

**City of Adelanto
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

CITY OF ADELANTO, CALIFORNIA
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2004

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FINANCIAL
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INDEPENDENT AUDITOR'S REPORT

The Members of the City Council of the
City of Adelanto
Adelanto, 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 Adelanto, California (City) as of and for the fiscal year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 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 the 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.

As discussed in Note 1 to the financial statements, the City has not recorded capital assets in the governmental activities except for the Redevelopment Agency's capital assets, and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. These amounts are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements of the governmental activities do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of Adelanto as of June 30, 2004, and the respective changes in financial position for the fiscal year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Adelanto, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund and the Sanitation Special Revenue Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 26, 2007, 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 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.

The City 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The major debt service budgetary comparison schedule, combining nonmajor fund financial statements, and nonmajor funds budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major debt service budgetary comparison schedule, combining nonmajor fund financial statements, and nonmajor funds budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
January 26, 2007

CITY OF ADELANTO
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 3,827,071	\$ 7,373,018	\$ 11,200,089
Cash and investments with fiscal agents	5,711,829	6,610,362	12,322,191
Receivables:			
Accounts receivable - net	1,255,147	3,476,814	4,731,961
Notes/Contracts	1,017,527		1,017,527
Interest	3,439	9,970	13,409
Internal balances	(1,957,015)	1,957,015	
Prepaid expenses	56,555	88,398	144,953
Inventory		60,252	60,252
Investment in Adelanto Public Financing Authority bonds		17,854,078	17,854,078
Land held for resale	1,901,942		1,901,942
Deferred charges - net of accumulated amortization	1,472,724	7,352,402	8,825,126
Deferred losses on refunding	1,273,653		1,273,653
Capital assets not being depreciated	8,700	7,252,596	7,261,296
Capital assets - net of accumulated depreciation	346,840	22,998,352	23,345,192
Total assets	14,918,412	75,033,257	89,951,669
LIABILITIES			
Accounts payable	944,816	1,333,941	2,278,757
Interest payable	772,883	113,742	886,625
Accrued expenses	87,805	237,039	324,844
Deposits payable	101,972	328,616	430,588
Deferred revenue	115,054		115,054
Due to fiduciary funds	1,343,104		1,343,104
Due to other governments	315,884		315,884
Noncurrent liabilities:			
Due within one year	1,008,563	1,000,000	2,008,563
Due in more than one year	59,551,903	50,059,078	109,610,981
Total liabilities	64,241,984	53,072,416	117,314,400
NET ASSETS			
Invested in capital assets, net of related debt		(13,156,650)	(13,156,650)
Restricted for:			
Construction	391,387		391,387
Debt service	4,686,100	4,475,782	9,161,882
Streets, highways, bikeways, public transit, and other related purposes	4,202,903		4,202,903
Sanitation		2,021,558	2,021,558
Park	203,103		203,103
Public safety	396,881		396,881
Unrestricted	(59,203,946)	28,620,151	(30,583,795)
Total net assets	\$ (49,323,572)	\$ 21,960,841	\$ (27,362,731)

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Primary Government:				
General government	\$ 2,131,806	\$ 1,217,862	\$ -	\$ -
Public safety	4,901,899	280,329	220,441	
Public works	3,267,723	2,959,414	1,210,972	
Community development	312,012	70,085	747,652	
Parks and recreation	273,289	275,787	557	
Pass through payments	310,809			
Interest on long-term debt	4,762,204			
Total Governmental Activities	<u>15,959,742</u>	<u>4,803,477</u>	<u>2,179,622</u>	
Business-type Activities:				
Transit	548,245	409,010		
Correctional Facility	6,452,836	7,402,253		
Public Utility Authority	4,525,942	12,165,632		
Total Business-type Activities	<u>11,527,023</u>	<u>19,976,895</u>		
Total Primary Government	<u>\$ 27,486,765</u>	<u>\$ 24,780,372</u>	<u>\$ 2,179,622</u>	<u>\$ -</u>

General Revenues:

Taxes:

- Sales taxes
- Property taxes
- Franchise taxes
- Transient occupancy taxes
- Business license taxes
- Motor vehicle in lieu
- Earnings on investments
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - July 1, 2003

Restatement of net assets

Net assets - July 1, 2003, restated

Net assets - June 30, 2004

See Notes to the Basic Financial Statements

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (913,944)	\$ -	\$ (913,944)
(4,401,129)		(4,401,129)
902,663		902,663
505,725		505,725
3,055		3,055
(310,809)		(310,809)
<u>(4,762,204)</u>		<u>(4,762,204)</u>
<u>(8,976,643)</u>		<u>(8,976,643)</u>
	(139,235)	(139,235)
	949,417	949,417
	<u>7,639,690</u>	<u>7,639,690</u>
	<u>8,449,872</u>	<u>8,449,872</u>
<u>(8,976,643)</u>	<u>8,449,872</u>	<u>(526,771)</u>
882,333		882,333
3,925,292		3,925,292
188,923		188,923
44,381		44,381
41,909		41,909
882,085		882,085
264,698	1,443,256	1,707,954
178,278		178,278
<u>1,980,400</u>	<u>(1,980,400)</u>	
<u>8,388,299</u>	<u>(537,144)</u>	<u>7,851,155</u>
<u>(588,344)</u>	<u>7,912,728</u>	<u>7,324,384</u>
<u>(54,993,249)</u>	<u>14,066,184</u>	<u>(40,927,065)</u>
<u>6,258,021</u>	<u>(18,071)</u>	<u>6,239,950</u>
<u>(48,735,228)</u>	<u>14,048,113</u>	<u>(34,687,115)</u>
<u>\$ (49,323,572)</u>	<u>\$ 21,960,841</u>	<u>\$ (27,362,731)</u>

**CITY OF ADELANTO
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

	General Fund	Sanitation Fund	Redevelopment Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ -	\$ -	\$ 89,987	\$ 3,737,084	\$ 3,827,071
Cash and investments with fiscal agents			5,711,829		5,711,829
Accounts receivable - net	582,863	295,496	73,051	303,737	1,255,147
Due from other funds	1,191,420	1,601,189		1,616,717	4,409,326
Prepaid items	56,555				56,555
Interest receivable	188			3,251	3,439
Notes/Contracts receivable				1,017,527	1,017,527
Advances to other funds	2,024,243				2,024,243
Land held for resale				1,901,942	1,901,942
Total assets	\$ 3,855,269	\$ 1,896,685	\$ 5,874,867	\$ 8,580,258	\$ 20,207,079
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 440,242	\$ 404,700	\$ -	\$ 99,874	\$ 944,816
Accrued expenditures	83,409			4,396	87,805
Due to other funds	4,214,385	1,416,315	100,000	1,978,745	7,709,445
Deposits	17,263	83,859		850	101,972
Deferred revenue	117,738			1,132,581	1,250,319
Due to other governments			315,884		315,884
Advances from other funds				2,024,243	2,024,243
Total liabilities	4,873,037	1,904,874	415,884	5,240,689	12,434,484
Fund balances					
Reserved:					
Debt service			5,458,983		5,458,983
Prepaid items	56,555				56,555
Land held for resale				1,901,942	1,901,942
Unreserved:					
Designated - special revenue funds		(8,189)		4,760,931	4,752,742
Undesignated - general fund	(1,074,323)				(1,074,323)
Undesignated - capital projects funds				(3,323,304)	(3,323,304)
Total fund balances	(1,017,768)	(8,189)	5,458,983	3,339,569	7,772,595
Total liabilities and fund balances	\$ 3,855,269	\$ 1,896,685	\$ 5,874,867	\$ 8,580,258	\$ 20,207,079

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004**

Fund balances of governmental funds	\$	7,772,595
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation have not been included as financial resources in governmental funds.		355,540
Certain accounts receivable, intergovernmental receivables, and notes receivable are not available to pay for current period expenditures and, therefore are offset by deferred revenue in the governmental funds.		1,135,265
Long-term debt and compensated absences have not been included in the governmental funds:		
Tax allocation bonds		(60,491,510)
Compensated absences		(68,956)
Deferred charges, net of accumulated amortization for debt issuance costs and discounts on long-term debt have not been reported in the governmental funds.		1,472,724
Deferred losses on refunding, net of accumulated amortization for long-term debt issuance have not been reported in the governmental funds.		1,273,653
Accrued interest payable due on long-term debt has not been reported in the governmental funds.		<u>(772,883)</u>
Net assets of governmental activities	\$	<u>(49,323,572)</u>

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	General Fund	Sanitation Fund	Redevelopment Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,401,659	\$ -	\$ 3,720,583	\$ 88,072	\$ 5,210,314
Licenses and permits	991,686			172,136	1,163,822
Fines, forfeitures, and penalties	82,966			26,836	109,802
Investment earnings		358	158,578	587,958	746,894
Charges for current services	490,991	1,694,244		3,294	2,188,529
Intergovernmental revenue	2,085,014			1,781,662	3,866,676
Other revenues	178,278				178,278
Total revenues	5,230,594	1,694,602	3,879,161	2,659,958	13,464,315
EXPENDITURES					
Current:					
General government	1,881,361			241,412	2,122,773
Public safety	4,867,878			16,117	4,883,995
Public works	963,273	1,618,387		624,460	3,206,120
Community development	177,972		888	127,708	306,568
Parks and recreation	78,064			175,158	253,222
Pass-through payments			124,267	186,542	310,809
Capital outlay	48,133	172		70,662	118,967
Debt service:					
Principal retirement			1,385,267		1,385,267
Interest and other charges			2,035,482		2,035,482
Total expenditures	8,016,681	1,618,559	3,545,904	1,442,059	14,623,203
Excess of revenues over (under) expenditures	(2,786,087)	76,043	333,257	1,217,899	(1,158,888)
OTHER FINANCING SOURCES (USES)					
Transfers in	2,914,541			103,560	3,018,101
Transfers out	(3,560)	(165,000)	(100,000)	(769,141)	(1,037,701)
Total other financing sources (uses)	2,910,981	(165,000)	(100,000)	(665,581)	1,980,400
Excess of revenues and other financing sources over (under) expenditures and other financing uses	124,894	(88,957)	233,257	552,318	821,512
Fund balances - July 1, 2003	(1,085,838)	80,768	5,225,726	2,787,251	7,007,907
Prior period adjustments	(56,824)				(56,824)
Fund balances - July 1, 2003, restated	(1,142,662)	80,768	5,225,726	2,787,251	6,951,083
Fund balances - June 30, 2004	<u>\$ (1,017,768)</u>	<u>\$ (8,189)</u>	<u>\$ 5,458,983</u>	<u>\$ 3,339,569</u>	<u>\$ 7,772,595</u>

See Notes to the Basic Financial Statements

CITY OF ADELANTO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 821,512

Amounts reported for governmental activities in the statement of activities differ because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. (9,568)

Certain taxes and fees in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 22,804

Certain notes receivable are reported in the governmental funds as expenditures and then offset by a deferred revenue as they are not available to pay current expenditures. Likewise, when the note is collected, it is reflected in revenue. This is the net change between notes receivable collected and issued. (96,121)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and issuance cost of long-term debt consumes the current financial resources of the governmental funds. Issuance of bond principal is an other financing source and repayment of bond principal and issuance cost are an expenditure in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net assets. This is the net change in issuance of long-term debt net of issuance cost. (1,158,793)

Debt issuance costs are expenditures in the governmental funds, but these costs are capitalized on the statement of net assets. This is the net change in debt issuance costs in the current period which represents its annual amortization. (129,876)

Accrued interest is interest due on long-term debt payable. This is the net change in accrued interest for the current period. (52,786)

Compensated absence expenditures reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period. 14,484

Change in net assets of governmental activities \$ (588,344)

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes and assessments	\$ 1,311,000	\$ 1,311,000	\$ 1,401,659	\$ 90,659
Licenses and permits	1,070,260	1,070,260	991,686	(78,574)
Fines, forfeitures, and penalties	95,000	95,000	82,966	(12,034)
Intergovernmental revenue	2,499,296	2,499,296	2,085,014	(414,282)
Charges for current services	128,225	128,225	490,991	362,766
Other revenues	2,561,600	2,561,600	178,278	(2,383,322)
Total revenues	7,665,381	7,665,381	5,230,594	(2,434,787)
EXPENDITURES				
Current:				
General government:				
City council	69,692	69,692	45,086	24,606
City manager	162,985	162,985	160,232	2,753
City clerk	141,371	141,371	118,805	22,566
Finance	214,931	214,931	196,627	18,304
City attorney	180,500	180,500	267,769	(87,269)
Non-departmental	672,050	672,050	1,092,842	(420,792)
Total general government	1,441,529	1,441,529	1,881,361	(439,832)
Public safety:				
Police	3,046,000	3,046,000	3,103,738	(57,738)
Fire	1,337,540	1,337,540	1,521,035	(183,495)
Code enforcement	121,588	121,588	134,593	(13,005)
Animal control	108,638	108,638	108,512	126
Total public safety	4,613,766	4,613,766	4,867,878	(254,112)
Public works:				
Street maintenance	474,989	474,989	206,917	268,072
Engineering and other	251,891	251,891	281,204	(29,313)
Building and safety	311,715	311,715	370,460	(58,745)
Vehicle maintenance	65,811	65,811	104,692	(38,881)
Total public works	1,104,406	1,104,406	963,273	141,133
Community development	152,726	152,726	177,972	(25,246)
Total community development	152,726	152,726	177,972	(25,246)

Continued

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2004
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation				
Senior Center	\$ 15,500	\$ 15,500	\$ 18,230	\$ (2,730)
Community Center	19,000	19,000	8,900	10,100
Parks and grounds	57,766	57,766	50,934	6,832
Total parks and recreation	92,266	92,266	78,064	14,202
Capital outlay	53,500	53,500	48,133	5,367
Total expenditures	7,458,193	7,458,193	8,016,681	(558,488)
Excess of revenues over (under) expenditures	207,188	207,188	(2,786,087)	(2,993,275)
OTHER FINANCING SOURCES (USES)				
Sales of property	45,000	45,000		(45,000)
Transfers in			2,914,541	2,914,541
Transfers out			(3,560)	(3,560)
Total other financing sources (uses)	45,000	45,000	2,910,981	2,865,981
Excess of revenues and other sources over (under) expenditures and other uses	252,188	252,188	124,894	(127,294)
Fund balance - July 1, 2003	(1,085,838)	(1,085,838)	(1,085,838)	
Prior period adjustments			(56,824)	(56,824)
Fund balance - July 1, 2003, restated	(1,085,838)	(1,085,838)	(1,142,662)	(56,824)
Fund balance - June 30, 2004	\$ (833,650)	\$ (833,650)	\$ (1,017,768)	\$ (184,118)

