

Net Assets had a deficit balance of $(81,340,874) for business-type activities at June 30, 2007. The deficit resulted from the Invested in Capital Assets, Net of Related Debt deficit balance of $(213,530,299). During the fiscal year ended June 30, 2007, the City suffered an impairment loss in its Airport Hangars at the Southern California Logistics Airport and an impairment loss in the Utility Generation Assets at the Foxborough Co-generation Facility in the amounts of $(36,252,592) and $(60,170,875), respectively. At this time, the City does not have an action plan to recover these deficits.

Fund Financial Statements

At June 30, 2007, the following funds had net assets or fund balance deficits:

Fund	Fund Type	Deficit
Southern Califonia Logistics Airport	Major Proprietary	$ (97,015,651)
Municipal Utilities	Major Proprietary	(62,369,061)
Other Federal Grants	Non-major Governmental - Special Revenue Fund	(360,003)

15. NET ASSETS DEFICITS, Continued

Southern California Logistics Airport
Net Assets had a deficit balance of $(97,015,651) at June 30, 2007. The deficit resulted from the Invested in Capital Assets, Net of Related Debt deficit balance of $(206,923,571). During the fiscal year ended June 30, 2007, the City suffered an impairment loss in its Airport Hangars in the amounts of $(36,252,592). At this time, the City does not have an action plan to recover these deficits.

Municipal Utilities
Net Assets had a deficit balance of $(62,369,061) at June 30, 2007. The deficit resulted from the Invested in Capital Assets, Net of Related Debt deficit balance of $(67,770,102). During the fiscal year ended June 30, 2007, the City suffered an impairment loss in its Utility Generation Assets in the amounts of $(60,170,875). At this time, the City does not have an action plan to recover these deficits.

Other Federal Grants
Fund Balance had a deficit balance of $(360,003) at June 30, 2007. The deficit resulted from the timing difference of a reimbursement request.

16. PRIOR PERIOD ADJUSTMENTS

Fund Financial Statements

On July 1, 2006, the City recorded the following prior period adjustments:

Governmental Activities:

1. General Fund
   - It was discovered that the City did not record the sales tax clean up payment received in September 2007 which belongs to June 30, 2006 in the amount of $417,726.

2. Low and Moderate Housing Fund
   - Deferred revenue – The Agency discovered an error in recording the unpaid accrued interest on advances to other funds. Therefore, as of June 30, 2006, the Agency overstated its revenues and understated its deferred revenue in the amount of $(141,935).
   - Notes receivable – During 2006, the Agency Board approved a reduction in a note receivable. Therefore, as of June 30, 2006, the Agency overstated its notes receivable in the amount of $(1,820,672).

3. Measure I Street Arterials Special Revenue Fund
   - Retention payable – It was discovered that there was an error relating to the recording of retention payable. Therefore, as of June 30, 2006, the City understated its retention payable in the amount of $(22,177).

16. PRIOR PERIOD ADJUSTMENTS, Continued

Fund Financial Statements, Continued

Governmental Activities, Continued:

4. Redevelopment Agency Capital Projects Fund
   - Deferred revenue – The Agency discovered an error in recording of unpaid accrued interest on advances to other funds. Therefore, as of June 30, 2006, the Agency overstated its revenues and understated its deferred revenues in the amount of $(12,599).
   - Land held for resale – The Agency discovered an error relating to the recording of capital assets and land held for resale as of June 30, 2006. Land purchased by the Agency was incorrectly recorded as land held for resale as of June 30, 2006. The Agency should have recorded the land as capital assets as of June 30, 2006. Therefore as of June 30, 2006, the Agency understated its expenditures and overstated its land held for resale and fund balance in the amount of $(2,560,023).

5. Other Non-Major Governmental Funds
   - Grants receivable - It was discovered that there was an error relating to the recording of grants receivable. Therefore, as of June 30, 2006, the City understated its grants receivable in the amount of $191,975.

Business-Type Activities:

1. Southern California Logistics Airport Authority

   - Cash with fiscal agent – The City discovered an error in the cash balances. Therefore, as of June 30, 2006, the City overstated its cash with fiscal agents in the amount of $(6,389).
   - Interest receivable – The City discovered an error in recording of accrued interest receivable in the amount of $72,841.
   - Grant receivable – It was discovered that there was an error relating to the recording of grants receivable. Therefore, as of June 30, 2006, the City understated its grant receivable in the amount of $1,235,189.
   - Notes receivable – The City discovered that an adjustment is needed to correct posting of advances to CBS Aviation to eliminate capitalized items other than direct cash advances in the amount of $(3,314,088).
   - Bond issuance costs – The City discovered that bond issuance costs in the amount of $9,379,889 were never recorded in the general ledger and an error relating to the recording of unamortized discounts in the amount of $1,588,258. Therefore, as of June 30, 2006, the City understated its bond issuance costs and overstated its unamortized discount in the amount of $10,968,147.

