

High Desert Corridor
Joint Powers Authority

November 30, 2012

Meeting Materials

Item 4

Approve and File Audit Report for the Year
Ending June 30, 2011



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

December 20, 2011

PARTNERS

Phillip H. Waller, CPA
Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Matthew B. Wilson, CPA, MSA
Scott W. Manno, CPA
Leena Shanbhag, CPA, MST
Jay H. Zercher, CPA (Retired)

MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA
Bradford A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Katie L. Millsom, CPA
Papa Matar Thiaw, CPA, MBA
Maya S. Ivanova, CPA, MBA
Danielle E. Odgers, CPA
William C. Clayton, CPA
Peter E. Murray, CPA
Genivive Schwarzkopf, CPA
Megan Hackney, CPA

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

We have audited the financial statements of the governmental activities and the major fund of the High Desert Corridor Joint Powers Authority (the Authority) for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 8, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note One to the financial statements. As described in the notes of the financial statements, the Authority changed accounting policies related to fund balance reporting by adopting Governmental Accounting Standards Board Statement (GASB Statement) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant, sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear.

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*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

ROGERS, ANDERSON, MALODY & SCOTT, LLP



Terry P Shea, CPA

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

REPORT ON AUDIT

JUNE 30, 2011



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS. SINCE 1948

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

INDEPENDENT AUDITOR'S REPORT

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William C. Clayton, CPA
Peter E. Murray, CPA
Genivive Schwarzkopf, CPA
Megan Hackney, CPA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA

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, 2011, 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, 2011, 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.

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During the year under audit, the Authority adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the *Management's Discussion and Analysis* section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Rogers, Anderson, Malody & Scott, LLP

December 20, 2011

High Desert Corridor Joint Powers Authority
Statement of Net Assets
June 30, 2011

ASSETS

Cash and cash equivalents	\$ 236,574
Interest receivable	651
Due from other governments	<u>239,954</u>
 Total Assets	 <u>477,179</u>

LIABILITIES

Accounts payable	2,185
Due to other governments	<u>26,368</u>
 Total Liabilities	 <u>28,553</u>

NET ASSETS

Unrestricted	<u>448,626</u>
 Total Net Assets	 <u><u>\$ 448,626</u></u>

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

High Desert Corridor Joint Powers Authority
Statement of Activities
For the Year Ended June 30, 2011

EXPENSES	
Professional services	<u>\$ 130,261</u>
Total Program Expenses	<u>130,261</u>
PROGRAM REVENUES	
Charges for services	<u>239,954</u>
Net Program Revenues	<u>109,693</u>
GENERAL REVENUES	
Investment earnings	<u>3,784</u>
Total General Revenues	<u>3,784</u>
Change in Net Assets	113,477
Net Assets - beginning	<u>335,149</u>
Net Assets - ending	<u><u>\$ 448,626</u></u>

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

**High Desert Corridor Joint Powers Authority
Balance Sheet
Governmental Fund
June 30, 2011**

	General Fund (OFW)
ASSETS	
Cash and cash equivalents	\$ 236,574
Interest receivable	651
Due from other governments	239,954
Total Assets	\$ 477,179
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 2,185
Due to other governments	26,368
Deferred revenue	239,954
Total Liabilities	268,507
Fund Balance:	
Unassigned	208,672
Total Fund Balance	208,672
Total Liabilities and Fund Balance	\$ 477,179
Total Fund Balance - Governmental Fund	\$ 208,672
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit "A") are different because:	
Revenues reported as deferred revenues in the governmental fund and recognized in the Statement of Activities.	239,954
Net Assets of Governmental Activities	\$ 448,626

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
For the Year Ended June 30, 2011

	<u>General Fund (OFW)</u>
REVENUES	
Investment earnings	<u>\$ 3,784</u>
Total Revenues	<u>3,784</u>
EXPENDITURES	
Professional services	<u>130,261</u>
Total Expenditures	<u>130,261</u>
Net Change in Fund Balance	(126,477)
Fund Balance - beginning	<u>335,149</u>
Fund Balance - ending	<u><u>\$ 208,672</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
Changes in Fund Balance of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2011**

Net Change in Fund Balance - Total Governmental Fund	\$	(126,477)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

		<u>239,954</u>
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Change in Net Assets of Governmental Activities	\$	<u>113,477</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, 2011

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*.

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.

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

**High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently the Authority does not have any capital assets

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.

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term obligations (continued)

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

Beginning with the current fiscal year, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.

Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body, or by an official or body to which the governing body delegates the authority.

Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed. It is the Authority's policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority's Board establishes, modifies and/or rescinds fund balance commitments by passage of an ordinance or resolution.

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 do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

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, 2011.

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.

**High Desert Corridor Joint Powers Authority
Notes to Financial Statements
June 30, 2011**

NOTE 4: CONTINGENCIES

As of June 30, 2011, 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
For the Year Ended June 30, 2011

	General Fund (OFW)			Variance with Final Budget
	Original Budget	Final Budget	Actual	
REVENUES				
Member contributions	\$ 72,600	\$ 72,600	\$ -	\$ (72,600)
Investment earnings	3,000	3,000	3,784	784
Total Revenues	<u>75,600</u>	<u>75,600</u>	<u>3,784</u>	<u>(71,816)</u>
EXPENDITURES				
Professional services	83,850	83,850	130,261	(46,411)
Other charges	185,300	185,300	-	185,300
Reserves and contingencies	132,443	132,443	-	132,443
Total Expenditures	<u>401,593</u>	<u>401,593</u>	<u>130,261</u>	<u>271,332</u>
Net Change in Fund Balance	<u>\$ (325,993)</u>	<u>\$ (325,993)</u>	(126,477)	<u>\$ 199,516</u>
Fund Balance - beginning			<u>335,149</u>	
Fund Balance - ending			<u>\$ 208,672</u>	