

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC  
DEVELOPMENT AUTHORITY**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2009**

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC  
DEVELOPMENT AUTHORITY**

**Basic Financial Statements  
June 30, 2009**

**TABLE OF CONTENTS**

<b>Independent Auditor’s Report</b> .....	1
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities .....	4
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	5
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	6
Notes to Basic Financial Statements .....	7
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i></b> .....	17



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**INDEPENDENT AUDITOR'S REPORT**

The Members of the Governing Board  
City of Adelanto Portion of  
Victor Valley Economic Development Authority  
Adelanto, California

We have audited the basic financial statements of the governmental activities and each major fund of the City of Adelanto Portion of Victor Valley Economic Development Authority (Agency), a component unit of the City of Adelanto, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic 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 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 as to whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 each major fund of the City of Adelanto Portion of Victor Valley Economic Development Authority as of June 30, 2009, and the respective changes in financial position thereof, for the fiscal year ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to the basic financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*; GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowment*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective July 1, 2008.

The Agency has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2009, on our consideration of the Agency's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 considered in assessing the results of our audit.

Moss, Levy & Hartzheim, LLP  
Beverly Hills, California

December 24, 2009

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2009**

ASSETS	<u>Governmental Activities</u>
Cash and investments	\$ 489,445
Accounts and intergovernmental receivables	<u>539,443</u>
Total Assets	<u>1,028,888</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	35,429
Due to the City of Adelanto	<u>2,455</u>
Total Liabilities	<u>37,884</u>
<b>NET ASSETS</b>	
Restricted for:	
Low and moderate income housing	<u>657,759</u>
Total restricted net assets	657,759
Unrestricted	<u>333,245</u>
Total Net Assets	<u>\$ 991,004</u>

See accompanying notes to basic financial statements

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Expenses	Program Revenue Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses:			
Governmental activities:			
Community development	\$ 200,293	\$ -	\$ (200,293)
Total	\$ 200,293	\$ -	(200,293)
General revenues:			
Taxes:			
Incremental property taxes			802,501
Use of money and property			15,747
Total general revenues			818,248
Change in Net Assets			617,955
Net Assets - Beginning			373,049
Net Assets - Ending			\$ 991,004

See accompanying notes to basic financial statements

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

	Adelanto Portion of VVEDA Low/Moderate Income Housing Special Revenue Fund	Adelanto Portion of VVEDA Redevelopment Agency Special Revenue Fund	Total
<b>ASSETS</b>			
Cash and investments	\$ 309,174	\$ 180,271	\$ 489,445
Receivables:			
Accounts	310,348	229,095	539,443
Due from other funds	41,098		41,098
Due from the City of Adelanto		406	406
<b>Total Assets</b>	<b>\$ 660,620</b>	<b>\$ 409,772</b>	<b>\$ 1,070,392</b>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 35,429	\$ 35,429
Due to the City of Adelanto	2,861		2,861
Due to other funds		41,098	41,098
<b>Total Liabilities</b>	<b>2,861</b>	<b>76,527</b>	<b>79,388</b>
<b>FUND BALANCES</b>			
Reserved for:			
Low and moderate income housing	657,759		657,759
Unreserved		333,245	333,245
<b>Total Fund Balances</b>	<b>657,759</b>	<b>333,245</b>	<b>991,004</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 660,620</b>	<b>\$ 409,772</b>	<b>\$ 1,070,392</b>

See accompanying notes to basic financial statements

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Adelanto Portion of VVEDA Low/Moderate Income Housing Special Revenue Fund	Adelanto Portion of VVEDA Redevelopment Agency Special Revenue Fund	Total
<b>REVENUES</b>			
Property tax increment	\$ 415,770	\$ 386,731	\$ 802,501
Use of money and property	8,009	7,738	15,747
Total Revenues	<u>423,779</u>	<u>394,469</u>	<u>818,248</u>
<b>EXPENDITURES</b>			
Current:			
Community development	<u>2,660</u>	<u>197,633</u>	<u>200,293</u>
Total Expenditures	<u>2,660</u>	<u>197,633</u>	<u>200,293</u>
NET CHANGE IN FUND BALANCES	421,119	196,836	617,955
FUND BALANCES, BEGINNING OF FISCAL YEAR	<u>236,640</u>	<u>136,409</u>	<u>373,049</u>
FUND BALANCES, END OF FISCAL YEAR	<u>\$ 657,759</u>	<u>\$ 333,245</u>	<u>\$ 991,004</u>