16. PRIOR PERIOD ADJUSTMENTS, Continued

Fund Financial Statements, Continued

Business-Type Activities, Continued:

1. Southern California Logistics Airport Authority, Continued

   - Capital assets – The City discovered an error relating to the recording of:
     - Accumulated depreciation on Hangar 1 and other assets. Therefore, as of June 30, 2006, the City understated its accumulated depreciation in the amount of $194,398.
     - Building and improvements and infrastructures in the amount of $165,095,452 and associated accumulated depreciations in the amount of $93,069,687. Therefore, as of June 30, 2006, the City overstated its capital assets and understated its accumulated depreciation in the amount of $(72,025,765).
     - Land transferred by the U.S. Government. Therefore, as of June 30, 2006, the City understated its capital assets in the amount of $521,879.
   - Miscellaneous payable – The City discovered that a payable needs to be recorded to reflect the unpaid costs of SCLA property (EDC). Therefore, as of June 30, 2006, the City understated its payable in the amount of $(739,343).
   - Interest payable – The City discovered an error relating to the recording of accrued interest payable. Therefore, as of June 30, 2006, the City understated its interest payable in the amount of $(281,148).
   - Retention payable – The City discovered an error relating to the recording of retentions payable. Therefore, as of June 30, 2006, the City understated its retention payable in the amount of $(118,444).

2. Municipal Utility
   - Capital assets – It was discovered that there was an error relating to recording of construction in progress. Therefore, as of June 30, 2006, the City understated its capital assets in the amount of $1,124,161.

3. Solid Waste Management
   - In fiscal year 2007, the City reclassified Solid Waste Management Fund from governmental activities to business-type activities. The City maintains 50% interest and the remaining 50% interest is maintained by the Town of Apple Valley. Therefore, as of June 30, 2006, 50% of the fund balance of the fund was reclassified to business-type activities.

4. City Golf Course
   - Inventory – During 2007, it was discovered that the City needs to record inventory for green tree and pro shop. Therefore, as of June 30, 2006, the City understated its capital assets in the amount of $50,109.

16. PRIOR PERIOD ADJUSTMENTS, Continued

Fund Financial Statements, Continued

Business-Type Activities, Continued:

Accordingly, fund balances/net assets were restated as follows:

	Fund Balances, as Previously Reported	Prior Period Adjustments	Fund Balances, as Restated
Governmental Activities:			
General Fund	$ 27,553,990	$ 417,726	$ 27,971,716
Low and Moderate Housing Fund	13,176,371	(1,962,607)	11,213,764
Measure I Street Arterials	19,498,313	(22,177)	19,476,136
Redevelopment Agency Capital Projects Fund	10,229,473	(2,572,622)	7,656,851
Non-major Fund:			
Other Federal Grants	(830,488)	191,975	(638,513)
Business-Type Activities:			
Southern California Logistics Airport Authority	38,775,867	(63,881,519)	(25,105,652)
Municipal Utility	(4,647,545)	1,124,161	(3,523,384)
Solid Waste Management	3,038,868	143,338	3,182,206
Non-major Fund:			
City Golf Course	4,848,085	50,109	4,898,194

Government-Wide Financial Statements

In addition to the prior period adjustments recorded in the Fund Financial Statements, the City recorded the following additional prior period adjustments in the Government-Wide Financial Statements:

Governmental Activities:

1. To record adjustments on capital assets, which included the removal of right of way, reclassification of Solid Waste capital assets to business-type activities, and additional adjustment related GASB Statement No. 34 in the amount of $(134,713,880).
2. To record claims liabilities as of June 30, 2006 in the amount of $(1,205,328).
3. To reclassify long-term debt related to Solid Waste Fund to business-type activities in the amount of $2,549,700.
4. To adjust capital leases that were found unrecorded in the amount of $(589,964)
5. To reclassify the beginning net assets of the Solid Waste Fund to Business-Type Activities in the amount of $(3,038,868).

16. PRIOR PERIOD ADJUSTMENTS, Continued

Government-Wide Financial Statements, Continued

Governmental Activities, Continued:

Accordingly, net assets were restated as follows:

	Fund Balances, as Previously Reported	Prior Period Adjustments	Fund Balances, as Restated
Governmental Activities	$ 532,026,677	$ (140,946,045)	$ 391,080,632
Business-Type Activities	$ 88,132,877	$ (62,563,911)	$ 25,568,966

17. SUBSEQUENT EVENTS

A. *Issuance of Debt*

On December 1, 2007, the Southern California Logistics Airport Authority issued the Tax Allocation Revenue Bonds Series 2007 in the amount of $42,000,000. A portion of the proceeds of the bonds will be used to (i) finance certain redevelopment activities benefiting the Southern California Logistics Airport; (ii) fund the Reserve Account for the Bonds; (iii) and pay costs of issuance of the Bonds.

On May 1, 2008, the Southern California Logistics Airport Authority issued the Tax Allocation Revenue Bonds Series 2008A in the amount of $13,334,925. A portion of the proceeds of the Bonds will be used to (i) refinance certain Subordinate Tax Allocation Revenue Notes (Southern California Logistics Airport Project) Series 2008; (ii) and fund the Reserve Account for the Bonds.