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SANITATION SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 358	\$ 358
Charges for current services	<u>1,710,000</u>	<u>1,710,000</u>	<u>1,694,244</u>	<u>(15,756)</u>
Total revenues	<u>1,710,000</u>	<u>1,710,000</u>	<u>1,694,602</u>	<u>(15,398)</u>
EXPENDITURES				
Current:				
Public works	1,547,000	1,547,000	1,618,387	(71,387)
Capital outlay	<u> </u>	<u> </u>	<u>172</u>	<u>(172)</u>
Total expenditures	<u>1,547,000</u>	<u>1,547,000</u>	<u>1,618,559</u>	<u>(71,559)</u>
Excess of revenues over (under) expenditures	<u>163,000</u>	<u>163,000</u>	<u>76,043</u>	<u>(86,957)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(165,000)</u>	<u>(165,000)</u>	<u>(165,000)</u>	<u> </u>
Total other financing sources (uses)	<u>(165,000)</u>	<u>(165,000)</u>	<u>(165,000)</u>	<u> </u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(2,000)	(2,000)	(88,957)	(86,957)
Fund balance - July 1, 2003	<u>80,768</u>	<u>80,768</u>	<u>80,768</u>	<u> </u>
Fund balance - June 30, 2004	<u>\$ 78,768</u>	<u>\$ 78,768</u>	<u>\$ (8,189)</u>	<u>\$ (86,957)</u>

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004**

	Transit	Correctional Facility	Public Utility Authority	Total
ASSETS				
Current Assets:				
Cash and cash investments	\$ -	\$ 572,567	\$ 6,800,451	\$ 7,373,018
Restricted cash and investments with fiscal agents		1,028,281	5,582,081	6,610,362
Prepaid items		88,398		88,398
Accounts receivable, net	115,285	1,199,338	2,162,191	3,476,814
Interest receivable			9,970	9,970
Inventory			60,252	60,252
Due from other funds		1,871,994	1,054,023	2,926,017
Total Current Assets	115,285	4,760,578	15,668,968	\$ 20,544,831
Noncurrent Assets:				
Deferred issuance costs		240,713	7,111,689	7,352,402
Investment in Adelanto Public Financing Authority Bonds			17,854,078	17,854,078
Capital assets:				
Land		104,660	7,147,936	7,252,596
Depreciable buildings and improvements, net		6,791,110	16,180,725	22,971,835
Depreciable equipment, net		26,517		26,517
Total Noncurrent Assets		7,163,000	48,294,428	55,457,428
Total Assets	115,285	11,923,578	63,963,396	76,002,259
LIABILITIES				
Current Liabilities:				
Accounts payable	26,215	135,175	1,172,551	1,333,941
Accrued liabilities	13,758	193,725	29,556	237,039
Accrued interest payable		73,660	40,082	113,742
Deposits payable			328,616	328,616
Due to other funds	112,372	856,630		969,002
Current portion of long-term obligations		1,000,000		1,000,000
Total Current Liabilities	152,345	2,259,190	1,570,805	3,982,340
Noncurrent Liabilities:				
Noncurrent portion of long-term obligations:				
Compensated absences	16,915	212,321	69,842	299,078
Bonds payable		5,435,000	44,325,000	49,760,000
Total Noncurrent Liabilities	16,915	5,647,321	44,394,842	50,059,078
Total Liabilities	169,260	7,906,511	45,965,647	54,041,418
NET ASSETS				
Invested in capital assets, net of related debt		728,000	(13,884,650)	(13,156,650)
Restricted for debt service		954,621	3,521,161	4,475,782
Restricted for projects			2,021,558	2,021,558
Unrestricted	(53,975)	2,334,446	26,339,680	28,620,151
Total Net Assets	\$ (53,975)	\$ 4,017,067	\$ 17,997,749	\$ 21,960,841

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004**

	Transit	Correctional Facility	Public Utility Authority	Total
Operating Revenues:				
Sales and service charges	\$ 315,856	\$ 5,856,830	\$ 12,053,231	\$ 18,225,917
Rents		1,329,638		1,329,638
Other	93,154	215,785	112,401	421,340
Total Operating Revenues	<u>409,010</u>	<u>7,402,253</u>	<u>12,165,632</u>	<u>19,976,895</u>
Operating Expenses:				
Salaries and benefits	262,192	3,669,745	558,867	4,490,804
Contractual services		174,645	603,785	778,430
Utilities	1,729	434,255	865,348	1,301,332
Maintenance and supplies	204,279	895,417		1,099,696
Insurance		22,000		22,000
Sewer operations			187,244	187,244
Water operations			550,271	550,271
Allocated overhead	80,045	705,746	86,087	871,878
Depreciation		188,276	442,201	630,477
Total Operating Expenses	<u>548,245</u>	<u>6,090,084</u>	<u>3,293,803</u>	<u>9,932,132</u>
Operating Income (Loss)	<u>(139,235)</u>	<u>1,312,169</u>	<u>8,871,829</u>	<u>10,044,763</u>
Nonoperating Revenues (Expenses):				
Interest revenue	2,960	51,917	1,388,379	1,443,256
Interest expense and fiscal charges		(320,888)	(939,067)	(1,259,955)
Amortization expense		(41,864)	(293,072)	(334,936)
Total Nonoperating Revenues (Expenses)	<u>2,960</u>	<u>(310,835)</u>	<u>156,240</u>	<u>(151,635)</u>
Income (Loss) Before Transfers	<u>(136,275)</u>	<u>1,001,334</u>	<u>9,028,069</u>	<u>9,893,128</u>
Transfers in	19,600			19,600
Transfers out			(2,000,000)	(2,000,000)
Net Transfers	<u>19,600</u>		<u>(2,000,000)</u>	<u>(1,980,400)</u>
Changes in Net Assets	<u>(116,675)</u>	<u>1,001,334</u>	<u>7,028,069</u>	<u>7,912,728</u>
Net Assets				
Beginning of fiscal year, July 1, 2003	60,509	3,035,995	10,969,680	14,066,184
Prior period adjustments	2,191	(20,262)		(18,071)
Beginning of fiscal year, July 1, 2003 as restated	<u>62,700</u>	<u>3,015,733</u>	<u>10,969,680</u>	<u>14,048,113</u>
End of fiscal year, June 30, 2004	<u>\$ (53,975)</u>	<u>\$ 4,017,067</u>	<u>\$ 17,997,749</u>	<u>\$ 21,960,841</u>

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004**

	<u>Transit</u>	<u>Correctional Facility</u>	<u>Public Utility Authority</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 490,660	\$ 7,299,696	\$ 12,042,136	\$ 19,832,492
Cash paid to suppliers for goods and services	(276,522)	(2,339,807)	(1,356,409)	(3,972,738)
Cash paid to employees for services	(259,837)	(3,705,050)	(541,975)	(4,506,862)
Net Cash Provided by (Used by) Operating Activities	<u>(45,699)</u>	<u>1,254,839</u>	<u>10,143,752</u>	<u>11,352,892</u>
Cash Flows from Non-Capital Financing Activities:				
Cash transfers from/(to) other funds	19,600		(2,000,000)	(1,980,400)
Due from other funds		(1,648,573)		(1,648,573)
Due to other funds	23,139	27,847	313,511	364,497
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>42,739</u>	<u>(1,620,726)</u>	<u>(1,686,489)</u>	<u>(3,264,476)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchases of capital assets			(3,431,472)	(3,431,472)
Principal paid on capital debt		(1,000,000)		(1,000,000)
Interest paid on capital debt		(329,638)	(937,058)	(1,266,696)
Net Cash Provided (Used) by Capital and Related Financing Activities		<u>(1,329,638)</u>	<u>(4,368,530)</u>	<u>(5,698,168)</u>
Cash Flows from Investing Activities:				
Interest received	2,960	51,917	927,313	982,190
Net Cash Provided (Used) by Investing Activities	<u>2,960</u>	<u>51,917</u>	<u>927,313</u>	<u>982,190</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(1,643,608)	5,016,046	3,372,438
Cash and Cash Equivalents at Beginning of Fiscal Year		<u>3,244,456</u>	<u>7,366,486</u>	<u>10,610,942</u>
Cash and Cash Equivalents at End of Fiscal Year	<u>\$ -</u>	<u>\$ 1,600,848</u>	<u>\$ 12,382,532</u>	<u>\$ 13,983,380</u>
Reconciliation to Statement of Net Assets:				
Cash and investments	\$ -	\$ 572,567	\$ 6,800,451	\$ 7,373,018
Restricted cash and investments with fiscal agents		1,028,281	5,582,081	6,610,362
Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ 1,600,848</u>	<u>\$ 12,382,532</u>	<u>\$ 13,983,380</u>

(Continued)

See Notes to the Basic Financial Statements

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CITY OF ADELANTO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004
(Continued)

	<u>Transit</u>	<u>Correctional Facility</u>	<u>Public Utility Authority</u>	<u>Total</u>
Reconciliation of Operating Income (loss) to net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	<u>\$ (139,235)</u>	<u>\$ 1,312,169</u>	<u>\$ 8,871,829</u>	<u>\$ 10,044,763</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation		188,276	442,201	630,477
(Increase) decrease in accounts receivable	81,650	(14,159)	(212,225)	(144,734)
(Increase) decrease in prepaid items		(88,398)		(88,398)
Increase (decrease) in accounts payable	10,068	(104,880)	936,326	841,514
Increase (decrease) in accrued liabilities	(537)	(2,864)	8,134	4,733
Increase (decrease) in compensated absences	2,355	(35,305)	8,758	(24,192)
Increase (decrease) in deposits payable			88,729	88,729
Total Adjustments	<u>93,536</u>	<u>(57,330)</u>	<u>1,271,923</u>	<u>1,308,129</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (45,699)</u>	<u>\$ 1,254,839</u>	<u>\$ 10,143,752</u>	<u>\$ 11,352,892</u>

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2004**

	Trust		
	Private Purpose		Pension
	Luetke Foundation	Inmate Welfare Benefit	Employee Retirement Plan
ASSETS			
Cash and investments	\$ 22,422	\$ 314,230	\$ -
Restricted cash and investments with fiscal agents			
Accounts receivable		29,702	
Due from other funds		1,452,780	
Inventories		21,669	
Total assets	<u>\$ 22,422</u>	<u>\$ 1,818,381</u>	<u>\$ -</u>
LIABILITIES			
Accounts payable	4,214	64,932	
Accrued liabilities		3,643	
Due to other funds	10,565		
Due to bondholders			
Total liabilities	<u>14,779</u>	<u>68,575</u>	
NET ASSETS			
Unrestricted	<u>7,643</u>	<u>1,749,806</u>	
Total net assets	<u>\$ 7,643</u>	<u>\$ 1,749,806</u>	<u>\$ -</u>

See Notes to the Basic Financial Statements

<u>Agency</u>	
<u>Assessment District 1A</u>	<u>Inmate Trust</u>
\$ 957,289	\$ 71,601
1,294,921	
<u>\$ 2,252,210</u>	<u>\$ 71,601</u>
7,125	61,049
88,559	10,552
<u>2,156,526</u>	<u>71,601</u>
<u>2,252,210</u>	<u>71,601</u>
<u>\$ -</u>	<u>\$ -</u>

CITY OF ADELANTO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust	Pension Trust
	Luetke Foundation	Inmate Welfare Benefit
Additions		
Inmate phone increment charges	\$ -	\$ 180,391
Other		9,401
Total additions		189,792
Deletions		
General government		62,085
Total deletions		62,085
Change in net assets		127,707
Net assets - July 1, 2003	7,643	1,622,099
Net assets - June 30, 2004	\$ 7,643	\$ 1,749,806

See Notes to the Basic Financial Statements

Note to Basic Financial Statements

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CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies**

The financial statements of the City of Adelanto (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

a. Description of the Reporting Entity

The City of Adelanto was incorporated on December 22, 1970, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city. It is governed by an elected five member board.

The City of Adelanto is a reporting entity which includes the following component units:

The Adelanto Redevelopment Agency (Agency) was established on October 14, 1976, pursuant to the State of California Health and Safety Code, Section 33000. The Agency established two redevelopment project areas, known as Project Area 76-1 and Project Area 80-1. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and development of blighted areas within the territorial limits of the City of Adelanto.

The Adelanto Public Financing Authority was established pursuant to a Joint Powers Agreement dated September 12, 1989, by and between the City of Adelanto and the Adelanto Redevelopment Agency in accordance with the provisions of the laws of the State of California. The Authority was created for the purpose of providing financing for public capital improvements for the City and the Agency through the acquisition by the Authority of such public capital improvements and/or the purchase by the Authority of local obligations. The Authority has the power to issue bonds to pay the cost of any public capital improvements.

The Adelanto Public Utility Authority was formed by action of the City Council on October 22, 1996. The Utility Authority was formed for the purpose of purchasing and operating the City's wastewater operations. In conjunction with that purchase, the Utility Authority issued bonds to finance the down payment to the City and the construction of a wastewater treatment plant. The Utility Authority also issued a note payable to the City to finance the purchase of the existing wastewater assets.

During February, 2000, the Adelanto Public Utility Authority entered into a purchase agreement with the Adelanto Water Authority to purchase the Adelanto Water Authority's water system. The purchase price consisted of amounts sufficient to refund all of the outstanding prior water bonds and assumption of the Adelanto Water Authority's obligations under the original agreement dated January 9, 1996, under which the Water Authority was formed by the City of Adelanto.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit, 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 the City is either 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

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1

Summary of Significant Accounting Policies (Continued)

a. Description of the Reporting Entity (Continued)

to be financially accountable if an organization is fiscally dependent upon the City (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.

The City's component units are considered to be blended component units because the City Council serves as the governing board for the Agency. The blended component unit, although legally separate entity is, in substance, part of the City's operations, therefore data from the unit is reported with the interfund data of the primary government.

The Adelanto Redevelopment Agency and the Adelanto Public Utility Authority issue separate component unit statements. Upon their completion, the financial statements of the component units can be obtained at City Hall.

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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 are 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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. 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, as the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

c. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

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. 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 the 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, therefore they have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

The Sanitation Special Revenue Fund – This fund accounts for the operation and maintenance of the wastewater system within the City's boundaries.

The Adelanto Redevelopment Agency Debt Service Fund – This fund accounts for the property tax increment received by the Agency and also for the repayment of the Agency's indebtedness.

The City reports the following major proprietary funds:

The Transit Enterprise Fund – This fund accounts for the receipt and expenditure of Prop A and C funds for transit and transit related costs and improvement projects.

