

**City of Adelanto
Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

DRAFT

CITY OF ADELANTO, CALIFORNIA
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2006

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FINANCIAL
SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2006, 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 the Transit fund'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, 2006, 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, 2006, and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, the City adopted Governmental Accounting Standards Board Statement No. 46, Net Assets Restricted by Enabling Legislation, Effective July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, the General Fund and the Sanitation Special Revenue Fund budgetary comparison schedules, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

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 respective budgetary comparison for the Redevelopment Agency Debt Service Fund, combining nonmajor fund financial statements, and nonmajor funds budgetary comparison schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. The budgetary comparison for the Redevelopment Agency Debt Service Fund, 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.

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CITY OF ADELANTO
STATEMENT OF NET ASSETS
June 30, 2006

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| ASSETS | | | |
| Cash and investments | \$ 8,218,002 | \$ 21,691,550 | \$ 29,909,552 |
| Cash and investments with fiscal agents | 6,302,052 | 26,664,409 | 32,966,461 |
| Receivables: | | | |
| Accounts receivable - net | 2,506,781 | 3,107,850 | 5,614,631 |
| Notes/Contracts | 1,490,465 | | 1,490,465 |
| Interest | 11,325 | 80,674 | 91,999 |
| Internal balances | (4,057,568) | 4,057,568 | |
| Inventory | | 60,252 | 60,252 |
| Investment in Adelanto Public Financing Authority bonds | | 18,474,798 | 18,474,798 |
| Land held for resale | 1,586,354 | | 1,586,354 |
| Deferred charges - net of accumulated amortization | 1,333,332 | 9,235,100 | 10,568,432 |
| Deferred losses on refunding | 1,153,293 | | 1,153,293 |
| Capital assets not being depreciated | 8,700 | 5,299,448 | 5,308,148 |
| Capital assets - net of accumulated depreciation | 327,704 | 26,149,339 | 26,477,043 |
| Total assets | <u>18,880,440</u> | <u>114,820,988</u> | <u>133,701,428</u> |
| LIABILITIES | | | |
| Accounts payable | 926,197 | 226,698 | 1,152,895 |
| Interest payable | 644,409 | 271,091 | 915,500 |
| Accrued expenses | 45,288 | 219,686 | 264,974 |
| Deposits payable | 866,192 | 530,789 | 1,396,981 |
| Due to fiduciary funds | 1,138,603 | | 1,138,603 |
| Noncurrent liabilities: | | | |
| Due within one year | 1,061,418 | 1,040,000 | 2,101,418 |
| Due in more than one year | 61,840,206 | 74,177,961 | 136,018,167 |
| Total liabilities | <u>66,522,313</u> | <u>76,466,225</u> | <u>142,988,538</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | | (13,642,428) | (13,642,428) |
| Restricted for: | | | |
| Construction | 474,748 | | 474,748 |
| Debt service | 5,344,420 | 5,649,633 | 10,994,053 |
| Streets, highways, bikeways, public transit, and other related purposes | 3,976,136 | | 3,976,136 |
| Housing | 56,098 | | 56,098 |
| Parks | 1,452,209 | | 1,452,209 |
| Public safety | 1,903,430 | | 1,903,430 |
| Unrestricted | (60,848,914) | 46,347,558 | (14,501,356) |
| Total net assets | <u>\$ (47,641,873)</u> | <u>\$ 38,354,763</u> | <u>\$ (9,287,110)</u> |

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006**

| Functions/Programs | Expenses | Charges for Services | Program Revenues | |
|--------------------------------|----------------------|-------------------------|--|--|
| | | | Operating Contributions and Grants | Capital Contributions and Grants |
| Primary Government: | | | | |
| General government | \$ 2,316,520 | \$ 1,181,171 | \$ - | \$ - |
| Public safety | 6,147,393 | 351,996 | 361,625 | |
| Public works | 7,973,942 | 6,518,443 | 3,182,458 | |
| Community development | 1,192,386 | 119,968 | | |
| Parks and recreation | 286,499 | 1,142,212 | | |
| Pass through payments | 129,382 | | | |
| Interest on long-term debt | 5,046,727 | | | |
| Total Governmental Activities | <u>23,092,849</u> | <u>9,313,790</u> | <u>3,544,083</u> | |
| Business-type Activities: | | | | |
| Correctional facility | 6,550,294 | 7,733,160 | | |
| Public utility authority | 8,208,580 | 13,731,813 | | |
| Total Business-type Activities | <u>14,758,874</u> | <u>21,464,973</u> | | |
| Total Primary Government | <u>\$ 37,851,723</u> | <u>\$ 30,778,763</u> | <u>\$ 3,544,083</u> | <u>\$ -</u> |