On February 1, 2008, the Southern California Logistics Airport Authority issued the Tax Allocation Revenue Notes Series 2008 in the amount of $35,000,000. A portion of the proceeds of the Notes will be used to (i) finance certain redevelopment activities benefiting the Southern California Logistics Airport; (ii) and pay costs of issuance of the Notes.

On March 31, 2008, the City entered into a Capital Lease Agreement with Comerica Leasing (Master Municipal Lease and Option Agreement Numbered 1722) in the amount of $1,025,088 for lease of forty-three (43) 2008 vehicles used by various City departments.

17. SUBSEQUENT EVENTS, Continued

B. Acquisition of Victor Valley Water District and Baldy Mesa Water District

On August 15, 2007, the Victor Valley Water District and Baldy Mesa Water District were consolidated into a subsidiary district of the City of Victorville, known as the Victorville Water District per Resolution No. 2977 of the Executive Officer of the Local Agency Formation Commission of the County of San Bernardino, which adopted a change of organization without election. Debt obligations of the Baldy Mesa Water District acquired by the City upon consolidation include the following:

a. Certificates of Participation for 1998 Refunding Project in the amount of $2,850,000. A portion of the proceeds will be used to (i) refinance certain real property and improvements used for water storage and distribution and other purposes of the Water System of the Baldy Mesa Water District; (ii) fund a reserve fund; (iii) and pay certain costs associated with the foregoing.
b. Parity Certificates of Participation for Water System Improvement Project Series 2006 in the amount of $13,070,000. A portion of the proceeds will be used to finance certain capital improvements to the Baldy Mesa Water District's Water System.
c. Installment Sale Agreement with LaSalle Bank National Association of Purchase of Water Rights in the amount of $2,243,000.
d. Refunding Improvement Bonds Series 2006 for Assessment District No. 2-R in the amount of $4,070,000. A portion of the proceeds will be used to (i) refund all current outstanding Baldy Mesa Water District Refunding Improvements bonds, Series 1989, Assessment District No. 2-R; (ii) fund a reserve fund for the Bonds; (iii) and pay costs related to the issuance of the Bonds.

C. Defaults of Debt or Contractual Obligations

1. On January 26, 2009, Fortis Bank, NV delivered to the City a formal notice of default of the Letter of Credit Agreement used as an enhancement of the $84,770,000 bonds issued in connection with the Victorville Municipal Utilities Services capital expansion plan, citing the late financial statements as the sole reason.

2. On February 19, 2009, GE Energy delivered to the City a formal notice of default citing the non-payment of the Contract Obligation which is now approaching 90 days past due.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Victorville
Required Supplementary Information
For the year ended June 30, 2007

1. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Manager submits to the City Council a proposed operating budget. The operating budget includes proposed expenditures and the sources of financing.

2. Public hearings are conducted to obtain taxpayer comments.

3. The Budget is legally enacted through passage of a resolution.

4. The City Manager is authorized to transfer budgeted amounts within individual funds; however, any revisions that alter the total appropriations of a fund must be approved by the City Council.

5. Formal budgetary integration is employed as a management control device during the year for all funds. Budgets for all funds, except for debt service funds, are adopted on a basis consistent with generally accepted accounting principles (GAAP), except capital outlay expenditures are budgeted on a project length basis. Effective budgetary control is achieved for debt service funds through the contractual requirements of bond indenture provisions.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities. The commitments will be reappropriated and honored in the subsequent year.

1. BUDGETARY INFORMATION, Continued

The following is the budget comparison schedules for the General Fund.

Budget Comparison Schedule, General Fund

	Budget Amounts			Variance
	Original	Final	Actual	Over (Under)
REVENUES:				
Taxes	$ 33,263,880	$ 34,851,650	$ 34,075,564	$ (776,086)
Licenses and permits	7,612,600	5,915,298	6,182,612	267,314
Intergovernmental	910,592	1,132,333	1,074,653	(57,680)
Charges for services	10,330,725	6,049,487	6,786,612	737,125
Fines and forfeitures	145,550	145,550	283,763	138,213
Use of money and property	500,000	500,000	237,627	(262,373)
Other	741,500	741,500	806,301	64,801
Total revenues	53,504,847	49,335,818	49,447,132	111,314
EXPENDITURES:				
Current:				
General government	11,636,770	12,108,293	11,989,343	(118,950)
Public safety	16,391,700	16,316,817	16,156,583	160,234
Public works	15,257,551	13,869,379	13,598,028	271,351
Parks and recreation	322,371	310,141	314,704	(4,563)
Capital Outlay	1,103,621	1,607,349	1,164,590	442,759
Total expenditures	44,712,013	44,211,979	43,223,248	988,731
REVENUES OVER (UNDER) EXPENDITURES	8,792,834	5,123,839	6,223,884	1,100,045
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of City's property	25,000	25,000	11,221	(13,779)
Transfers in	597,500	597,500	354,247	(243,253)
Transfers out	(13,315,721)	(12,952,763)	(14,658,990)	(1,706,227)
Total other financing sources (uses)	(12,693,221)	(12,330,263)	(14,293,522)	(1,963,259)
Net change in fund balances	$ (3,900,387)	$ (7,206,424)	(8,069,638)	$ (863,214)
FUND BALANCES:				
Beginning of year, as restated			27,971,716	
End of year			$ 19,902,078	