The Correctional Facility Enterprise Fund – This fund accounts for the operation of the community correctional facility.

The Public Utility Authority Enterprise Fund – This fund accounts for the operation and maintenance of the wastewater system within the City's boundaries.

Additionally, the City reports the following fund types:

Agency Funds are used to report resources held by the City in a purely custodial capacity, which involves only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

The Private Purpose/Pension Trust Funds are used to account for assets and activities restricted to a specific purpose in accordance with a trust agreement on behalf of individuals, private organizations, other governments, or other funds.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). For enterprise fund activities, the City has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary fund function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund and of the Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund and the Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

d. Assets, Liabilities, Net Assets or Equity

Cash and Cash Equivalents

For purpose of the statement of cash flows, the City considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents have an original maturity date of three months or less from the date of purchase.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. **Assets, Liabilities, Net Assets or Equity (Continued)**

Cash and Investments

Investments are reported in the accompanying financial statements at fair value, except for nonparticipating certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of an investment.

The City pools cash and investments of all funds, except assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

Authorized investments include:

- United States Treasury notes, bonds, and bills
- Securities of U.S. government agencies including obligations issued by Federal Home Loan Bank (FHLB), Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Student Loan Marketing Association (SLMA)
- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan associations
- Passbook savings accounts
- Commercial paper of prime quality
- State Treasurer's Local Agency Investment Fund (LAIF)
- Medium term corporate notes of prime quality
- Bankers Acceptances
- Mutual Funds (Must be comprised of eligible securities permitted under the investment policy)
- Money Market Funds (Must be comprised of eligible securities permitted under the investment policy)

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. Assets, Liabilities, Net Assets or Equity (Continued)

Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts, if applicable, and estimated refunds due.

Property Taxes

Property taxes in the State of California are administered for all local agencies at the County level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations – are established by the Assessor of the County of San Bernardino for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of purchase price or value in 1978, whichever is later. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value, which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the County tax collector. Taxes and assessments on secured and utility tax rolls which constitute a lien against the property, may be paid in two installments; the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. **Assets, Liabilities, Net Assets or Equity (Continued)**

Property Taxes (Continued)

Tax Levy Apportionments – due to the nature of the City-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees – the State of California FY 1990-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded net of administrative fees withheld during the fiscal year.

Inventories

Inventories of materials and supplies are carried at cost on an average cost basis. The City uses the consumption method of accounting for inventories.

Land held for resale or exchange

Costs of project land and improvements held for resale or exchange are recorded in the Redevelopment Agency Capital Projects Fund as inventory at the lower of acquisition cost or net realizable value. The fund balance is reserved in an amount equal to the carrying value of land held for resale or exchange because such assets are not available to finance the City's current operations.

Restricted Assets

Certain proceeds of the City's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the financial statements because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

In the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, these bond monies may be invested in accordance with the ordinance; resolutions, and indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the City's general investment policy.

Capital Assets

Capital assets, which include property, plant, equipment, fine art, and infrastructure assets (e.g., roads, bridges, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 (\$100,000 for infrastructure) or more and an estimated useful life in excess of one year. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. **Assets, Liabilities, Net Assets or Equity (Continued)**

Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year ended June 30, 2004.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Structures and improvements	50
Public domain infrastructure	50
System infrastructure	50
Vehicles	10
Other equipment and furnishings	10
Computer equipment	10

Periodic restoration and maintenance costs on particular items are charged to expense as incurred.

The City does not maintain a complete record of the historical costs of capital assets for the government activities except for Redevelopment Agency. Due to the lack of records, no opinion has been given on the capital assets, accumulated depreciation, or depreciation expense related to the governmental activities in the government-wide statements.

Claims and Judgments

The City records a liability for litigation, judgments, and claims when it is probable that an asset has been impaired or a liability has been incurred prior to fiscal year end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused vacation benefits, which will be paid to employees upon separation from City service. Governmental fund types recognize the cost of vacation benefits when payments are made to employees. Since these unused vacation benefits will not be liquidated with available financial resources, a long-term liability for accrued vacation benefits is recorded. Proprietary fund types accrue vacation benefits in the period they are earned.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense in the Statement of Activities.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. Assets, Liabilities, Net Assets or Equity (Continued)

Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Equity

In the government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

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.

e. Estimates

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

f. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The capital assets reported in the *Statement of Net Assets* are as follows:

Land	\$	8,700
Depreciable buildings and improvements, net		346,840
		\$ 355,540

The governmental funds balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

f. Reconciliation of Government-wide and Fund Financial Statements (Continued)

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets: (Continued)

Deferred charges are not available to pay for current-period expenditures and therefore, are not reported as governmental fund assets. These deferred charges, net of accumulated amortization, are as follows:

Deferred issuance costs, net of amortization of \$618,116	\$ 1,472,724
Deferred losses on refunding, net of amortization of \$511,530	1,273,653
	\$ 2,746,377

Certain liabilities, including bonds payable, interest on bonds, and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds. These liabilities are as follows:

County debt	\$ 7,588,041
Tax allocation refunding bonds	11,315,000
Revenue bonds	39,599,079
Settlement agreement payable	1,989,390
Compensated absences	68,956
	\$ 60,560,466

2. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The detail of this difference are as follows:

Current fiscal year depreciation	\$ (9,568)
----------------------------------	------------

Another element of that reconciliation states that “The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets”. The details of this adjustment are as follow:

Debt issued or incurred	
Issuance of loans relating to County debt	\$ 1,268,238
Appreciation/Accretion of revenue bonds	1,275,822
Total debt incurred	\$ 2,544,060
Debt principal repayment:	
Revenue bonds	\$ 1,385,267

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2 **Stewardship, Compliance, and Accountability**

General Budget Policies

The City Council has the responsibility for adoption of the City's budget. Budgets are adopted for most governmental funds. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during each fiscal year. The City Administrator is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the City are subject to annual review by the City Council; hence, they legally are one year contracts with an option for renewal for another fiscal year.

Budgeted revenue and expenditure amounts shown represent the City's originally-adopted legal budget adjusted for unanticipated revenues and appropriations during the course of the fiscal year. Budget amounts, as adjusted, reported for the governmental funds of the City are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Encumbrances

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

Fund Deficits

The following funds contained a deficit fund balance as of June 30, 2004:

<u>Major Funds</u>	
General	\$ (1,017,768)
Sanitation Special Revenue	(8,189)
<u>Nonmajor Funds</u>	
Special Revenue Fund:	
Maverick Stadium	(1,780,755)
Capital Projects Fund:	
Redevelopment Agency Projects Area 3	(73,950)
<u>Proprietary Fund</u>	
Transit	(53,975)

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2 **Stewardship, Compliance, and Accountability (Continued)**

Fund Deficits (Continued)

The above deficit fund balances/net assets have occurred due to the spending of funds prior to the receipt of revenues. The fund balances/net assets will be restored in the near future as revenues are received.

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations in individual funds are as follows:

Fund	Final Appropriation	Expenditure	Excess
<u>MAJOR FUNDS</u>			
General Fund:	\$ 7,458,193	\$ 8,016,681	\$ 558,488
Sanitation Special Revenue Fund:	1,547,000	1,618,559	71,559
<u>NONMAJOR GOVERNMENTAL FUNDS:</u>			
TDA Article 8 Special Revenue Fund:		5,134	5,134
California AB Distributions Special Revenue Fund:		4,800	4,800
Asset Forfeiture State Special Revenue Fund:		363	363
Redevelopment Agency Capital Projects Fund:	368,350	490,430	122,080

Note 3 **Cash and Investments**

Cash and investments are reported as follows:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and investments	\$ 3,827,071	\$ 7,373,018	\$ 1,365,542	\$ 12,565,631
Investment in Adelanto Public Financing Authority bonds		17,854,078		17,854,078
Cash and investments with fiscal agents	5,711,829	6,610,362	1,294,921	13,617,112
Totals	<u>\$ 9,538,900</u>	<u>\$ 31,837,458</u>	<u>\$ 2,660,463</u>	<u>\$ 44,036,821</u>

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 3 **Cash and Investments (Continued)**

Cash and investments at June 30, 2004 consisted of the following:

Petty cash	\$	6,135
Deposits		8,905,124
Investments		<u>35,125,562</u>
Total		<u>\$ 44,036,821</u>

Deposits

Deposits include demand deposits, savings, and certificates of deposit.

All deposits are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The City's deposits at fiscal year-end are categorized below to give an indication of the level of credit risk assumed by the City at fiscal year-end.

Category 1 – Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized.

As of June 30, 2004, the carrying amount of the City's deposits was \$8,905,124 and the bank balance was \$9,893,505. The difference is due to normal deposits in transit and outstanding checks. The City's cash deposits by category as of June 30, 2004 are as follows:

FORM OF DEPOSIT	CATEGORY			BANK BALANCE	CARRYING AMOUNT
	1	2	3		
Demand deposits	\$ 1,920,795	\$ 7,972,710	\$ -	\$ 9,893,505	\$ 8,905,124
Total Deposits	\$ 1,920,795	\$ 7,972,710	\$ -	\$ 9,893,505	\$ 8,905,124

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 3 **Cash and Investments (Continued)**

Investments

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

The City's investments at fiscal year-end are categorized below to give an indication of the level of credit risk assumed by the City at fiscal year-end.

Category 1 – Insured or registered with securities held by the City or its agent in the City's name.

Category 2 – Uninsured and unregistered with securities held by the counterparty's, trust department in the City's name.

Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the City's name.

The carrying amount of all investments reflected in the table below is at fair value.

At June 30, 2004, the City's investments consisted of the following:

FORM OF INVESTMENT	CATEGORY			FAIR VALUE/ CARRYING AMOUNT
	1	2	3	
Investments controlled by the City:				
Adelanto Public Financing Authority Bonds	\$ 17,854,078	\$ N/A	\$ N/A	\$ 17,854,078
Local Agency Investment Fund	N/A	N/A	N/A	3,742,770
Total investments controlled by City Treasurer	17,854,078	N/A	N/A	21,596,848
Amounts invested by Fiscal Agents:				
Investment Agreements	N/A	N/A	N/A	5,551,917
U.S. Government Money Market	N/A	N/A	N/A	7,976,797
Total invested by Fiscal Agents	-	N/A	N/A	13,528,714
Total investments	\$ 17,854,078	\$ -	\$ -	\$ 35,125,562

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 3 **Cash and Investments (Continued)**

Restricted Assets

Cash and investments held and invested by the City and by fiscal agents on behalf of the City are pledged towards payment or security of certain long-term debt issuances. Federal grants are mandated by bond indentures as to the types of investments in which debt proceeds can be invested. The investments predominantly consist of U.S. Government securities which are held in book entry form by the trustee and in all instances are of the types permitted by the City's general investment policy.

Note 4 **Notes Receivable**

Notes receivable aggregating \$35,724,582 from the sale of the Water and Wastewater System at fair value are discussed as follows:

- The \$29,293,413 note receivable, excluding accrued interest, from the Public Utility Authority is for the purchase of the City's water operations. The purchase of the City's water operations and related note was originally established by the Adelanto Water Authority, which was acquired by the Public Utility Authority. Payment of not less than \$500,000 annually (plus available surplus water revenues) is required under the terms of this note. The Authority is a component unit of the City and therefore, the note has been eliminated for reporting purposes.

The original purchase note accrued interest at 7.5% on the outstanding balance. Because the purchase note payable to the City is subordinate to the Public Utility Authority Bonds, interest on the note would be substantially in excess of the minimum annual payment. Management does not anticipate that any payment in excess of the minimum annual payments due on the note will be made prior to the final repayment of the 1995 Water Authority Bonds in 2028. Accordingly, in January 1998, the Governing Board of the Water Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate the accrual of interest from July 1996, until such time as all outstanding Water Authority Bonds are repaid (presently scheduled for September 1, 2028). The unpaid balance of the note at that time will accrue interest at 7.5%. Interest accrued through June 30, 1996 amounting to \$1,219,659 was unaffected by the purchase note amendment.

- A \$6,431,169 note receivable from the Public Utility Authority is for the purchase of the City's wastewater operations. Annual payment of amounts equal to surplus revenues, which are defined as gross wastewater revenues, plus amounts on deposit in the wastewater rate stabilization fund, less payment of operating and maintenance costs, and debt service requirements of the Public Utility Authority is required under the terms of this note. The original purchase note accrued interest at 7.5% on the outstanding balance. Because the purchase note payable to the City is subordinate to the Public Utility Authority Bonds, interest on the note would be substantially in excess of the annual payment. Management does not anticipate that any payment in excess of the annual payments due on the note will be made prior to the final repayment of the Public Utility Authority Bonds in 2026. Accordingly, in January 1998, the Governing Board of the Public Utility Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate the accrual to interest from July 1996, until such time as all outstanding Public Utility Authority Bonds are repaid (presently scheduled for November 1, 2026). The unpaid balance of the note at that time will accrue interest at 7.5%. The Authority is a component unit of the City and therefore, the Note has been eliminated for reporting purposes.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 4 **Notes Receivable (Continued)**

All payments on the notes are recorded as transfers from the Authority to the City.

At June 30, 2004, \$1,017,527 of various long-term notes receivable were outstanding. The notes were created from the sale of parcels in the Industrial Park No. 2 and Industrial Park No. 3. Such notes bear no stated interest rate and are due at the end of five years. Due to the nature of the notes receivable, the Agency has offset the receivable with a corresponding deferred revenue amount. Revenues are recognized when payments are received.