See accompanying notes to basic financial statements

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose**

On May 23, 2000, the City of Adelanto signed a joint exercise of powers agreement (JPA) which made the City a part of the Victor Valley Economic Development Authority (VVEDA) with the contingency that the City have land available that could be annexed into the VVEDA RDA Project Area. As long as this contingency was met, the City would become a voting member of VVEDA. This inclusion into the JPA authorized the Redevelopment Agency of the County of San Bernardino to receive and expend the County's portion of the VVEDA tax increment.

Prior to the City of Adelanto joining VVEDA, it was comprised of the City of Victorville, City of Hesperia, Town of Apple Valley, and San Bernardino County. At the time of the City of Adelanto's inclusion in VVEDA, the JPA also adopted amendments to provide greater flexibility with respect to the receipt and expenditure of tax increment revenues and to allow for an assignment of each Member's right to receive and expend tax increment revenues to each Member's respective redevelopment agency.

The VVEDA was previously formed in 1989 pursuant to a Joint Exercise of Powers Agreement (JPA) to provide a regional agency responsible for the reuse of George Air Force Base. VVEDA provided for the coordination of long range planning of the territory of George Air Force Base (GAFB) and surrounding areas, the interaction with the federal government, the acquisition, through public benefit transfer and economic development conveyance and administration and management of an airport or other public facilities at GAFB, redevelopment of GAFB and surrounding areas, and the financing, including but not limited to obtaining grants and issuing bonds, notes, warrants and other evidences of indebtedness, needed to effectuate such planning which are needed to ensure the health, safety, and general welfare of the area in connection with the closure of GAFB.

In regards to the City of Adelanto, specifically, the general objectives are to eliminate and mitigate existing and anticipated blight within the project area. These objectives are to be attained by the development, or encouragement thereof, of residential and commercial facilities in the project area. In 2003, the City had land available that could be annexed by VVEDA and at this time, the City fulfilled its contingent requirement. From 2003 to the fiscal year 06/07, any tax increment generated on the Adelanto property was used to pay administrative costs of VVEDA. It was not until the fiscal year 07/08 that tax increment generated by the land exceeded the City's portion of its administrative costs and was transferred to the Adelanto Redevelopment Agency. Currently the project area is vacant and there are no current plans on the use of funds at this time.

The Agency is an integral part of the City of Adelanto (City) and, accordingly, the accompanying component unit financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation**

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

**C. Major Funds**

GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

**City of Adelanto Portion of VVEDA Low/Moderate Income Housing Special Revenue Fund** – This fund accounts for the portion of City and County tax increment funds received for redevelopment related purposes and set aside for low-and-moderate-income housing.

**City of Adelanto Portion of VVEDA Redevelopment Agency Special Revenue Fund** – This fund accounts for property tax increments and expenditures related to redevelopment.

**D. Basis of Accounting**

The Government-wide Financial Statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Accounting (Continued)**

Governmental Funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

*Non-exchange transactions*, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**E. Accounting Policies**

**Revenue**

The Agency's primary source of revenue is property taxes which are passed through the Victor Valley Economic Development Authority to the Agency, referred to in the accompanying component unit financial statements as "incremental property taxes".

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City.

The Agency is also authorized to finance the projects from other sources, including assistance from the City, the State and Federal government, interest income, and the issuance of Agency debt.

**Property Taxes**

Revenue is recognized in the fiscal year for which the tax and assessment is levied. Victor Valley Economic Development Authority receives property taxes for the Agency and passes on the Agency's portion.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Budgets and Budgetary Accounting**

There were no budgets adopted for City of Adelanto Portion of VVEDA Low/Moderate Income Housing Special Revenue Fund and City of Adelanto Portion of VVEDA Redevelopment Agency Special Revenue Fund.

**G. Long-term Obligations**

In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refundings, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the term of the related debt.

