

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

REPORT ON AUDIT

JUNE 30, 2010

**High Desert Corridor Joint Powers Authority
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Board of Directors
High Desert Corridor Joint Powers Authority

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the High Desert Corridor Joint Powers Authority (Authority), as of and for the year ending June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the High Desert Corridor Joint Powers Authority as of June 30, 2010, and the respective changes in financial position thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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 it.

MEMBERS

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The Authority has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Rogers, Anderson, Malody & Scott, LLP

November 30, 2010

High Desert Corridor Joint Powers Authority
Statement of Net Assets
June 30, 2010

ASSETS

Cash and cash equivalents	\$ 412,158
Interest receivable	<u>1,388</u>
Total Assets	<u>413,546</u>

LIABILITIES

Accounts payable	3,413
Due to other governments	<u>74,983</u>
Total Liabilities	<u>78,396</u>

NET ASSETS

Unrestricted	<u>335,150</u>
Total Net Assets	<u>\$ 335,150</u>

The accompanying notes are an integral part of these financial statements.

High Desert Corridor Joint Powers Authority
Statement of Activities
June 30, 2010

EXPENSES

Professional services	<u>\$ 174,310</u>
Total Program Expenses	<u>174,310</u>

PROGRAM REVENUE

Member contributions	<u>250,000</u>
Net Program Revenue	<u>75,690</u>

GENERAL REVENUE

Investment earnings	<u>4,727</u>
Total General Revenues	<u>4,727</u>

Change in Net Assets	80,417
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Net Assets - beginning	<u>254,733</u>
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Net Assets - ending	<u><u>\$ 335,150</u></u>
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The accompanying notes are an integral part of these financial statements.

High Desert Corridor Joint Powers Authority
Balance Sheet
Governmental Fund
June 30, 2010

	<u>General Fund (OFW)</u>
ASSETS	
Cash and cash equivalents	\$ 412,158
Interest receivable	<u>1,388</u>
Total Assets	<u><u>\$ 413,546</u></u>
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 3,413
Due to other governments	<u>74,983</u>
Total Liabilities	<u>78,396</u>
Fund Balance:	
Unreserved:	
Undesignated	<u>335,150</u>
Total Fund Balance	<u>335,150</u>
Total Liabilities and Fund Balance	<u><u>\$ 413,546</u></u>
Total Fund Balance - Governmental Fund	\$ 335,150
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit "A") are different because:	
None	<u>-</u>
Net Assets of Governmental Activities	<u><u>\$ 335,150</u></u>

The accompanying notes are an integral part of these financial statements.

High Desert Corridor Joint Powers Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
June 30, 2010

	General Fund (OFW)
REVENUES	
Member contributions	\$ 250,000
Investment earnings	<u>4,727</u>
Total Revenues	<u>254,727</u>
EXPENDITURES	
Professional Services	<u>174,310</u>
Total Expenditures	<u>174,310</u>
Net Change in Fund Balance	80,417
Fund Balance - beginning	<u>254,733</u>
Fund Balance - ending	<u><u>\$ 335,150</u></u>

The accompanying notes are an integral part of these financial statements.

High Desert Corridor Joint Powers Authority
Reconciliation of the Statement of Revenues, Expenditures and
Change in Fund Balance of Governmental Fund to the
Statement of Activities
June 30, 2010

Net Change in Fund Balance - Total Governmental Fund	\$ 80,417
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Amounts reported for *governmental activities* in the statement of activities are different because:

None

Change in Net Assets of Governmental Activities	<u>\$ 80,417</u>
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The accompanying notes are an integral part of these financial statements.

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The High Desert Corridor Joint Powers Authority (Authority) is a Joint Powers Authority formed pursuant to the provisions of the Government Code of the State of California, and is comprised of seven local governmental entities. These entities are the County of Los Angeles, the County of San Bernardino and the Cities of Apple Valley, Adelanto, Palmdale, Lancaster and Victorville. The Authority was initially formed pursuant to a Joint Powers Agreement dated November 8, 2006, which was subsequently amended on March 13, 2007.

The Authority is governed by a Board of Directors made up of eight members, two from Los Angeles County and one each from the other members.

The Authority proposes to create and establish the High Desert Corridor, a sixty-three mile stretch of freeway connecting the Los Angeles County communities of Palmdale/Lancaster with the San Bernardino County communities of Victorville, Apple Valley and Adelanto.

The accompanying financial statements reflect only the accounts of the High Desert Corridor Joint Powers Authority and are not intended to present the financial position of the individual members taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Individual governmental funds are reported as separate columns in the major fund financial statements. All of the Authority's activities are governmental; business-type activities or fiduciary funds are not reported in the statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

The *General Fund* accounts for the activities of the government's efforts to establish the freeway connecting the Los Angeles County communities of Palmdale/Lancaster with the San Bernardino County communities of Victorville, Apple Valley and Adelanto.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the Authority does not have any business-type activities, and only has one fund.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently the Authority does not have any capital assets

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Currently the Authority does not have any such long-term obligations.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of the Joint Powers Agreement the Board is to adopt an annual budget for each fiscal year. Budgets are prepared on the modified accrual basis of accounting.

B. Encumbrances

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

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2010

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Authority's account based upon the Authority's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2010.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

NOTE 3: FEDERAL AND STATE GRANTS

From time to time the Authority may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The Authority has a nine month availability period for grant revenues.

NOTE 4: CONTINGENCIES

As of June 30, 2010, in the opinion of the Authority's management, there are no outstanding matters, which would have a significant effect on the financial position of the Authority.

Required Supplementary Information
 High Desert Corridor Joint Powers Authority
 Budgetary Comparison Schedule - General Fund
 June 30, 2010

	General Fund (OFW)			Variance with Final Budget
	Original Budget	Final Budget	Actual	
REVENUES				
Member contributions	\$ 250,000	\$ 250,000	\$ 250,000	\$ -
Investment earnings	3,000	3,000	4,727	1,727
Total Revenues	<u>253,000</u>	<u>253,000</u>	<u>254,727</u>	<u>1,727</u>
EXPENDITURES				
Services and supplies	75,000	75,000	174,310	(99,310)
Other charges	113,000	113,000		113,000
Reserves and contingencies	320,412	320,412	-	320,412
Total Expenditures	<u>508,412</u>	<u>508,412</u>	<u>174,310</u>	<u>334,102</u>
Net Change in Fund Balance	<u>\$ (255,412)</u>	<u>\$ (255,412)</u>	80,417	<u>\$ 335,829</u>
Fund Balance - beginning			<u>254,733</u>	
Fund Balance - ending			<u>\$ 335,150</u>	