Note 5 **Accounts Receivable**

The following is a list of accounts receivable at June 30, 2004:

	Receivable	Allowance	Net
Governmental Activities -			
Intergovernmental	\$ 759,909	\$ -	\$ 759,909
Accounts	545,058	(49,820)	495,238
	\$ 1,304,967	\$ (49,820)	\$ 1,255,147
Business Type Activities -			
Accounts	\$ 3,565,210	\$ (88,396)	\$ 3,476,814

Note 6 **Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2004.

a. Transfers

Fund	Transfers-in	Transfers-out
Major Funds:		
General	\$ 2,914,541	\$ 3,560
Sanitation		165,000
Redevelopment Agency Debt Service		100,000
Nonmajor Governmental Funds:		
Gas Tax		354,051
Measure "I"		34,600
Community Development Block Grant		3,063
Traffic Offender		62,000
TDA Article 8		62,000
Public Safety		88,072
Local Law Enforcement Block Grant	3,560	38,355
Asset Forfeiture State		27,000
COPS Grant		100,000
Redevelopment Agency Capital Projects	100,000	
Major Enterprise Funds:		
Transit	19,600	
Public Utility Authority		2,000,000
Totals	\$ 3,037,701	\$ 3,037,701

Transfers to/from other funds have been made in the normal course of business to assist the receiving fund in covering costs incurred by the receiving fund. Disbursing funds receive money which is to be used to fund expenditures in other funds.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 6 **Interfund Activity (Continued)**

b. Due To/ From Other Funds

Fund	Payable	Receivable
Major Funds:		
General	\$ 4,214,385	\$ 1,191,420
Redevelopment Agency Debt Service	100,000	
Sanitation	1,416,315	1,601,189
Nonmajor Funds:		
Measure "I"		1,442,635
Community Development Block Grant	68,078	
Maverick Stadium	1,785,885	
Asset Forfeiture State		132
Asset Forfeiture Education	132	
Public Safety	9,523	
Redevelopment Agency Capital Projects	91,177	123,950
Redevelopment Agency Projects Area 3 Capital Projects	23,950	50,000
Major Enterprise Funds:		
Transit	112,372	
Correctional Facility	856,630	1,871,994
Public Utility Authority		1,054,023
Fiduciary Funds:		
Luetke Foundation	10,565	
Inmate Welfare Benefit		1,452,780
Assessment District 1 A	88,559	
Inmate Trust	10,552	
	<u>\$ 8,788,123</u>	<u>\$ 8,788,123</u>

Amounts due to/from other funds represent short-term loans between funds to assist funds in covering current fiscal year expenditures.

c. Advances

At June 30, 2004, the funds below have made/received advances that were not expected to be repaid within one year.

Fund	Receivable	Payable
Major Fund:		
General	\$ 2,024,243	\$ -
Nonmajor Fund:		
Redevelopment Agency Capital Projects		2,024,243
	<u>\$ 2,024,243</u>	<u>\$ 2,024,243</u>

The advances between the City of Adelanto and the Agency have no stated interest rate. There is no future minimum debt service requirement as repayment will be made when funds are available.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 7 Capital Assets

a. Governmental Activities (Redevelopment Agency Only)

Capital asset governmental activity for the fiscal year ended June 30, 2004 was as follows:

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
Capital Assets, not being depreciated:				
Land	\$ 8,700	\$ -	\$ -	\$ 8,700
Total	<u>8,700</u>			<u>8,700</u>
Capital Assets, being depreciated:				
Buildings	458,400			458,400
Structures and Improvements	20,000			20,000
Total	<u>478,400</u>			<u>478,400</u>
Less accumulated depreciation for:				
Buildings	(116,892)	(9,168)		(126,060)
Structures and Improvements	(5,100)	(400)		(5,500)
Total	<u>(121,992)</u>	<u>(9,568)</u>		<u>(131,560)</u>
Capital Assets being depreciated, net	<u>356,408</u>	<u>(9,568)</u>		<u>346,840</u>
Capital Assets, net	<u>\$ 365,108</u>	<u>\$ (9,568)</u>	<u>\$ -</u>	<u>\$ 355,540</u>

Depreciation is charged to administration expense in the Statement of Activities.

b. Business-type activities

Capital asset business-type activity for the fiscal year ended June 30, 2004 was as follows:

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
Transit Fund				
Capital Assets, being depreciated:				
Machinery and equipment	\$ 270,941	\$ -	\$ -	\$ 270,941
Less - Accumulated depreciation	<u>(270,941)</u>			<u>(270,941)</u>
Total Capital Assets, being depreciated				
Total Transit Capital Assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Correctional Facility Fund:				
Capital Assets, not being depreciated:				
Land	\$ 104,660	\$ -	\$ -	\$ 104,660
Capital Assets, being depreciated:				
Fields and grounds	9,224,912			9,224,912
Machinery and equipment	963,103			963,103
Less - Accumulated depreciation	<u>(3,182,112)</u>	<u>(188,276)</u>		<u>(3,370,388)</u>
Total Capital Assets, being depreciated	<u>7,005,903</u>	<u>(188,276)</u>		<u>6,817,627</u>
Total Correctional Facility Capital Assets, net	<u>\$7,110,563</u>	<u>\$(188,276)</u>	<u>\$ -</u>	<u>\$ 6,922,287</u>

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 7 Capital Assets (Continued)

b. Business-type activities (Continued)

Capital asset business-type activity for the fiscal year ended June 30, 2004 was as follows: (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>Utility Authority Activity</u>				
Capital Assets, not being depreciated:				
Land	\$ 185,123	\$ -	\$ -	\$ 185,123
Construction in progress		185,865		185,865
Total Utility Authority Capital Assets, not being depreciated	185,123	185,865		370,988
Capital Assets, being depreciated:				
Fields and grounds	6,856,157			6,856,157
Machinery and equipment	265,288			265,288
Pipelines	3,435,718	182,602		3,618,320
Less - Accumulated depreciation	(1,372,189)	(233,889)		(1,606,078)
Total Utility Authority Capital Assets, being depreciated	9,184,974	(51,287)		9,133,687
Total Utility Authority Capital Assets, net	\$ 9,370,097	\$ 134,578	\$ -	\$ 9,504,675
<u>Water Activity</u>				
Capital Assets, not being depreciated:				
Land	\$ 792,056	\$ -	\$ -	\$ 792,056
Water rights	3,124,799			3,124,799
Construction in progress		2,860,093		2,860,093
Total Capital Assets, not being depreciated	3,916,855	2,860,093		6,776,948
Capital Assets, being depreciated:				
Wells and pump stations	520,461	186,895		707,356
Reservoirs	387,863			387,863
Machinery and equipment	7,793			7,793
Pipelines	8,760,599			8,760,599
Vehicles	122,639	16,017		138,656
Less - Accumulated Depreciation	(2,746,917)	(208,312)		(2,955,229)
Total Capital Assets, being depreciated	7,052,438	(5,400)		7,047,038
Total Water Capital Assets, net	\$ 10,969,293	\$ 2,854,693	\$ -	\$ 13,823,986
<u>Total Enterprise Funds:</u>				
Capital assets, not being depreciated:				
Land	\$ 1,081,839	\$ -	\$ -	\$ 1,081,839
Water rights	3,124,799			3,124,799
Construction in progress		3,045,958		3,045,958
Total Capital Assets, not being depreciated	4,206,638	3,045,958		7,252,596
Capital Assets, being depreciated:				
Fields and grounds	16,081,069			16,081,069
Wells and pump stations	520,461	186,895		707,356
Reservoirs	387,863			387,863
Machinery and equipment	1,507,125			1,507,125
Pipelines	12,196,317	182,602		12,378,919
Vehicles	122,639	16,017		138,656
Less - Accumulated depreciation	(7,572,159)	(630,477)		(8,202,636)
Total Capital Assets, being depreciated	23,243,315	(244,963)		22,998,352
Total Capital Assets, net	\$ 27,449,953	\$ 2,800,995	\$ -	\$ 30,250,948

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds**

a. The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2004:

	Balance July 1, 2003	Additions/ Accretions	Repayments	Balance June 30, 2004	Due within one year
Adelanto Improvement Project, Tax Allocation Bonds, Issue 1993B	\$ 11,315,000	\$ -	\$ -	\$ 11,315,000	\$ -
Adelanto Public Financing Authority, Local Agency Taxable Subordinated Revenue Bonds 1995 Series A	5,645,000		355,000	5,290,000	380,000
Adelanto Public Financing Authority, Local Agency Second Subordinated Revenue Bonds 1995 Series B	16,665,000		210,000	16,455,000	220,000
Adelanto Public Financing Authority, Local Agency Third Subordinated Revenue Bonds 1995 Series C	13,311,810	970,661	748,644	13,533,827	408,563
Adelanto Public Financing Authority, Local Agency Fourth Subordinated Revenue Bonds 1995 Series D	4,086,714	305,161	71,623	4,320,252	
Total indebtedness	<u>51,023,524</u>	<u>1,275,822</u>	<u>1,385,267</u>	<u>50,914,079</u>	<u>1,008,563</u>
Compensated absences	83,440		14,484	68,956	
Intermountain Power Agency Settlement Agreement	1,989,390			1,989,390	
San Bernardino County Tax Increment Loans	6,319,803	1,268,238		7,588,041	
Total other long-term obligations	<u>8,392,633</u>	<u>1,268,238</u>	<u>14,484</u>	<u>9,646,387</u>	
Total long-term obligations	<u>\$ 59,416,157</u>	<u>\$ 2,544,060</u>	<u>\$ 1,399,751</u>	<u>\$ 60,560,466</u>	<u>\$ 1,008,563</u>

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:

A. 1995 Bonds

In January, 1996, the Redevelopment Agency, through the Adelanto Public Financing Authority, issued \$7,400,000 of Adelanto Public Financing Authority Local Agency Taxable Subordinated Revenue Bonds 1995 Series A (the 1995 Series A Bonds); \$17,560,000 Adelanto Public Financing Authority Local Agency Second Subordinated Revenue Bonds 1995 Series B (the 1995 Series B Bonds); \$11,786,856 Adelanto Public Financing Authority Local Agency Third Subordinated Revenue Bonds 1995 Series C (the 1995 Series C Bonds); and \$3,619,668 Adelanto Public Financing Authority Local Agency Fourth Subordinated Revenue Bonds 1995 Series D (the 1995 Series D Bonds). Net proceeds of \$38,714,310 (after original issued discount of \$234,494, underwriter fees and other issue costs of \$1,417,720) were used, together with \$3,764,929 of 1993 Series B and C debt service and reserve fund monies, to advance refund the 1993 Series B Capital Appreciation Bonds (\$2,260,422 original principal) and the 1993 Series C Term Bonds maturing in 2029 (\$21,510,000) and \$10,060,000 of outstanding 1993 Series C Serial Bonds maturing after December 1, 1996, as well as to pay the County of San Bernardino settlement agreement (\$4,439,871, net) and other costs of implementing the Redevelopment Plan of \$41,165.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

A. 1995 Bonds (Continued)

The 1995 Series A, B, C, and D bonds are collateralized by loans between the Redevelopment Agency and the Public Financing Authority whose debt service requirements equal the requirements of the underlying bonds. Accordingly, the loans and related activity between the Redevelopment Agency and the Public Financing Authority have been eliminated in the financial statements.

1995 Series A Bonds

The 1995 Series A Bonds consist of \$4,780,000 in Serial Bonds and \$2,620,000 in Term Bonds. These securities are payable from and secured primarily by the proceeds of repayment of Redevelopment Agency Loan No. 1, which, in turn, is payable solely from tax increment revenues from the Redevelopment Agency's 95-1 Merged Redevelopment Project Area. The serial bonds bear interest at rates from 5.60% to 6.75% which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature in installments of \$255,000 to \$520,000 between 1997 and 2009. The term bonds bear interest at 7.20% which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature September 1, 2025. The term bonds are subject to mandatory redemption beginning in 2010. The bonds maturing on or after September 1, 2006 are subject to optional redemption on any interest payment date on or after September 1, 2005, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

<u>Redemption dates</u>	<u>Redemption price</u>
September 1, 2005 and March 1, 2006	102%
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

A reserve fund is required to be maintained in an amount equal to the reserve requirement of \$740,000. The initial deposit in the 1995 Series A Reserve Account from the proceeds of the 1995 Series A Bonds is \$740,000 and is equal to the reserve fund at June 30, 2004. Such amount has been included in restricted cash and investments with fiscal agents in the accompanying component unit financial statements.

The outstanding balance on the 1995 Series A Bonds at June 30, 2004 was \$5,290,000.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

A. 1995 Bonds (Continued)

1995 Series B Bonds

The 1995 Series B Bonds consist of \$2,955,000 Serial Bonds and \$14,605,000 Term Bonds and are payable from and secured primarily by the proceeds of repayment of Redevelopment Agency Loan No. 2, which is payable solely from tax increment revenues from the Redevelopment Agency's 95-1 Merged Redevelopment Project Area. The serial bonds bear interest at rates from 5.05% to 6.30% which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature in installments of \$160,000 to \$310,000 between 1998 and 2010. The term bonds bear interest at 6.30% which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature September 1, 2028. The term bonds are subject to mandatory redemption beginning in 2011. The bonds maturing on or after September 1, 2006 are subject to optional redemption on any interest payment date on or after September 1, 2005, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2005 and March 1, 2006	102%
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

A reserve fund is required to be maintained in an amount equal to the lesser of (i) 10% of the principal amount of bonds (\$1,756,000), (ii) maximum annual debt service (\$2,549,495) or (iii) 125% of average annual debt service (\$1,704,917). Such amount has been included in cash and investments with fiscal agents in the accompanying component unit financial statements.

The outstanding balance on the 1995 Series B Bonds at June 30, 2004 was \$16,455,000.

1995 Series C Bonds

The 1995 Series C Bonds have been purchased by the Water Authority. Such bonds consist of \$11,786,856 Capital Appreciation Bonds, payable from and secured primarily by the proceeds of repayment of Redevelopment Agency Loan No. 3, which, in turn, are payable solely from tax increment revenues from the Redevelopment Agency's 95-1 Merged Redevelopment Project Area.

Interest at 7.50% on the Capital Appreciation Bonds shall be compounded semiannually on each March 1 and September 1 commencing March 1, 1996, and shall be payable only at maturity. The 1995 Series C Bonds are subject to mandatory redemption to the extent the Financing Authority receives the scheduled redemption payments of Redevelopment Agency Loan No. 3. These scheduled payments are in varying amounts beginning September 1, 1996 and on each interest payment date thereafter.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

A. 1995 Bonds (Continued)

1995 Series C Bonds (Continued)

Bonds maturing on or after September 1, 2006 are subject to optional redemption on any interest payment date on or after September 1, 2005, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2005 and March 1, 2006	102%
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

The 1995 Series C Bonds carry no reserve fund requirement.

During the fiscal year ended June 30, 2004, the Redevelopment Agency recognized accretion of \$970,661 and made payments to the Water Authority of \$748,644. The balance outstanding on the 1995 Series C Bonds at June 30, 2004 was \$13,533,827.

1995 Series D Bonds

The 1995 Series D Bonds have been purchased by the Water Authority. Such bonds consist of \$3,619,668 Capital Appreciation Bonds, payable from and secured primarily by the proceeds of repayment of Redevelopment Agency Loan No. 4, which, in turn, are payable solely from tax increment revenues from the Redevelopment Agency's 95-1 Merged Redevelopment Project Area.

Interest at 7.50% on the Capital Appreciation Bonds shall be compounded semiannually on each March 1 and September 1 commencing March 1, 1996, and shall be payable only at maturity. The 1995 Series D Bonds are subject to mandatory redemption to the extent of available funds in the Revenue Fund on each interest payment date commencing September 1, 1996.