**H. Estimates**

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

**I. New Accounting Pronouncements**

**GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions**

This Statement is effective for periods beginning after December 15, 2007 for a Phase 2 government (1999 total revenue less than \$100 million and more than \$10 million). This Statement establishes standards for accounting and financial reporting for state and local government employers that offer “Other Postemployment Benefits” (OPEB) and requires accrual basis measurement and recognition of OPEB expenses and liabilities that will result in recognition of expenses over periods that approximate employees’ years of service.

**GASB Statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations**

This Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning.

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. New Accounting Pronouncements (Continued)**

GASB Statement No. 52 – Land and Other Real Estate Held as Investments by Endowments

This Statement is effective for periods beginning after June 15, 2008. The Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 55 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

This Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s authoritative literature. The “GAAP hierarchy” consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

GASB Statement No. 56 – Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements of Auditing Standards

This Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 489,445
Total cash and investments	\$ 489,445

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

Cash and investments as of June 30, 2009 consist of the following:

Cash and investments pooled with the City of Adelanto	\$	489,445
		489,445
Total cash and investments	\$	489,445

**A. Investments Authorized by the California Government Code and the Agency's Investment Policy**

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California government Code or the Agency's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	N/A	None	\$40 million
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	\$ 100,000
Certificates of Deposit	1 year	None	\$ 100,000
Bankers Acceptances	N/A	None	None
Commercial Paper	N/A	None	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the Agency.

**B. Investments Authorized by Debt Agreements**

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

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

**B. Investments Authorized by Debt Agreements (Continued)**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	\$ 100,000
Certificates of Deposit	1 year	None	\$ 100,000
Commercial Paper	270 days	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Investment Agreements	N/A	None	None
Repurchase agreements	N/A	None	None
State Bonds	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the Agency.

**C. Disclosures Relating to 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 market interest rates. One of the ways that the Agency 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.

The Agency has no investments as of June 30, 2009.

**D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The Agency has no investments (including investments held by bond trustees) as of June 30, 2009.

**E. Disclosures Relating to 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 Agency has no investments as of June 30, 2009.

**F. Concentration of Credit Risk**

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. The Agency did not have any investments as of June 30, 2009.

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 2 CASH AND INVESTMENTS (Continued)**

**G. Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

See the City of Adelanto's Annual Financial Report for more information relating to custodial credit risk for amounts reported as cash and investments pooled with the City.

As of June 30, 2009, the Agency did not have any investments that were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities.

**NOTE 3 – INTERFUND TRANSACTIONS**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of fiscal year. The following presents a summary of current interfund balances at June 30, 2009.

	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
Adelanto Portion of VVEDA Low/Moderate Income Housing	\$ 41,098	\$ -
Adelanto Portion of VVEDA Redevelopment Agency	-	41,098
Total	\$ 41,098	\$ 41,098

**CITY OF ADELANTO PORTION OF  
VICTOR VALLEY ECONOMIC DEVELOPMENT AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 4 – FUND EQUITY**

Reserved fund balances at June 30, 2009 consist of the following:

Fund Balances Reserved For:	Adelanto Portion of VVEDA Low/Moderate Income Housing Special Revenue Fund
Low and moderate income housing - Agency resources allocated for use for low and moderate income housing	\$ 657,759
Total reserved fund balances	\$ 657,759

The Agency has reserved fund balance for low and moderate income housing as these assets are specifically available only for expenditures relating to low and moderate housing under the California Health and Safety Code.

**NOTE 5 - NET ASSETS AND FUND BALANCES**

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

**A. Net Assets**

Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**B. Fund Balances**

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which is legally segregated for low and moderate income housing projects as required by the California Health and Safety Code, debt service expenditures as required under bond indenture, and land held for resale as this asset does not represent an available spendable resource.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Governing Board  
City of Adelanto Portion of  
Victor Valley Economic Development Authority  
Adelanto, California

We have audited the basic financial statements of the governmental activities and each major fund of the City of Adelanto Portion of Victor Valley Economic Development Authority (Agency), a component unit of the City of Adelanto, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Agency's Board of Directors, management, and the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Beverly Hills, California

December 24, 2009