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule, Low and Moderate Housing Special Revenue Fund

	Budget Amounts			Variance
	Original	Final	Actual	Over (Under)
REVENUES:				
Taxes	$ 1,339,464	$ 1,339,464	$ 1,629,262	$ 289,798
Intergovernmental	3,930,866	3,930,866	5,308,462	1,377,596
Use of money and property	-	-	269,891	269,891
Other revenue	-	-	70,254	70,254
Total revenues	5,270,330	5,270,330	7,277,869	2,007,539
EXPENDITURES:				
Current:				
Community development	2,326,658	2,353,791	1,297,998	1,055,793
Capital outlay	-	1,505,800	-	1,505,800
Total expenditures	2,326,658	3,859,591	1,297,998	2,561,593
REVENUES OVER (UNDER) EXPENDITURES	2,943,672	1,410,739	5,979,871	4,569,132
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,146,463)	(1,146,463)	(2,082,543)	(936,080)
Total other financing sources (uses)	(1,146,463)	(1,146,463)	(2,082,543)	(936,080)
Net change in fund balances	$ 1,797,209	$ 264,276	3,897,328	$ 3,633,052
FUND BALANCES:				
Beginning of year			11,213,764	
End of year			$ 15,111,092	

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule, Measure I Street Arterials Special Revenue Fund

	Budget Amounts			Variance
	Original	Final	Actual	Over (Under)
REVENUES:				
Taxes	$ 13,625,000	$ 13,625,000	$ 7,737,516	$ (5,887,484)
Charges for services	-	-	116,671	116,671
Use of money and property	400,000	400,000	923,581	523,581
Other	-	-	97,069	97,069
Total revenues	14,025,000	14,025,000	8,874,837	(5,150,163)
EXPENDITURES:				
Current:				
General Government	28,500	28,500	-	28,500
Public Works	2,293,989	2,293,989	4,184,491	(1,890,502)
Capital outlay	19,326,156	20,072,774	3,520,869	16,551,905
Total expenditures	21,648,645	22,395,263	7,705,360	14,689,903
REVENUES OVER (UNDER) EXPENDITURES	(7,623,645)	(8,370,263)	1,169,477	9,539,740
Net change in fund balances	$ (7,623,645)	$ (8,370,263)	1,169,477	$ 9,539,740
FUND BALANCES:				
Beginning of year, as restated			19,476,136	
End of year			$ 20,645,613	

2. DEFINED BENEFIT PENSION PLAN

A schedule of funding progress for the year ended June 30, 2008 including the past three actuarial valuations is presented below.

A. *Miscellaneous Employees*

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Overfunded (Unfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/2004	$ 42,595,316	$ 47,021,098	$ (4,425,782)	90.6%	$ 14,979,104	-29.5%
6/30/2005	47,812,544	54,377,328	(6,564,784)	87.9%	17,604,962	-37.3%
6/30/2006	54,882,174	63,276,105	(8,393,931)	86.7%	21,156,545	-39.7%

B. *Public Safety Employees*

The City's safety plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required.

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

Fire Protection - to account for assessments made upon parcels of land within the Fire Protection District and disbursed funds related to fire prevention and protection.

Parks and Recreation - to account for revenue received from assessments levied on parcels within the District and revenue earned from recreation programs. The funds disbursed are for park and recreation activities.

Street Lighting - to account for revenue received from assessments levied within the District and disbursed funds are for street lighting maintenance activities.

Traffic Safety - to account for revenue received from fines and forfeitures under Section 1463 of the Penal Code and disbursed funds are related to the maintenance and improvement of traffic control devices, as well as the compensation of school crossing guards who are not regular full-time members of the police department of the City.

General Asset Seizure - to account for a portion of revenues received from sales of assets seized during drug related arrests and disbursed for authorized public safety activities.

Storm Drain Utility - to account for revenue received from storm drain user fees and expensed funds are related to storm drains.

Gas Tax - to account for revenue received from the State of California under Street and Highways Code Section 2105, 2106, and 2107. The allocations should be spent for street and highway maintenance and improvements.

Transportation Tax - to account for revenue received for public transportation projects through the Local Transportation Fund, which are derived from a 1/4 cent of the General Sales Tax. Eligible expenses include projects related to maintenance and repair of streets and roads.

Other State Grants - to account for moneys received from the California Law Enforcement Equipment Program, AB 3229 Grant, Office of Traffic Safety Grant, California Integrated Waste Management, Non-Housing Incentive Grant, and Alcoholic Beverage Control Grant.

CDBG Grants - to account for the revenues and expenditures under the guidelines of the Federal Community Development Block Grant program of the U.S. Department of Housing and Urban Development. The grants are primarily used for the development of viable urban communities by providing decent housing, suitable living environments, and expanding economic opportunities for persons of low and moderate incomes.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS, Continued:

Other Federal Grants - to account for federal moneys received for the following grants: HOME, COPS Fast Grant, Federal Demonstration, Transportation Enhancement Act, Congestion Mitigation Air Quality Grant, Police Hiring Supplement Grant, Federal Asset Seizure, and EPA Water Reuse Grant.