Bonds maturing on or after September 1, 2005 are subject to optional redemption on any interest payment date on or after September 1, 2005, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2005 and March 1, 2006	102%
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

A. 1995 Bonds (Continued)

1995 Series D Bonds

The 1995 Series D Bonds carry no reserve fund requirement.

During the fiscal year ended June 30, 2004, the Redevelopment Agency recognized accretion of \$305,161 on the 1995 Series D Bonds and made payments to the Water Authority of \$71,623. The balance outstanding on the 1995 Series D Bonds at June 30, 2004 was \$4,320,252.

B. 1993 Bonds

1993 Series B Bonds

The 1993 Series B Bonds consist of \$11,315,000 Term Bonds and are payable from and secured by tax increment revenues of the 95-1 Merged Redevelopment Project Area. The 1993 Series B Term Bonds bear interest at a rate of 5.50% per annum payable on December 1, 1994 and semiannually thereafter, on June 1 and December 1 of each year and are subject to mandatory sinking fund redemption commencing December 1, 2010.

The 1993 Series B Term Bonds maturing on December 1, 2023 are subject to optional redemption on any interest payment date on or after December 1, 2004, by lot, at the option of the Redevelopment Agency at a redemption price equal to the principal amount to be redeemed together with accrued interest to the redemption date plus a premium (expressed as a percentage of the principal amount of the 1993 Series B Term Bonds to be redeemed), as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2003 and June 1, 2004	102%
December 1, 2004 and June 1, 2005	101%
December 1, 2005 and thereafter	100%

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

B. 1993 Bonds (Continued)

1993 Series B Bonds (Continued)

A surety bond was purchased to satisfy the reserve requirement (equal to the lesser of (i) 10% of the principal amount of bonds outstanding or (ii) maximum annual debt service); accordingly, there is no additional reserve fund required to be maintained.

The outstanding balance on the 1993 Series B Bonds at June 30, 2004 was \$11,315,000.

C. Debt Service Requirements

The following schedule illustrates the debt service requirements to maturity for the general long-term debt bonds outstanding as of June 30:

Fiscal Year ending June 30,	1993 Series B Tax Allocation Bonds		Total
	Principal	Interest	
2005	\$ -	\$ 622,325	\$ 622,325
2006		622,325	622,325
2007		622,325	622,325
2008		622,325	622,325
2009		622,325	622,325
2010-2014	2,345,000	2,862,338	5,207,338
2015-2019	3,735,000	1,975,188	5,710,188
2020-2024	5,235,000	750,063	5,985,063
	<u>\$ 11,315,000</u>	<u>\$ 8,699,214</u>	<u>\$ 20,014,214</u>

Fiscal Year ending June 30,	1995 Series A Revenue Bonds		Total
	Principal	Interest	
2005	\$ 380,000	\$ 351,705	\$ 731,705
2006	400,000	326,645	726,645
2007	430,000	299,770	729,770
2008	455,000	270,894	725,894
2009	485,000	239,866	724,866
2010-2014	580,000	952,110	1,532,110
2015-2019	100,000	904,680	1,004,680
2020-2024	-	885,600	885,600
2025-2029	2,460,000	180,360	2,640,360
	<u>\$ 5,290,000</u>	<u>\$ 4,411,630</u>	<u>\$ 9,701,630</u>

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

C. Debt Service Requirements (Continued)

The following schedule illustrates the debt service requirements to maturity for the general long-term debt bonds outstanding as of June 30:

Fiscal Year Ending June 30,	1995 Series B Reserve Bonds		Total
	Principal	Interest	
2005	\$ 220,000	\$ 1,025,852	\$ 1,245,852
2006	235,000	1,012,654	1,247,654
2007	245,000	998,491	1,243,491
2008	265,000	983,253	1,248,253
2009	280,000	966,693	1,246,693
2010-2014	1,655,000	5,123,221	6,778,221
2015-2019	2,260,000	4,492,440	6,752,440
2020-2024	2,850,000	3,579,120	6,429,120
2025-2029	8,445,000	1,611,540	10,056,540
	<u>\$ 16,455,000</u>	<u>\$ 19,793,264</u>	<u>\$ 36,248,264</u>

Fiscal Year Ending June 30,	1995 Series C Revenue Bonds		Total
	Principal	Interest	
2005	\$ 408,563	\$ 378,149	\$ 786,712
2006	398,168	427,072	825,240
2007	386,418	475,649	862,067
2008	375,118	525,698	900,816
2009	364,272	577,300	941,572
2010-2014	1,659,108	3,691,986	5,351,094
2015-2019	1,404,209	5,149,339	6,553,548
2020-2024	1,267,720	7,259,637	8,527,357
2025-2029	7,270,251	7,947,877	15,218,128
	<u>\$ 13,533,827</u>	<u>\$ 26,432,707</u>	<u>\$ 39,966,534</u>

Fiscal Year Ending June 30,	1995 Series D Revenue Bonds		Total
	Principal	Interest	
2005	\$ -	\$ -	\$ -
2006			
2007			
2008			
2009			
2010-2014	115,699	304,106	419,805
2015-2019	740,746	2,823,412	3,564,158
2020-2024	1,308,847	7,636,788	8,945,635
2025-2029	2,154,960	12,549,357	14,704,317
	<u>\$ 4,320,252</u>	<u>\$ 23,313,663</u>	<u>\$ 27,633,915</u>

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 Long-Term Liabilities – Governmental Funds (Continued)

C. Debt Service Requirements (Continued)

The following schedule illustrates the debt service requirements to maturity for the governmental long-term debt bonds outstanding as of June 30:

Fiscal Year Ending June 30,	Total		Total
	Principal	Interest	
2005	\$ 1,008,563	\$ 2,378,031	\$ 3,386,594
2006	1,033,168	2,388,696	3,421,864
2007	1,061,418	2,396,235	3,457,653
2008	1,095,118	2,402,170	3,497,288
2009	1,129,272	2,406,184	3,535,456
2010-2014	6,354,807	12,933,761	19,288,568
2015-2019	8,239,955	15,345,059	23,585,014
2020-2024	10,661,567	20,111,208	30,772,775
2025-2029	20,330,211	22,289,134	42,619,345
	<u>\$ 50,914,079</u>	<u>\$ 82,650,478</u>	<u>\$ 133,564,557</u>

D. Intermountain Power Agency Settlement Agreement

The Agency entered into an agreement with the Intermountain Power Agency (IPA) in April, 1993 regarding reimbursement of certain incremental property taxes generated by parcels owned by the IPA within the Agency project areas for 1992 and prior years. The IPA had filed appeals relating to the assessed value of these parcels for 1989 through 1992. As a condition of the agreement with the Agency, the IPA agreed to withdraw such appeals. The IPA filed an appeal for the 1993 assessed value, which was granted in September 1997. The IPA also filed appeals for fiscal years 1995 and 1996.

The agreement states that if the IPA seeks a reassessment of the assessed value of the parcels (i.e., the 1993 appeal) and is successful in any future claim resulting in a reduction in property taxes assessed by the County or other taxing entity, the Agency agrees to reimburse the IPA for those amounts (to a maximum of \$2,200,000) that the IPA calculates that it would have lost in refunds as a result of dismissing the appeals for 1992 and prior. The reimbursement is to be paid by the Agency each year, beginning 90 days from a final decision by the County resulting in a reduced tax assessment, in an annual amount equal to \$78,751 multiplied by a "Fractional Amount" as defined in the agreement. The term "Fractional Amount" has been determined to be the amount of the actual reduction in the tax assessment as determined by the County divided by an amount equal to the reduction in such tax assessment sought by the IPA.

Amounts due under the agreement are payable annually beginning 90 days after the final decision and continuing on or before September 30 of each year until the obligation (\$2,200,000 multiplied by the "Fractional Amount") is paid in full. Amounts due to the IPA under this agreement are subordinate to all tax allocation bonds of the Agency, whenever incurred. Based on the assessment reduction received by the IPA for 1993, the liability that the Agency has incurred under this agreement is \$1,989,390. Scheduled payments have been deferred by the Agency due to subordination to the tax allocation bonds outstanding. Since the Agency was a principal beneficiary of such property taxes, the full amount of such payments has been established as a long-term liability in the financial statements as of June 30, 2004.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Long-Term Liabilities – Governmental Funds (Continued)**

E. San Bernardino County Tax Increment Loans

During fiscal year 1996, the Agency and San Bernardino County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinate to the Agency's existing long-term debt. The County will loan to the Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds plus amounts needed, up to \$100,000 annually, to administer the Agency's long-term debt. Any such loans are subordinate to Series A, B, and C of the Adelanto Public Financing Authority refunding bonds, but senior to the Series D Bonds. The outstanding balance on the loans at June 30, 2004 was \$7,588,041.

Note 9 **Long-Term Liabilities – Enterprise Funds**

The following is a schedule of changes in long-term debt of the City for the fiscal year ended June 30, 2004:

	Balance July 1, 2003	Additions/ accretions	Reductions	Balance June 30, 2004	Due within one year
Adelanto Public Utility Authority Revenue Bonds, 2000 Series A	\$ 9,385,000	\$ -	\$ -	\$ 9,385,000	\$ -
Adelanto Public Utility Authority Revenue Bonds, 2000 Series B	21,285,000			21,285,000	
Adelanto Public Utility Authority Revenue Bonds 2000 Series C	13,655,000			13,655,000	
Adelanto Correctional Facility Lease Revenue Refunding Bonds - 2001	7,435,000		(1,000,000)	6,435,000	1,000,000
Compensated absences	323,270		(24,192)	299,078	
Total long-term debt	\$ 52,083,270	\$ -	\$ (1,024,192)	\$ 51,059,078	\$ 1,000,000

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series A**

In February, 2000, the Adelanto Public Utility Authority issued \$9,385,000 of Revenue Bonds with a initial interest rate of 4.45% to advance refund \$9,255,000 of outstanding Revenue Bonds (Wastewater System Project), 1996 Series A (1996 Series A Revenue Bonds) bearing interest at rates ranging from 6.00% to 6.55%. The interest rate on the 2000 Series A bonds was .95% at June 30, 2004. Interest on the 2000 Series A Revenue Bonds is payable initially on May 1, 2000, and semiannually thereafter on November 1 and May 1 of each year until November 1, 2001. After November 1, 2001, interest due on the 2000 Series A Revenue Bonds is payable December 1, 2001 and the first business day of each month thereafter, so long as the Bonds bear interest at a variable interest rate, and, after conversion to a fixed rate, at a fixed interest rate in accordance with the Indenture. The Bonds are also subject to mandatory sinking fund redemption commencing November 1, 2005, at a redemption price equal to the principal amount plus accrued interest.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 **Long-Term Liabilities – Enterprise Funds (Continued)**

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series A (Continued)**

The net proceeds of approximately \$8.5 million (after payment of a \$187,700 underwriter's discount, \$436,288 in issuance costs, and \$207,000 to a rate stabilization fund) plus an additional \$1.2 million of 1996 Series A debt service reserve fund monies were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 Series A Revenue Bonds. As a result, the 1996 Series A Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1 million.

During the variable rate period and on the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part (in an amount of \$100,000 or any integral multiple of \$5,000) at a redemption price equal to the principal amount with accrued interest to the date fixed for redemption, without premium.

After the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part in integral multiples of \$5,000, at a redemption price equal to the principal amount plus premium (expressed as a percentage of the principal amount of such bonds to be prepaid) plus accrued interest to the date fixed for prepayment, as set forth below:

<u>Prepayment dates</u>	<u>Redemption price</u>
Ninth anniversary of the fixed rate conversion date to the day before the tenth anniversary date of the fixed rate conversion date	102%
Tenth anniversary of the fixed rate conversion date to the day before the eleventh anniversary date of the fixed rate conversion date	101%
Eleventh anniversary of the fixed rate conversion date and thereafter	100%

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 **Long-Term Liabilities – Enterprise Funds (Continued)**

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series A (Continued)**

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2000 Bonds Series A, B, and C is \$1,000,000, of which \$207,000 was deposited for the 2000 Series A Bonds. As of June 30, 2004, the total balance in the Rate Stabilization Fund was \$1,000,000 and is included in restricted cash and investments.

The Public Utility Authority is required under the Bond Indenture to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the wastewater system during each fiscal year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield gross wastewater revenues to pay the following amounts in the following order of priority:

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year
- The 2000 Series A Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments
- All other payments required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

In addition, the Public Utility Authority is required to fix, prescribe, revise, and collect rates, fees and charges for the services and facilities furnished by the wastewater system during each fiscal year which are sufficient to yield net wastewater revenues at least equal to 115% of the total 2000 Series A Bonds debt service coming due and payable in such fiscal year.

The outstanding balance on the 2000 Series A Revenue Bonds at June 30, 2004 was \$9,385,000.

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series B**

In February, 2000, the Adelanto Public Utility Authority issued \$21,285,000 of Revenue Bonds (2000 Series B Revenue Bonds), approximately \$17 million of which, along with proceeds from the 2000 Series C Taxable Revenue Bonds, was used to advance refund \$23,330,000 of outstanding Revenue Bonds (Water System Acquisition Project), 1995 Series A (1995 Series A Revenue Bonds) bearing interest at 7.5%. The proceeds were also used to advance refund the outstanding \$3,410,000 Adelanto Water Authority Parity Revenue Bonds, 1998 Series A (1998 Series A Parity Revenue Bonds) bearing interest at 7.5%. The interest rate on the 2000 Series B bonds was .95% at June 30, 2004. Interest on the 2000 Series B Revenue Bonds is payable initially on April 1, 2000, and the first business day of each month thereafter, so long as the Bonds bear interest at a variable interest rate, and, after conversion to a fixed rate, at a fixed interest rate in accordance with the Indenture. The Bonds are also subject to mandatory sinking fund redemption commencing November 1, 2005, at a redemption price equal to the principal amount plus accrued interest.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 Long-Term Liabilities – Enterprise Funds (Continued)

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series B (Continued)**

The issuance resulted in net proceeds of approximately \$19.4 million (after payment of a \$425,700 underwriter's discount, \$983,221 in issuance costs, and \$460,000 to a rate stabilization fund). Of the \$19.4 million in net proceeds and an additional \$2.7 million in funds from prior bond reserve funds, \$17 million was used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to be used, along with the securities purchased from the 2000 Series C Bonds, to pay principal and interest on the 1995 Series A Revenue Bonds and on the 1998 Series A Parity Revenue Bonds through and including September 1, 2008 and to pay the redemption price on the remaining 1995 Series A Revenue Bonds and 1998 Series A Parity Revenue Bonds on September 1, 2008. As a result, the 1995 Series A Revenue Bonds and the 1998 Series A Parity Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The remaining amount of \$5.1 million was used to fund a Water Project Fund for approximately \$3.6 million and a Wastewater Project Fund for \$1.5 million. The Water Project Fund includes a \$2.8 million amount to pay the cost of construction of a 4.0 million gallon water tank and a \$750,000 reserve for litigation costs. The Wastewater Project Fund will be used to pay for construction of various sewer and facility upgrades.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2.7 million. The Public Utility Authority completed the advance refunding in part to refund the 1995 Series A Revenue Bonds and obtain additional funds to finance the Water and Wastewater Funds.