DEBT SERVICE FUNDS:

Parks and Recreation COP - to account for the accumulation of resources for, and payment of, the CSDA 1989 Series C Certificates of Participation principal and interest. This COP is used to refinance the costs of construction of a new community center.

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City of Victorville
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2007

	Special Revenue				
	Fire Protection	Parks and Recreation	Street Lighting	Traffic Safety	General Asset Seizure
ASSETS					
Cash and investments	$ -	$ 2,103,143	$ 1,729,251	$ -	$ 26,491
Cash and investments with fiscal agents	-	-	-	-	-
Receivables					
Accounts	139,470	179,139	32,888	34,101	-
Notes	-	1,800	-	-	-
Due from other governments and agencies	-	-	-	-	-
Total assets	$ 139,470	$ 2,284,082	$ 1,762,139	$ 34,101	$ 26,491
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 23,634	$ 161,037	$ 69,471	$ 2,725	$ -
Deposits payable	-	1,025	-	-	-
Due to other governments	-	-	-	-	-
Total liabilities	23,634	162,062	69,471	2,725	-
Fund Balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Notes receivable	-	1,800	-	-	-
Advances	-	-	-	-	-
Special projects	115,836	2,120,220	1,692,668	31,376	26,491
Debt service	-	-	-	-	-
Total reserved	115,836	2,122,020	1,692,668	31,376	26,491
Undesignated	-	-	-	-	-
Total fund balances	115,836	2,122,020	1,692,668	31,376	26,491
Total liabilities and fund balances	$ 139,470	$ 2,284,082	$ 1,762,139	$ 34,101	$ 26,491

	Special Revenue						Debt Service	
	Storm Drain Utility	Gas Tax	Transportation Tax	Other State Grants	CDBG Grants	Other Federal Grants	Parks and Recreation COP	Total Other Governmental Funds
	$ 2,179,660	$ 1,344,823	$ 2,819,413	$ 436,556	$ (455,098)	$ (1,621,711)	$ -	$ 8,562,528
	-	-	-	-	-	-	131,582	131,582
	49	152	2,331,881	176,748	-	-	-	2,894,428
	-	-	-	-	-	-	-	1,800
	-	172,645	-	68,442	552,567	1,261,708	-	2,055,362
	$ 2,179,709	$ 1,517,620	$ 5,151,294	$ 681,746	$ 97,469	$ (360,003)	$ 131,582	$ 13,645,700
	$ 6,677	$ 7,295	$ 248,163	$ 20,414	$ 115,446	$ 22,004	$ -	$ 676,866
	-	-	55	-	-	-	-	1,080
	-	-	1,010	-	-	-	-	1,010
	6,677	7,295	249,228	20,414	115,446	22,004	-	678,956
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	1,800
	-	-	-	-	-	-	-	-
	2,173,032	1,510,325	4,902,066	661,332	-	-	-	13,233,346
	-	-	-	-	-	-	131,582	131,582
	2,173,032	1,510,325	4,902,066	661,332	-	-	131,582	13,366,728
	-	-	-	-	(17,977)	(382,007)	-	(399,984)
	2,173,032	1,510,325	4,902,066	661,332	(17,977)	(382,007)	131,582	12,966,744
	$ 2,179,709	$ 1,517,620	$ 5,151,294	$ 681,746	$ 97,469	$ (360,003)	$ 131,582	$ 13,645,700

City of Victorville

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2007

	Special Revenue				
	Fire Protection	Parks and Recreation	Street Lighting	Traffic Safety	General Asset Seizure
REVENUES:					
Taxes	$ 3,020,825	$ 4,970,824	$ 750,411	$ -	$ -
Intergovernmental	-	-	-	-	-
Charges for services	239,583	810,993	-	-	-
Fines and forfeitures	2,275	-	-	360,769	20,374
Use of money and property	14,557	17,960	17,054	-	265
Other revenues	2,795	27,339	50,000	-	-
Total revenues	3,280,035	5,827,116	817,465	360,769	20,639
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	8,133,845	-	-	8,052	19,725
Community development	-	-	-	-	-
Public works	-	29,883	884,398	-	-
Parks and recreation	-	6,287,145	-	-	-
Capital outlay	1,351,002	401,078	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	9,484,847	6,718,106	884,398	8,052	19,725
REVENUES OVER (UNDER) EXPENDITURES	(6,204,812)	(890,990)	(66,933)	352,717	914
OTHER FINANCING SOURCES (USES):					
Proceeds from loans	1,300,000	-	-	-	-
Transfers in	5,119,618	1,896,368	-	-	-
Transfers out	(97,746)	-	-	(353,947)	-
Total other financing sources (uses)	6,321,872	1,896,368	-	(353,947)	-
NET CHANGE IN FUND BALANCES	117,060	1,005,378	(66,933)	(1,230)	914
FUND BALANCES:					
Beginning of year, as previously reported	(1,224)	1,116,642	1,759,601	32,606	25,577
Prior period adjustments (Note 15)	-	-	-	-	-
Beginning balance, as restated	(1,224)	1,116,642	1,759,601	32,606	25,577
End of year	$ 115,836	$ 2,122,020	$ 1,692,668	$ 31,376	$ 26,491