During the variable rate period and on the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part (in an amount of \$100,000 or any integral multiple of \$5,000) at a redemption price equal to the principal amount with accrued interest to the date fixed for redemption, without premium.

After the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part in integral multiples of \$5,000, at a redemption price equal to the principal amount plus premium (expressed as a percentage of the principal amount of such bonds to be prepaid) plus accrued interest to the date fixed for prepayment, as set forth below:

<u>Prepayment dates</u>	<u>Redemption price</u>
Ninth anniversary of the fixed rate conversion date to the day before the tenth anniversary date of the fixed rate conversion date	102%
Tenth anniversary of the fixed rate conversion date to the day before the eleventh anniversary date of the fixed rate conversion date	101%
Eleventh anniversary of the fixed rate conversion date and thereafter	100%

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 **Long-Term Liabilities – Enterprise Funds (Continued)**

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series B (Continued)**

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2000 Bonds Series A, B, and C is \$1,000,000, of which \$460,000 was originally deposited for the 2000 Series B Bonds.

The Public Utility Authority is required under the Bond Indenture to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the wastewater system during each fiscal year, which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield gross wastewater revenues to pay the following amounts in the following order of priority:

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year
- The 2000 Series B Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments
- All other payment required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

In addition, the Public Utility Authority is required to fix, prescribe, revise, and collect rates, fees and charges for the services and facilities furnished by the wastewater system during each fiscal year which are sufficient to yield net wastewater revenues at least equal to 115% of the total 2000 Series B Bonds debt service coming due and payable in such fiscal year.

The outstanding balance on the 2000 Series B Revenue Bonds at June 30, 2004 was \$21,285,000.

• **Adelanto Public Utility Authority Variable Rate Taxable Revenue Bonds, 2000 Series C**

In February, 2000, the Adelanto Public Utility Authority issued \$13,655,000 of Revenue Bonds (2000 Series C Revenue Bonds), which in addition to prior bond reserve funds of approximately \$1.7 million, was used to advance refund a portion of the \$23,330,000 of outstanding Revenue Bonds (Water System Acquisition Project), 1995 Series A (1995 Series A Revenue Bonds) bearing interest at 7.5%. The interest rate on the 2000 Series C bonds was 1.15% at June 30, 2004. Interest on the 2000 Series C Revenue Bonds is payable initially on April 1, 2000, and the first business day of each month thereafter, so long as the Bonds bear interest at a variable interest rate, and, after conversion to a fixed rate, at a fixed interest rate in accordance with the Indenture. The Bonds are also subject to mandatory sinking fund redemption commencing November 1, 2006, at a redemption price equal to the principal amount plus accrued interest.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 Long-Term Liabilities – Enterprise Funds (Continued)

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

- **Adelanto Public Utility Authority Variable Rate Taxable Revenue Bonds, 2000 Series C (Continued)**

The issuance resulted in net proceeds of approximately \$12.5 million (after payment of a \$273,100 underwriter's discount, \$588,462 in issuance costs, and \$333,000 to a rate stabilization fund). The aggregate of \$12.5 million in net proceeds and an additional \$1.7 million in funds from prior bond reserve funds, was used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to be used, along with the securities purchased from the 2000 Series B Bonds, to pay principal and interest on the 1995 Series A Revenue Bonds through and including September 1, 2008 and to pay the redemption price on the remaining 1995 Series A Revenue Bonds on September 1, 2008. As a result, the 1995 Series A Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2.2 million.

During the variable rate period and on the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part (in an amount of \$100,000 or any integral multiple of \$5,000) at a redemption price equal to the principal amount with accrued interest to the date fixed for redemption, without premium.

After the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part in integral multiples of \$5,000, at a redemption price equal to the principal amount plus premium (expressed as a percentage of the principal amount of such bonds to be prepaid) plus accrued interest to the date fixed for prepayment, as set forth below:

<u>Prepayment dates</u>	<u>Redemption price</u>
Ninth anniversary of the fixed rate conversion date to the day before the tenth anniversary date of the fixed rate conversion date	102%
Tenth anniversary of the fixed rate conversion date to the day before the eleventh anniversary date of the fixed rate conversion date	101%
Eleventh anniversary of the fixed rate conversion date and thereafter	100%

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2000 Bonds Series A, B, and C is \$1,000,000, of which \$333,000 was originally deposited for the 2000 Series C Bonds.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 **Long-Term Liabilities – Enterprise Funds (Continued)**

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

• **Adelanto Public Utility Authority Variable Rate Taxable Revenue Bonds, 2000 Series C (Continued)**

The Public Utility Authority is required under the Bond Indenture to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the wastewater system during each fiscal year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield gross wastewater revenues to pay the following amounts in the following order of priority:

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year
- The 2000 Series C Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments.
- All other payments required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

In addition, the Public Utility Authority is required to fix, prescribe, revise, and collect rates, fees and charges for the services and facilities furnished by the wastewater system during each fiscal year which are sufficient to yield net wastewater revenues at least equal to 115% of the total 2000 Series C Bonds debt service coming due and payable in such fiscal year.

The outstanding balance on the 2000 Series C Revenue Bonds at June 30, 2004 was \$13,655,000.

• **Adelanto Correctional Facility 2001 A Lease Revenue Refunding Bonds**

On September 21, 2001, the Adelanto Public Financing Authority issued \$9,185,000 of Lease Revenue Refunding Bonds to provide funds to advance refund the 1990 Adelanto Correctional Facility Certificates of Participation. The 2001A bonds bear interest at rates ranging from 2.50% to 4.00% for \$5,790,000 serial bonds with maturity dates through April 1, 2007, and 5.25% for term bonds maturing April 1, 2010, in the amount of \$3,395,000.

The Bonds are payable from the revenues pledged under the Indenture, consisting primarily of base rental payments to be made by the City of Adelanto (the "City") to the Adelanto Public Financing Authority (the "Authority") for the lease of the Adelanto Community Correctional Facility (the "Leased Property") pursuant to a lease (the "Lease"), as described herein and from certain funds held under the Indenture and insurance or condemnation awards. The City is required under the Lease to make payments in each fiscal year in consideration of the use and possession of the Leased Property in an amount sufficient to pay the annual principal and interest due with respect to the Bonds, subject to abatement, as described herein. All payments by the City under the Lease will be made solely from payments received by the City under a RTC Facility Contract (the "State Contract" herein) with the State of California Department of

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 Long-Term Liabilities – Enterprise Funds (Continued)

A description of individual long-term obligations outstanding at June 30, 2004 is as follows:
(Continued)

• **Adelanto Correctional Facility 2001 A Lease Revenue Refunding Bonds (Continued)**

Corrections (the “State” or the “Department”) as described herein. Payments due under the State Contract are payable only from current funds which are budgeted and appropriated annually or otherwise legally available for such purpose.

The net proceeds of approximately \$9.3 million (after payment of a \$183,700 underwriter’s discount, \$212,371 in issuance costs, and \$918,500 to a rate stabilization fund) plus an original issue premium of \$334,817 and an additional \$1.4 million of 1990 ACF COP debt service reserve fund monies were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 ACF COP. As a result, the 1990 ACF COPS are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$313,156. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2010 using the straight-line method.

The outstanding principal balance of the bonds at June 30, 2004 is \$6,435,000.

• **Debt Service Requirements**

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30:

Fiscal year	2001A ACF Lease Revenue Refunding	2000 Public Utility Bonds Series A	2000 Public Utility Bonds Series B	2000 Public Utility Bonds Series C	Total
2005	\$ 1,294,637	\$ 96,666	\$ 219,236	\$ 170,688	\$ 1,781,227
2006	1,254,638	250,868	681,841	170,688	2,358,035
2007	1,254,638	254,246	691,974	349,563	2,550,421
2008	1,253,238	262,546	696,979	362,219	2,574,982
2009	2,504,275	265,769	706,855	369,719	3,846,618
2009-2014		1,434,206	3,677,001	2,010,500	7,121,707
2015-2019		1,621,139	3,910,617	2,345,971	7,877,727
2020-2024		1,853,910	4,202,550	2,800,440	8,856,900
2025-2029		2,144,199	4,524,018	3,398,503	10,066,720
2030-2034		2,502,597	4,896,698	4,206,094	11,605,389
2035		552,833	1,025,253	960,969	2,539,055
	7,561,426	11,238,979	25,233,022	17,145,354	61,178,781
Less amount representing interest	1,126,426	1,853,979	3,948,022	3,490,354	10,418,781
Balance outstanding	\$ 6,435,000	\$ 9,385,000	\$ 21,285,000	\$ 13,655,000	\$ 50,760,000

• **Defeasance of Debt**

At June 30, 2004, the principal amount of defeased debt still outstanding were as follow:

1995	Series A Revenue Bonds	\$ 23,330,000
1998	Series A Revenue Bonds	3,250,000
	Total	\$ 26,580,000

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 10 **Insurance – Joint Powers**

The City of Adelanto is a member of the Public Entity Risk Management Authority (PERMA) (a joint powers authority of 24 California entities) for the purpose of pooling their general liability losses and claims with those of other member cities. PERMA is governed by the Board of Directors. For comprehensive general liability claims, the pool will share the loss among its members up to a maximum of \$10,000,000 (combined single limit per occurrence). The general liability pool is funded by an annual deposit based on prior claims activity. A retrospective amount is charged if claim costs are in excess of that amount. If costs are less, a refund is received. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The City funds all claims payable, including those incurred but not reported, in its annual deposit. Therefore, no liability is shown on the City's financial statements. In addition, the City participates in the all-risk property protection program. There have been no significant changes in insurance coverage from the prior year.

Information regarding claims incurred but not reported is not available and management believes that the total amount would not be material.

The following is a summary of the PERMA's financial information from its audited financial statements for the fiscal year ended June 30, 2004:

Total Assets	\$ 12,911,449
Total Liabilities	7,840,977
Fund Equity	<u>\$ 5,070,472</u>
Operating revenues	\$ 4,427,627
Operating expenses	(1,497,362)
Other items	741,744
Net income (Loss)	<u>\$ 3,672,009</u>

Note 11 **Commitments and Contingencies**

a. Financial Stability

In January 1996, the Redevelopment Agency issued approximately \$40 million in refunding bonds. The proceeds were used to refund the Redevelopment Agency's 1993 Series C Bonds, the capital appreciation bonds of the Redevelopment Agency's 1993 Series B Bonds outstanding, as well as pay amounts due under a settlement agreement with the County of San Bernardino. Amounts due the City of approximately \$1,227,000 were subordinated to the refunding bonds effective July 1, 1997, and such liabilities were transferred to the General Long-Term Debt Account Group. Finally, in accordance with the settlement agreement reached with the County of San Bernardino, because property tax increment revenues were insufficient to meet total debt service obligations on the 1995 Series A, B, C, and D Bonds, the property tax increment passed through to the County of San Bernardino was deferred and the amount is included in the financial statements as a loan payable.

The effect of defeasance of the Redevelopment Agency bonds, issuance of the note to the City, and subordination of the current amounts due the City to the outstanding bonds was for the Redevelopment Agency to defer debt payments, reduce annual debt service requirements, and provide cash for certain immediate needs. Issuance of these bonds does not, however, eliminate the Redevelopment Agency's long-term liquidity concerns. Management's projections, based in part on current year's operating results, indicate that estimated future Redevelopment Agency resources will be sufficient to pay maturing long-term obligations as they become due.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 11 **Commitments and Contingencies (Continued)**

b. General Litigation

In the normal course of operations, the City has been subjected to certain routine litigation matters. Except for the matter noted below, the City's litigation centers around contractor/developer and other operating matters related to its Redevelopment Agency, as well as maintenance of the City's water rights. The City's management believes that actual damages sustained, if any, will not be material to the City's financial statements.

The City's Redevelopment Agency is also a plaintiff in certain matters involving property in dispute. The City's management does not believe that the costs of such litigation will have a significant adverse effect on the City's financial operations.

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's belief that any required reimbursements will not be material.

c. Intermountain Power Agency Settlement Agreement

The Redevelopment Agency entered into an agreement with the Intermountain Power Agency (IPA) in April 1993, regarding reimbursement of certain incremental property taxes generated by parcels owned by the IPA within the Redevelopment Agency project areas for 1992 and prior years. The IPA had filed appeals relating to the assessed value of these parcels for 1989 through 1992. As a condition of the agreement with the Redevelopment Agency, the IPA agreed to withdraw such appeals. The IPA also filed appeals for property tax years 1993, 1995, and 1996.

The agreement states that if the IPA seeks a reassessment of the assessed value of the parcels (i.e., the 1993 appeal) and is successful in any future claim resulting in a reduction in property taxes assessed by the County or other taxing entity, the Redevelopment Agency agrees to reimburse the IPA for those amounts (to a maximum of \$2,200,000) that the IPA calculates that it would have lost in refunds as a result of dismissing the appeals for 1992 and prior. The reimbursement is to be paid by the Redevelopment Agency each year, beginning 90 days from a final decision by the County resulting in a reduced tax assessment, in an annual amount equal to \$78,751 multiplied by a "Fractional Amount", as defined in the agreement. The term "Fractional Amount" has been determined to mean the amount of the actual reduction in the tax assessment as determined by the County divided by an amount equal to the reduction in such tax assessment sought by the IPA.

Amounts due under the agreement are payable annually beginning 90 days after the final decision and continuing on or before September 30 of each year until the obligation (\$2,200,000 multiplied by the "Fractional Amount") is paid in full. Amounts due to the IPA under this agreement are subordinate to all tax allocation bonds of the Redevelopment Agency, whenever incurred. Based on the assessment appeal granted to the IPA for 1993, the liability that the Redevelopment Agency has incurred under this agreement is \$1,989,390. Since the Redevelopment Agency was a principal beneficiary of such property taxes, the full amount of such payments has been established as a long-term liability in the accompanying financial statements as of June 30, 2004.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 11 **Commitments and Contingencies (Continued)**

c. Intermountain Power Agency Settlement Agreement (Continued)

At June 30, 2004, no amounts have been paid by the Redevelopment Agency under this agreement.