Special Revenue						Debt Service	
Storm Drain Utility	Gas Tax	Transportation Tax	Other State Grants	CDBG Grants	Other Federal Grants	Parks and Recreation COP	Total Other Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,742,060
-	1,744,083	30,461	1,815,594	1,099,356	1,918,964	-	6,608,458
1,208,851	210	2,932,923	-	-	-	-	5,192,560
-	-	-	-	-	-	-	383,418
18,647	45,851	223,089	3,975	-	681	8,224	350,303
-	-	-	-	-	263,224	-	343,358
1,227,498	1,790,144	3,186,473	1,819,569	1,099,356	2,182,869	8,224	21,620,157
-	-	-	3,994	331,144	15,463	-	350,601
-	-	-	871,518	116,840	38,417	-	9,188,397
-	-	-	78,040	34,920	143,000	-	255,960
418,368	2,565,177	4,017,454	-	135,692	1,034,716	-	9,085,688
-	-	-	-	16,172	-	-	6,303,317
31,374	-	285,279	14,544	465,923	694,767	-	3,243,967
-	-	-	-	-	-	110,000	110,000
-	-	-	-	-	-	24,130	24,130
449,742	2,565,177	4,302,733	968,096	1,100,691	1,926,363	134,130	28,562,060
777,756	(775,033)	(1,116,260)	851,473	(1,335)	256,506	(125,906)	(6,941,903)
-	-	-	-	-	-	-	1,300,000
-	1,349,410	-	-	-	-	125,941	8,491,337
-	-	-	-	-	-	-	(451,693)
-	1,349,410	-	-	-	-	125,941	9,339,644
777,756	574,377	(1,116,260)	851,473	(1,335)	256,506	35	2,397,741
1,395,276	935,948	6,018,326	(190,141)	(16,642)	(830,488)	131,547	10,377,028
-	-	-	-	-	191,975	-	191,975
1,395,276	935,948	6,018,326	(190,141)	(16,642)	(638,513)	131,547	10,569,003
$ 2,173,032	$ 1,510,325	$ 4,902,066	$ 661,332	$ (17,977)	$ (382,007)	$ 131,582	$ 12,966,744

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NON-MAJOR PROPRIETARY FUNDS

City of Victorville
Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2007

	City Golf Course	Water	Southern California Logistics Rail Authority	Total
ASSETS				
Current assets:				
Cash and investments	$ (4,678,135)	$ 642,536	$ (326,559)	$ (4,362,158)
Cash with fiscal agent	-	-	214,555	214,555
Receivables:				
Accounts	4,161	167,622	-	171,783
Inventories	58,773	-	-	58,773
Total current assets	(4,615,201)	810,158	(112,004)	(3,917,047)
Noncurrent assets:				
Capital assets:				
Nondepreciable	12,263,041	2,508,606	10,266,128	25,037,775
Depreciable, net	837,421	2,477,125	-	3,314,546
Total net capital assets	13,100,462	4,985,731	10,266,128	28,352,321
Total noncurrent assets	13,100,462	4,985,731	10,266,128	28,352,321
Total assets	8,485,261	5,795,889	10,154,124	24,435,274
LIABILITIES				
Current liabilities:				
Accounts payable	424,625	159,576	1,964,275	2,548,476
Deposits payable	8,952	5,000	-	13,952
Long-term debt - due within one year	-	-	-	-
Total current liabilities	433,577	164,576	1,964,275	2,562,428
Noncurrent liabilities:				
Long-term debt - due in more than one year	1,752,499	-	-	1,752,499
Total noncurrent liabilities	1,752,499	-	-	1,752,499
Total liabilities	2,186,076	164,576	1,964,275	4,314,927
NET ASSETS				
Invested in capital assets, net of related debt	11,347,963	4,985,731	10,266,128	26,599,822
Restricted for:				
Debt service	-	-	214,555	214,555
Unrestricted	(5,048,778)	645,582	(2,290,834)	(6,694,030)
Total net assets	$ 6,299,185	$ 5,631,313	$ 8,189,849	$ 20,120,347