The IPA also filed appeals for subsequent fiscal years as well, contending that the plant is not operating at full capacity and that the deregulation has affected the value of the property. The Redevelopment Agency's management is cooperating with the San Bernardino County Tax Assessor on this matter. The Redevelopment Agency's management has asserted that the plant is operating at capacity and that deregulation affects only the generation, not the transmission or distribution of electricity.

The assessed value of the IPA parcels represents a significant portion of the total assessed value of property in the Redevelopment Agency's project area. The resulting decrease in incremental property tax revenues from these parcel reassessments could adversely impact the Redevelopment Agency's ability to fund its debt service requirements and has a similar effect on other related units of the Adelanto City government.

c. Deferred Housing Set-Aside

California redevelopment law generally requires that redevelopment agencies set aside 20% of tax increment earned into a separate housing fund to be used for improving the supply and quality of housing benefiting low and moderate-income households. Prior to merging the project areas in December, 1995, the Agency's governing board determined that there was a sufficient supply of adequate housing for low and moderate-income households for the foreseeable future and that no set-aside was required. Subsequent to merging the project areas in December, 1995, the Agency was required to set aside 20% of tax increment in a Housing Fund, regardless of any prior determinations regarding low and moderate-housing. Because of the Agency's existing obligations, in accordance with California Health and Safety Code Section 33334.6(d), the Agency's Governing Board has determined to defer payment of such housing set-aside amounts for fiscal years 1996 through 2004. Such deferral aggregated \$7,058,962. The deferred payment of housing set-aside is considered a long-term obligation of the Agency and is subordinate to all other Agency indebtedness, as such obligation is not likely to be funded in the foreseeable future.

Note 12 **Pass-Through Agreements**

In December 1981, the Redevelopment Agency entered into an agreement with the County of San Bernardino, whereby incremental property taxes relating to the County Library District and the County Flood Control District that are generated within the Adelanto Improvement Project Area would be given to those entities.

In June 1983, the Redevelopment Agency entered into an agreement with the Adelanto School District (ASD) which provided for repayment of 3.34% of all incremental property taxes generated in the amended portion of the Adelanto Improvement Project Area for the construction of school facilities beginning in fiscal year 1989-90.

In July 1983, the Redevelopment Agency entered into an agreement with the County of San Bernardino which provides for continued pass-through of the Library and Flood control increment.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 12 **Pass-Through Agreements (Continued)**

During fiscal 1996, the Redevelopment Agency and San Bernardino County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Redevelopment Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately half (16.26%) would be subordinate to the Redevelopment Agency's existing long-term debt. The County will loan to the Redevelopment Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds discussed below, plus amounts needed, up to \$100,000 annually, to administer the Redevelopment Agency's long-term debt. Any such loans are subordinate to Series A, B, and C of the Adelanto Public Financing Authority refunding bonds but senior to the Series D Bonds.

Note 13 **Defined Benefit Pension Plan**

Plan Description

The City of Adelanto contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, 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. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer contribution rate for the fiscal year ended June 30, 2004 was 7.72%.

Annual Pension Cost

For the fiscal year ended June 30, 2004, the City's annual pension cost (employer contribution) of \$302,113 for employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included (a) 7.75% long term investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, service, and type of employment, (c) long term inflation of 3.00% which is a component of both the long term rate of return and the salary scale, (d) overall payroll growth of 3.25% which consists of inflation and worker productivity, and (e) individual salary growth that varies by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. 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 excess assets) is being amortized as a level percentage of projected payroll on a closed basis. PERS has combined the prior service unfunded liability and current service unfunded liability into a single initial unfunded liability.

THREE-YEAR TREND INFORMATION

<u>Fiscal Year</u>	<u>Annual Pension Cost (employer contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2003	\$ 138,203	100%	\$ -
6/30/2004	\$ 302,113	100%	\$ -

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 13 **Defined Benefit Pension Plan (Continued)**

Annual Pension Cost (Continued)

REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL* As a % of Payroll
6/30/2003	\$ 208,937	\$ 294,952	\$ (86,015)	141.2%	\$ 4,213,048	-2.0%

*UAAL refers to unfunded actuarial accrued liability.

Note 14 **Fund Balance Reservations/Designations**

The City has established certain fund balance reserve and designation accounts to report amounts which represent resources not available for appropriation.

Reserves:

Amounts reserved for long-term advances indicate that repayments are not available as a resource to meet expenditures of the current year.

Designations:

The designations for special purposes represent a government's self-imposed limitations on the use of otherwise available current financial resources.

Note 15 **Prior Period Adjustments**

Governmental Fund:

General Fund

A prior period adjustment was made in the General Fund for (\$46,969) due to understatement of accrued liabilities.

A prior period adjustment was made in the General Fund for (\$9,855) due to overstatement of accounts receivable.

Proprietary Fund:

Transit

A prior period adjustment was made in the Transit Fund for \$2,192 due to understatement of accounts receivable.

Correctional Facility

A prior period adjustment was made in the Correctional Facility Fund for \$3,262 due to understatement of accounts receivable.

A prior period adjustment was made in the Correctional Facility Fund for (\$23,525) due to understatement of accounts payable.

Government-wide Governmental Activities:

A prior period adjustment in the government-wide statement is due to an overstatement of long-term debt of \$6,314,845.

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
REDEVELOPMENT AGENCY DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,500,000	\$ 3,500,000	\$ 3,720,583	\$ 220,583
Investment earnings	200,000	200,000	158,578	(41,422)
Total revenues	<u>3,700,000</u>	<u>3,700,000</u>	<u>3,879,161</u>	<u>179,161</u>
EXPENDITURES				
Current:				
General government				
Community development	25,000	25,000	888	24,112
Pass-through payments	1,000,000	1,000,000	124,267	875,733
Debt Service:				
Principal retirement	3,025,000	3,025,000	1,385,267	1,639,733
Interest and other charges			2,035,482	(2,035,482)
Total expenditures	<u>4,050,000</u>	<u>4,050,000</u>	<u>3,545,904</u>	<u>504,096</u>
Excess of revenues over (under) expenditures	<u>(350,000)</u>	<u>(350,000)</u>	<u>333,257</u>	<u>683,257</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	(100,000)	(100,000)	(100,000)	
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(450,000)	(450,000)	233,257	683,257
Fund balance - July 1, 2003	<u>5,225,726</u>	<u>5,225,726</u>	<u>5,225,726</u>	
Fund balance - June 30, 2004	<u>\$ 4,775,726</u>	<u>\$ 4,775,726</u>	<u>\$ 5,458,983</u>	<u>\$ 683,257</u>

**CITY OF ADELANTO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004**

	Special Revenue Funds			
	Gas Tax Street	Measure "I"	Community Development Block Grant	Special Park
ASSETS				
Cash and investments	\$ 331,232	\$ 1,966,402	\$ -	\$ 203,103
Accounts receivable - net	40,208	142,553	68,078	
Interest receivable		3,251		
Due from other funds		1,442,635		
Notes receivable				
Land held for resale				
Total assets	<u>\$ 371,440</u>	<u>\$ 3,554,841</u>	<u>\$ 68,078</u>	<u>\$ 203,103</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 7,828	\$ -	\$ -
Accrued expenditures				
Deposit payable			68,078	
Due to other funds				
Deferred revenue	115,054			
Advances payable				
Total Liabilities	<u>115,054</u>	<u>7,828</u>	<u>68,078</u>	
Fund Balances:				
Reserved:				
Land held for resale				
Unreserved:				
Designated for special revenue purposes	256,386	3,547,013		203,103
Undesignated				
Total fund balances	<u>256,386</u>	<u>3,547,013</u>		<u>203,103</u>
Total liabilities and fund balances	<u>\$ 371,440</u>	<u>\$ 3,554,841</u>	<u>\$ 68,078</u>	<u>\$ 203,103</u>

Special Revenue Funds

Maverick Stadium	Traffic Offender	TDA Article 8	Asset Forfeiture State
\$ - 35,882	\$ 15,247	\$ 362,499	\$ 149,435
			132
<u>\$ 35,882</u>	<u>\$ 15,247</u>	<u>\$ 362,499</u>	<u>\$ 149,567</u>
\$ 26,356 4,396 1,785,885	\$ -	\$ 4,951	\$ -
<u>1,816,637</u>		<u>4,951</u>	
<u>(1,780,755)</u>	15,247	357,548	149,567
<u>(1,780,755)</u>	<u>15,247</u>	<u>357,548</u>	<u>149,567</u>
<u>\$ 35,882</u>	<u>\$ 15,247</u>	<u>\$ 362,499</u>	<u>\$ 149,567</u>

Continued

**CITY OF ADELANTO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004
(Continued)**

	Special Revenue Funds			
	Asset Forfeiture Education	Public Safety	Local Law Enforcement Block Grant	California AB Distributions
ASSETS				
Cash and investments	\$ 51,145	\$ -	\$ 36,102	\$ 34,463
Accounts receivable - net		9,523		7,493
Interest receivable				
Due from other funds				
Notes receivable				
Land held for resale				
Total assets	<u>\$ 51,145</u>	<u>\$ 9,523</u>	<u>\$ 36,102</u>	<u>\$ 41,956</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued expenditures				
Deposit payable				
Due to other funds	132	9,523		
Deferred revenue				
Advances payable				
Total Liabilities	<u>132</u>	<u>9,523</u>		
Fund Balances:				
Reserved:				
Land held for resale				
Unreserved:				
Designated for special revenue purposes	51,013		36,102	
Undesignated				41,956
Total fund balances	<u>51,013</u>		<u>36,102</u>	<u>41,956</u>
Total liabilities and fund balances	<u>\$ 51,145</u>	<u>\$ 9,523</u>	<u>\$ 36,102</u>	<u>\$ 41,956</u>

Special Revenue Funds		Capital Projects Funds		
COPS Grant	CLEEP	Redevelopment Agency	Redevelopment Agency Projects Area 3	Totals
\$ 99,885	\$ 45,571	\$ 442,000	\$ -	\$ 3,737,084
				303,737
				3,251
		123,950	50,000	1,616,717
		1,017,527		1,017,527
		1,901,942		1,901,942
<u>\$ 99,885</u>	<u>\$ 45,571</u>	<u>\$ 3,485,419</u>	<u>\$ 50,000</u>	<u>\$ 8,580,258</u>
\$ -	\$ 504	\$ 60,235	\$ -	\$ 99,874
				4,396
		850		850
		91,177	23,950	1,978,745
		1,017,527		1,132,581
		1,924,243	100,000	2,024,243
	504	3,094,032	123,950	5,240,689
		1,901,942		1,901,942
99,885	45,067	(1,510,555)	(73,950)	4,760,931
				(3,323,304)
<u>99,885</u>	<u>45,067</u>	<u>391,387</u>	<u>(73,950)</u>	<u>3,339,569</u>
<u>\$ 99,885</u>	<u>\$ 45,571</u>	<u>\$ 3,485,419</u>	<u>\$ 50,000</u>	<u>\$ 8,580,258</u>

CITY OF ADELANTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	Special Revenue Funds			
	Gas Tax Street	Measure "I"	Community Development Block Grant	Special Park
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits				172,136
Fines, forfeitures, and penalties				
Investment earnings	3,804	39,375		557
Charges for current services				
Intergovernmental revenue	368,278	665,369	484,717	
Total revenues	<u>372,082</u>	<u>704,744</u>	<u>484,717</u>	<u>172,693</u>
EXPENDITURES				
Current:				
General government				
Public safety				
Public works		183,364	436,113	
Community development				
Parks and grounds				
Capital outlay		2,676	45,541	
Pass-through payments				
Total expenditures		<u>186,040</u>	<u>481,654</u>	
Excess of revenues over (under) expenditures	<u>372,082</u>	<u>518,704</u>	<u>3,063</u>	<u>172,693</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers out	<u>(354,051)</u>	<u>(34,600)</u>	<u>(3,063)</u>	
Total other financing sources (uses)	<u>(354,051)</u>	<u>(34,600)</u>	<u>(3,063)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	18,031	484,104		172,693
Fund balances - July 1, 2003	<u>238,355</u>	<u>3,062,909</u>		<u>30,410</u>
Fund balances - June 30, 2004	<u>\$ 256,386</u>	<u>\$ 3,547,013</u>	<u>\$ -</u>	<u>\$ 203,103</u>

Special Revenue Funds

Maverick Stadium	Traffic Offender	TDA Article 8	Asset Forfeiture State
\$ -	\$ -	\$ -	\$ -
	26,836		
98,856	388	3,015	999
3,294			
		116,696	3,364
<u>102,150</u>	<u>27,224</u>	<u>119,711</u>	<u>4,363</u>
			363
		183	
175,158			
17,494		4,951	
<u>192,652</u>		<u>5,134</u>	<u>363</u>
<u>(90,502)</u>	<u>27,224</u>	<u>114,577</u>	<u>4,000</u>
	<u>(62,000)</u>	<u>(62,000)</u>	<u>(27,000)</u>
	<u>(62,000)</u>	<u>(62,000)</u>	<u>(27,000)</u>
(90,502)	(34,776)	52,577	(23,000)
<u>(1,690,253)</u>	<u>50,023</u>	<u>304,971</u>	<u>172,567</u>
<u>\$ (1,780,755)</u>	<u>\$ 15,247</u>	<u>\$ 357,548</u>	<u>\$ 149,567</u>

Continued

CITY OF ADELANTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004
(Continued)

	Special Revenue Funds			
	Asset Forfeiture Education	Public Safety	Local Law Enforcement Block Grant	California AB Distributions
REVENUES				
Taxes	\$ -	\$ 88,072	\$ -	\$ -
Licenses and permits				
Fines, forfeitures, and penalties				
Investment earnings	306			242
Charges for current services				
Intergovernmental revenue	440		28,596	13,835
Total revenues	<u>746</u>	<u>88,072</u>	<u>28,596</u>	<u>14,077</u>
EXPENDITURES				
Current:				
General government				
Public safety				
Public works				4,800
Community development				
Parks and grounds				
Capital outlay				
Pass-through payment				
Total expenditures				<u>4,800</u>
Excess of revenues over (under) expenditures	<u>746</u>	<u>88,072</u>	<u>28,596</u>	<u>9,277</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			3,560	
Transfers out		(88,072)	(38,355)	
Total other financing sources (uses)		<u>(88,072)</u>	<u>(34,795)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	746		(6,199)	9,277
Fund balances - July 1, 2003	<u>50,267</u>		<u>42,301</u>	<u>32,679</u>
Fund balances - June 30, 2004	<u>\$ 51,013</u>	<u>\$ -</u>	<u>\$ 36,102</u>	<u>\$ 41,956</u>

Special Revenue Funds		Capital Projects Funds		
COPS Grant	CLEEP	Redevelopment Agency	Redevelopment Agency Projects Area 3	Totals
\$ -	\$ -	\$ -	\$ -	\$ 88,072
				172,136
				26,836
890	385	439,141		587,958
				3,294
<u>100,367</u>				<u>1,781,662</u>
<u>101,257</u>	<u>385</u>	<u>439,141</u>		<u>2,659,958</u>
		191,412	50,000	241,412
	15,754			16,117
				624,460
		112,476	15,232	127,708
				175,158
				70,662
		<u>186,542</u>		<u>186,542</u>
	<u>15,754</u>	<u>490,430</u>	<u>65,232</u>	<u>1,442,059</u>
<u>101,257</u>	<u>(15,369)</u>	<u>(51,289)</u>	<u>(65,232)</u>	<u>1,217,899</u>
		100,000		103,560
<u>(100,000)</u>				<u>(769,141)</u>
<u>(100,000)</u>		<u>100,000</u>		<u>(665,581)</u>
1,257	(15,369)	48,711	(65,232)	552,318
<u>98,628</u>	<u>60,436</u>	<u>342,676</u>	<u>(8,718)</u>	<u>2,787,251</u>
<u>\$ 99,885</u>	<u>\$ 45,067</u>	<u>\$ 391,387</u>	<u>\$ (73,950)</u>	<u>\$ 3,339,569</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GAS TAX STREET SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 300	\$ 3,804	\$ 3,504
Intergovernmental revenue	406,000	368,278	(37,722)
Total revenues	<u>406,300</u>	<u>372,082</u>	<u>(34,218)</u>
Excess of revenues over (under) expenditures	<u>406,300</u>	<u>372,082</u>	<u>(34,218)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(360,000)</u>	<u>(354,051)</u>	<u>5,949</u>
Total other financing sources (uses)	<u>(360,000)</u>	<u>(354,051)</u>	<u>5,949</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	46,300	18,031	(28,269)
Fund balance - July 1, 2003	<u>238,355</u>	<u>238,355</u>	
Fund balance - June 30, 2004	<u>\$ 284,655</u>	<u>\$ 256,386</u>	<u>\$ (28,269)</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MEASURE "I" SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 56,000	\$ 39,375	\$ (16,625)
Intergovernmental revenue	1,958,000	665,369	(1,292,631)
Total revenues	<u>2,014,000</u>	<u>704,744</u>	<u>(1,309,256)</u>
EXPENDITURES			
Current:			
Public works	40,000	183,364	(143,364)
Capital outlay	2,060,000	2,676	2,057,324
Total expenditures	<u>2,100,000</u>	<u>186,040</u>	<u>1,913,960</u>
Excess of revenues over (under) expenditures	<u>(86,000)</u>	<u>518,704</u>	<u>604,704</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	25,000		(25,000)
Transfers out	(34,600)	(34,600)	
Total other financing sources (uses)	<u>(9,600)</u>	<u>(34,600)</u>	<u>(25,000)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(95,600)</u>	<u>484,104</u>	<u>579,704</u>
Fund balance - July 1, 2003	<u>3,062,909</u>	<u>3,062,909</u>	
Fund balance - June 30, 2004	<u>\$ 2,967,309</u>	<u>\$ 3,547,013</u>	<u>\$ 579,704</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 532,000	\$ 484,717	\$ (47,283)
Total revenues	<u>532,000</u>	<u>484,717</u>	<u>(47,283)</u>
EXPENDITURES			
Current:			
Public works	32,000	436,113	(404,113)
Capital outlay	490,000	45,541	444,459
Total expenditures	<u>522,000</u>	<u>481,654</u>	<u>40,346</u>
Excess of revenues over (under) expenditures	<u>10,000</u>	<u>3,063</u>	<u>(6,937)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(10,000)</u>	<u>(3,063)</u>	<u>6,937</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>(3,063)</u>	<u>6,937</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses			
Fund balance - July 1, 2003	<u> </u>	<u> </u>	<u> </u>
Fund balance - June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL PARK SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Licenses and permits	\$ 45,000	\$ 172,136	\$ 127,136
Investment earnings	200	557	357
Intergovernmental revenue	335,000		(335,000)
Total revenues	<u>380,200</u>	<u>172,693</u>	<u>(207,507)</u>
EXPENDITURES			
Capital outlay	<u>335,000</u>		<u>335,000</u>
Total expenditures	<u>335,000</u>		<u>335,000</u>
Excess of revenues over (under) expenditures	45,200	172,693	127,493
Fund balance - July 1, 2003	<u>30,410</u>	<u>30,410</u>	
Fund balance - June 30, 2004	<u>\$ 75,610</u>	<u>\$ 203,103</u>	<u>\$ 127,493</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAVERICK STADIUM SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 70,358	\$ 98,856	\$ 28,498
Charges for current services	87,650	3,294	(84,356)
Total revenues	<u>158,008</u>	<u>102,150</u>	<u>(55,858)</u>
EXPENDITURES			
Current:			
Parks and grounds	214,108	175,158	38,950
Capital outlay	20,000	17,494	2,506
Total expenditures	<u>234,108</u>	<u>192,652</u>	<u>41,456</u>
Excess of revenues over (under) expenditures	(76,100)	(90,502)	(14,402)
Fund balance - July 1, 2003	<u>(1,690,253)</u>	<u>(1,690,253)</u>	
Fund balance - June 30, 2004	<u><u>\$ (1,766,353)</u></u>	<u><u>\$ (1,780,755)</u></u>	<u><u>\$ (14,402)</u></u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TRAFFIC OFFENDER SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Fine, forfeitures, and penalties	\$ 30,000	\$ 26,836	\$ (3,164)
Investment earnings		388	388
Total revenues	<u>30,000</u>	<u>27,224</u>	<u>(2,776)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(62,000)</u>	<u>(62,000)</u>	
Total other financing sources (uses)	<u>(62,000)</u>	<u>(62,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(32,000)	(34,776)	(2,776)
Fund balance - July 1, 2003	<u>50,023</u>	<u>50,023</u>	
Fund balance - June 30, 2004	<u>\$ 18,023</u>	<u>\$ 15,247</u>	<u>\$ (2,776)</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TDA ARTICLE 8 SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 3,000	\$ 3,015	\$ 15
Intergovernmental revenue	50,000	116,696	66,696
Total revenues	<u>53,000</u>	<u>119,711</u>	<u>66,711</u>
EXPENDITURES			
Current:			
Public works		183	(183)
Capital outlay		4,951	(4,951)
Total expenditures		<u>5,134</u>	<u>(5,134)</u>
Excess of revenues over (under) expenditures	<u>53,000</u>	<u>114,577</u>	<u>61,577</u>
OTHER FINANCING SOURCES (USES)			
Transfers in			
Transfers out	<u>(62,000)</u>	<u>(62,000)</u>	
Total other financing sources (uses)	<u>(62,000)</u>	<u>(62,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,000)	52,577	61,577
Fund balance - July 1, 2003	<u>304,971</u>	<u>304,971</u>	
Fund balance - June 30, 2004	<u>\$ 295,971</u>	<u>\$ 357,548</u>	<u>\$ 61,577</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
ASSET FORFEITURE STATE SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 1,000	\$ 999	\$ (1)
Intergovernmental revenue		3,364	3,364
Total revenues	<u>1,000</u>	<u>4,363</u>	<u>3,363</u>
EXPENDITURES			
Current:			
Public safety		363	(363)
Total expenditures		<u>363</u>	<u>(363)</u>
Excess of revenues over (under) expenditures	<u>1,000</u>	<u>4,000</u>	<u>3,000</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(27,000)</u>	<u>(27,000)</u>	
Total other financing sources (uses)	<u>(27,000)</u>	<u>(27,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(26,000)	(23,000)	3,000
Fund balance - July 1, 2003	<u>172,567</u>	<u>172,567</u>	
Fund balance - June 30, 2004	<u>\$ 146,567</u>	<u>\$ 149,567</u>	<u>\$ 3,000</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
ASSET FORFEITURE EDUCATION SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 500	\$ 306	\$ (194)
Intergovernmental revenue		440	440
Total revenues	<u>500</u>	<u>746</u>	<u>246</u>
EXPENDITURES			
Current:			
Public safety	<u>5,000</u>		<u>5,000</u>
Total expenditures	<u>5,000</u>		<u>5,000</u>
Excess of revenues over (under) expenditures	(4,500)	746	5,246
Fund balance - July 1, 2003	<u>50,267</u>	<u>50,267</u>	
Fund balance - June 30, 2004	<u>\$ 45,767</u>	<u>\$ 51,013</u>	<u>\$ 5,246</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
PUBLIC SAFETY SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 75,000	\$ 88,072	\$ 13,072
Total revenues	<u>75,000</u>	<u>88,072</u>	<u>13,072</u>
Excess of revenues over (under) expenditures	<u>75,000</u>	<u>88,072</u>	<u>13,072</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(75,000)</u>	<u>(88,072)</u>	<u>(13,072)</u>
Total other financing sources (uses)	<u>(75,000)</u>	<u>(88,072)</u>	<u>(13,072)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses			
Fund balance - July 1, 2003	<u> </u>	<u> </u>	<u> </u>
Fund balance - June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL LAW ENFORCEMENT BLOCK GRANT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 48,000	\$ 28,596	\$ (19,404)
Total revenues	<u>48,000</u>	<u>28,596</u>	<u>(19,404)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		3,560	3,560
Transfers out	(48,000)	(38,355)	9,645
Total other financing sources (uses)	<u>(48,000)</u>	<u>(34,795)</u>	<u>13,205</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)		(6,199)	(6,199)
Fund balance - July 1, 2003	<u>42,301</u>	<u>42,301</u>	
Fund balance - June 30, 2004	<u>\$ 42,301</u>	<u>\$ 36,102</u>	<u>\$ (6,199)</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CALIFORNIA AB DISTRIBUTIONS SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 100	\$ 242	\$ 142
Intergovernmental revenue	11,592	13,835	2,243
Total revenues	<u>11,692</u>	<u>14,077</u>	<u>2,385</u>
EXPENDITURES			
Current:			
Public works		4,800	(4,800)
Total expenditures		<u>4,800</u>	<u>(4,800)</u>
Excess of revenues over (under) expenditures	<u>11,692</u>	<u>9,277</u>	<u>(2,415)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(25,000)</u>		<u>25,000</u>
Total other financing sources (uses)	<u>(25,000)</u>		<u>25,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(13,308)	9,277	22,585
Fund balance - July 1, 2003	<u>32,679</u>	<u>32,679</u>	
Fund balance - June 30, 2004	<u>\$ 19,371</u>	<u>\$ 41,956</u>	<u>\$ 22,585</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COPS GRANT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 890	\$ 890
Intergovernmental revenue	100,000	100,367	367
Total revenues	100,000	101,257	1,257
OTHER FINANCING SOURCES (USES)			
Transfers out	(100,000)	(100,000)	
Total other financing sources (uses)	(100,000)	(100,000)	
Excess of revenues and other financing sources over (under) expenditures and other financing uses		1,257	1,257
Fund balance - July 1, 2003	98,628	98,628	
Fund balance - June 30, 2004	<u>\$ 98,628</u>	<u>\$ 99,885</u>	<u>\$ 1,257</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CLEEP SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 200	\$ 385	\$ 185
Intergovernmental revenue	18,000		(18,000)
Total revenues	<u>18,200</u>	<u>385</u>	<u>(17,815)</u>
EXPENDITURES			
Current:			
Public safety	10,000	15,754	(5,754)
Capital outlay	10,000		10,000
Total expenditures	<u>20,000</u>	<u>15,754</u>	<u>4,246</u>
Excess of revenues over (under) expenditures	(1,800)	(15,369)	(13,569)
Fund balance - July 1, 2003	60,436	60,436	
Fund balance - June 30, 2004	<u>\$ 58,636</u>	<u>\$ 45,067</u>	<u>\$ (13,569)</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 107,200	\$ 439,141	\$ 331,941
Total revenues	<u>107,200</u>	<u>439,141</u>	<u>331,941</u>
EXPENDITURES			
Current:			
General government	156,100	191,412	(35,312)
Community development	137,250	112,476	24,774
Capital outlay	75,000		75,000
Pass-through payments		<u>186,542</u>	<u>(186,542)</u>
Total expenditures	<u>368,350</u>	<u>490,430</u>	<u>(122,080)</u>
Excess of revenues over (under) expenditures	<u>(261,150)</u>	<u>(51,289)</u>	<u>209,861</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of sale of property	170,000		(170,000)
Transfers in	<u>100,000</u>	<u>100,000</u>	
Total other financing sources (uses)	<u>270,000</u>	<u>100,000</u>	<u>(170,000)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	8,850	48,711	39,861
Fund balance - July 1, 2003	<u>342,676</u>	<u>342,676</u>	
Fund balance - June 30, 2004	<u>\$ 351,526</u>	<u>\$ 391,387</u>	<u>\$ 39,861</u>

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY PROJECT AREA 3 CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
EXPENDITURES			
Current:			
General government	\$ 50,000	\$ 50,000	\$ -
Community development	50,000	15,232	34,768
Total expenditures	<u>100,000</u>	<u>65,232</u>	<u>34,768</u>
Excess of revenues over (under) expenditures	<u>(100,000)</u>	<u>(65,232)</u>	<u>34,768</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>100,000</u>		<u>(100,000)</u>
Total other financing sources (uses)	<u>100,000</u>		<u>(100,000)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses		(65,232)	(65,232)
Fund balance - July 1, 2003	<u>(8,718)</u>	<u>(8,718)</u>	
Fund balance - June 30, 2004	<u>\$ (8,718)</u>	<u>\$ (73,950)</u>	<u>\$ (65,232)</u>

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OFFICES:

BEVERLY HILLS, CALIFORNIA
SANTA MARIA, CALIFORNIA

INDEPENDENT AUDITOR'S 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

The Honorable Members of the City Council
City of Adelanto
Adelanto, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Adelanto, California, as of and for the fiscal year ended June 30, 2004 which collectively comprise the City of Adelanto's basic financial statements, and have issued our report thereon dated January 26, 2007. 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 City of Adelanto, California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Adelanto, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 management, others within the organization, City Council, and federal awarding agencies and pass-through entities 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
January 26, 2007