City of Victorville

Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Proprietary Funds

For the year ended June 30, 2007

	City Golf Course	Water	Southern California Logistics Rail Authority	Total
OPERATING REVENUES:				
Charges for services	$ 1,206,204	$ 2,213,236	$ -	$ 3,419,440
Other revenues	146,590	-	-	146,590
Total operating revenues	1,352,794	2,213,236	-	3,566,030
OPERATING EXPENSES:				
Personnel services	1,523,480	694,704	1,739,968	3,958,152
Maintenance and operations	830,293	194,033	759,797	1,784,123
Cost of purchased water	-	1,600,673	-	1,600,673
Depreciation	94,788	94,730	-	189,518
Total operating expenses	2,448,561	2,584,140	2,499,765	7,532,466
OPERATING INCOME (LOSS)	(1,095,767)	(370,904)	(2,499,765)	(3,966,436)
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	200	-	-	200
Investment income	-	7,437	-	7,437
Interest expense	(377,294)	-	-	(377,294)
Total nonoperating revenues (expenses)	(377,094)	7,437	-	(369,657)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(1,472,861)	(363,467)	(2,499,765)	(4,336,093)
CONTRIBUTIONS AND TRANSFERS:				
Capital contributions	1,519,718	589,405	805,850	2,914,973
Transfers in	1,354,134	-	12,714,841	14,068,975
Total contributions and transfers	2,873,852	589,405	13,520,691	16,983,948
Change in net assets	1,400,991	225,938	11,020,926	12,647,855
NET ASSETS:				
Beginning of year, as previously reported	4,848,085	5,405,375	(2,831,077)	7,422,383
Prior period adjustments (Note 15)	50,109	-	-	50,109
Beginning of year, as restated	4,898,194	5,405,375	(2,831,077)	7,472,492
End of year	$ 6,299,185	$ 5,631,313	$ 8,189,849	$ 20,120,347

City of Victorville
Statement of Cash Flows
Nonmajor Proprietary Funds
For the year ended June 30, 2007

	City Golf Course	Water	Southern California Logistics Rail Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 1,200,696	$ 2,319,001	$ -	$ 3,519,697
Cash payments to suppliers for goods and services	(489,564)	(1,915,099)	754,457	(1,650,206)
Cash payments to employees for services	(1,523,480)	(694,704)	(1,739,968)	(3,958,152)
Others	146,590	-	-	146,590
Net cash provided (used) by operating activities	(665,758)	(290,802)	(985,511)	(1,942,071)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental	200	-	-	200
Transfers in	1,354,134	-	12,714,841	14,068,975
Due from/to other funds	(4,606,902)	-	(8,616,694)	(13,223,596)
Net cash provided (used) by noncapital financing activities	(3,252,568)	-	4,098,147	845,579
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net changes in capital assets	(3,654,732)	(634,300)	(4,030,490)	(8,319,522)
Capital contributions	1,519,718	589,405	805,850	2,914,973
Proceeds from issuance of long-term debt	2,200,000	-	-	2,200,000
Principal paid on long-term debt	(447,501)	-	-	(447,501)
Interest paid on capital-related debt	(377,294)	-	-	(377,294)
Net cash provided (used) by capital and related financing activities	(759,809)	(44,895)	(3,224,640)	(4,029,344)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	-	7,437	-	7,437
Net cash provided (used) by investing activities	-	7,437	-	7,437
Net increase (decrease) in cash and cash equivalents	(4,678,135)	(328,260)	(112,004)	(5,118,399)
CASH AND CASH EQUIVALENTS:				
Beginning of year, as restated	-	970,796	-	970,796
End of year	$ (4,678,135)	$ 642,536	$ (112,004)	$ (4,147,603)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ (1,095,767)	$ (370,904)	$ (2,499,765)	$ (3,966,436)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	94,788	94,730	-	189,518
Changes in operating assets and liabilities:				
Accounts receivable	(1,489)	106,565	-	105,076
Inventories	(8,664)	-	-	(8,664)
Accounts payable	349,393	(120,393)	1,514,254	1,743,254
Deposits	(4,019)	(800)	-	(4,819)
Total adjustments	430,009	80,102	1,514,254	2,024,365
Net cash provided (used) by operating activities	$ (665,758)	$ (290,802)	$ (985,511)	$ (1,942,071)

FIDUCIARY FUNDS

City of Victorville
Combining Statement of Fiduciary Net Assets
All Agency Funds
June 30, 2007

	Community Facilities District 90-01	Community Facilities District 01-01	Community Facilities District 07-01	Deposit Trust	MDMIWMA
ASSETS					
Cash and investments	$ 872,034	$ 634,773	$ 25,000	$ 2,123,718	$ -
Cash and investments with fiscal agents	1,120,190	1,633,277	-	-	-
Accounts receivable	35,084	9,679	-	-	-
Assets used for operations	-	-	-	-	-
Total assets	$ 2,027,308	$ 2,277,729	$ 25,000	$ 2,123,718	$ -
LIABILITIES					
Deposits payable	$ 2,027,308	$ 2,277,729	$ 25,000	$ 2,123,718	$ -
Due to other governments	-	-	-	-	-
Total liabilities	$ 2,027,308	$ 2,277,729	$ 25,000	$ 2,123,718	$ -

Mountain Desert JPA	Victor Valley Economic Development Authority	Regional Fire Protection Authority	Cal-CLERA	Total Agency Funds
$ 307,345	$ 11,843,889	$ 42,527	$ 129,164	$ 15,978,450
-	-	-	-	2,753,467
237,320	2,618,113	17,062	-	2,917,258
-	-	139,788	-	139,788
$ 544,665	$ 14,462,002	$ 199,377	$ 129,164	$ 21,788,963
$ 544,665	$ 1,520,075	$ 199,377	$ 129,164	$ 8,847,036
-	12,941,927	-	-	12,941,927
$ 544,665	$ 14,462,002	$ 199,377	$ 129,164	$ 21,788,963

City of Victorville
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2007

	Balance July 1, 2007	Net Changes in Assets and Liabilities	Balance June 30, 2008
Community Facilities District 90-01			
Assets:			
Cash and investments	$ 1,584,891	$ (712,857)	$ 872,034
Cash and investments with fiscal agents	1,143,134	(22,944)	1,120,190
Accounts receivable	33,232	1,852	35,084
Total assets	$ 2,761,257	$ (733,949)	$ 2,027,308
Liabilities:			
Deposits payable	$ 2,761,257	$ (733,949)	$ 2,027,308
Total liabilities	$ 2,761,257	$ (733,949)	$ 2,027,308
Community Facilities District 01-01			
Assets:			
Cash and investments	$ 496,531	$ 138,242	$ 634,773
Cash and investments with fiscal agents	3,582,735	(1,949,458)	1,633,277
Accounts receivable	12,328	(2,649)	9,679
Total assets	$ 4,091,594	$ (1,813,865)	$ 2,277,729
Liabilities:			
Deposits payable	$ 4,091,594	$ (1,813,865)	$ 2,277,729
Total liabilities	$ 4,091,594	$ (1,813,865)	$ 2,277,729
Community Facilities District 07-01			
Assets:			
Cash and investments	$ -	$ 25,000	$ 25,000
Total assets	$ -	$ 25,000	$ 25,000
Liabilities:			
Deposits payable	$ -	$ 25,000	$ 25,000
Total liabilities	$ -	$ 25,000	$ 25,000
Deposit Trust			
Assets:			
Cash and investments	$ 1,620,433	$ 503,285	$ 2,123,718
Total assets	$ 1,620,433	$ 503,285	$ 2,123,718
Liabilities:			
Deposits payable	$ 1,620,433	$ 503,285	$ 2,123,718
Total liabilities	$ 1,620,433	$ 503,285	$ 2,123,718

City of Victorville
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2007

	Balance July 1, 2007	Net Changes in Assets and Liabilities	Balance June 30, 2008
MDMIWMA			
Assets:			
Cash and investments with fiscal agents	$ 608,298	$ (608,298)	$ -
Total assets	$ 608,298	$ (608,298)	$ -
Liabilities:			
Deposits payable	$ 608,298	$ (608,298)	$ -
Total liabilities	$ 608,298	$ (608,298)	$ -
Mountain Desert JPA			
Assets:			
Cash and investments	$ 38,784	$ 268,561	$ 307,345
Accounts receivable	227,634	9,686	237,320
Other assets	255,599	(255,599)	-
Assets used for operations	7,726,284	(7,726,284)	-
Total assets	$ 8,248,301	$ (7,703,636)	$ 544,665
Liabilities:			
Deposits payable	$ 8,248,301	$ (7,703,636)	$ 544,665
Total liabilities	$ 8,248,301	$ (7,703,636)	$ 544,665
Victor Valley Economic Development Authority			
Assets:			
Cash and investments	$ 8,223,501	$ 3,620,388	$ 11,843,889
Accounts receivable	2,161,440	456,673	2,618,113
Total assets	$ 10,384,941	$ 4,077,061	$ 14,462,002
Liabilities:			
Deposits payable	$ 7,890,106	$ (6,370,031)	$ 1,520,075
Due to other governments	2,494,835	10,447,092	12,941,927
Total liabilities	$ 10,384,941	$ 4,077,061	$ 14,462,002

City of Victorville
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the year ended June 30, 2007

	Balance July 1, 2007	Net Changes in Assets and Liabilities	Balance June 30, 2008
Regional Fire Protection Authority			
Assets:			
Cash and investments	$ 74,319	$ (31,792)	$ 42,527
Accounts receivable	-	17,062	17,062
Assets used for operations	203,463	(63,675)	139,788
Total assets	$ 277,782	$ (78,405)	$ 199,377
Liabilities:			
Deposits payable	$ 277,782	$ (78,405)	$ 199,377
Total liabilities	$ 277,782	$ (78,405)	$ 199,377
Cal-CLERA			
Assets:			
Cash and investments	$ 127,849	$ 1,315	$ 129,164
Total assets	$ 127,849	$ 1,315	$ 129,164
Liabilities:			
Deposits payable	$ 127,849	$ 1,315	$ 129,164
Total liabilities	$ 127,849	$ 1,315	$ 129,164
Total All Agency Funds			
Assets:			
Cash and investments	$ 12,166,308	$ 3,812,142	$ 15,978,450
Cash and investments with fiscal agents	5,334,167	(2,580,700)	2,753,467
Accounts receivable	2,434,634	482,624	2,917,258
Other assets	255,599	(255,599)	-
Assets used for operations	7,929,747	(7,789,959)	139,788
Total assets	$ 28,120,455	$ (6,331,492)	$ 21,788,963
Liabilities:			
Deposits payable	$ 25,625,620	$ (16,778,584)	$ 8,847,036
Due to other governments	2,494,835	10,447,092	12,941,927
Total liabilities	$ 28,120,455	$ (6,331,492)	$ 21,788,963