General Revenues:

Taxes:
Sales taxes
Property taxes
Franchise taxes
Transient occupancy taxes
Business license taxes
Motor vehicle in lieu, unrestricted
Earnings on investments
Miscellaneous
Transfers

Total general revenues and transfers

Change in net assets

Net assets - July 1, 2005

Restatement of net assets

Net assets - July 1, 2005, restated

Net assets - June 30, 2006

See Notes to the Basic Financial Statements

Net (Expenses) Revenues
and Changes in Net Assets

| Governmental Activities | Business-type Activities | Total |
|----------------------------|-----------------------------|-----------------------|
| \$ (1,135,349) | \$ - | \$ (1,135,349) |
| (5,433,772) | | (5,433,772) |
| 1,726,959 | | 1,726,959 |
| (1,072,418) | | (1,072,418) |
| 855,713 | | 855,713 |
| (129,382) | | (129,382) |
| (5,046,727) | | (5,046,727) |
| <u>(10,234,976)</u> | | <u>(10,234,976)</u> |
| | 1,182,866 | 1,182,866 |
| | <u>5,523,233</u> | <u>5,523,233</u> |
| | 6,706,099 | 6,706,099 |
| <u>(10,234,976)</u> | <u>6,706,099</u> | <u>(3,528,877)</u> |
| 1,177,464 | | 1,177,464 |
| 6,387,171 | | 6,387,171 |
| 236,949 | | 236,949 |
| 12,441 | | 12,441 |
| 76,275 | | 76,275 |
| 139,252 | | 139,252 |
| 2,899,556 | 1,124,912 | 4,024,468 |
| 362,200 | | 362,200 |
| 911,949 | (911,949) | |
| <u>12,203,257</u> | <u>212,963</u> | <u>12,416,220</u> |
| 1,968,281 | 6,919,062 | 8,887,343 |
| (49,311,428) | 31,435,701 | (17,875,727) |
| <u>(298,726)</u> | | <u>(298,726)</u> |
| <u>(49,610,154)</u> | <u>31,435,701</u> | <u>(18,174,453)</u> |
| <u>\$ (47,641,873)</u> | <u>\$ 38,354,763</u> | <u>\$ (9,287,110)</u> |

**CITY OF ADELANTO
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

| | General Fund | Sanitation Special Revenue Fund | Redevelopment Agency Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------------------------|--|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and investments | \$ - | \$ 86,099 | \$ - | \$ 7,531,903 | \$ 7,618,002 |
| Cash and investments with fiscal agents | | | 6,302,052 | | 6,302,052 |
| Accounts receivable - net | 523,414 | 268,173 | 90,489 | 1,624,705 | 2,506,781 |
| Due from other funds | 3,161,641 | | | 582,910 | 3,744,551 |
| Interest receivable | 3,447 | | | 7,878 | 11,325 |
| Notes/Contracts receivable | 36,000 | | | 1,454,465 | 1,490,465 |
| Advances to other funds | 2,374,852 | | | | 2,374,852 |
| Land held for resale | | | | 1,586,354 | 1,586,354 |
| Total assets | \$ 6,099,354 | \$ 354,272 | \$ 6,392,541 | \$ 12,788,215 | \$ 25,634,382 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 462,375 | \$ 224,650 | \$ - | \$ 239,172 | \$ 926,197 |
| Accrued expenditures | 43,106 | 821 | | 1,361 | 45,288 |
| Due to other funds | 5,844,179 | 31,513 | 582,910 | 2,532,729 | 8,991,331 |
| Deposits payable | 523,345 | 101,997 | | 240,850 | 866,192 |
| Deferred revenue | | | | 1,569,519 | 1,569,519 |
| Advances from other funds | | | | 2,324,243 | 2,324,243 |
| Total liabilities | 6,873,005 | 358,981 | 582,910 | 6,907,874 | 14,722,770 |
| Fund balances | | | | | |
| Reserved: | | | | | |
| Debt service | | | 5,809,631 | 179,198 | 5,988,829 |
| Land held for resale | | | | 1,586,354 | 1,586,354 |
| Advances to redevelopment agency | 2,374,852 | | | | 2,374,852 |
| Unreserved: | | | | | |
| Designated - special revenue funds | | | | 7,301,998 | 7,301,998 |
| Undesignated - general fund | (3,148,503) | | | | (3,148,503) |
| Undesignated - capital projects funds | | | | (1,286,137) | (1,286,137) |
| Undesignated - special revenue funds | | (4,709) | | (1,901,072) | (1,905,781) |
| Total fund balances | (773,651) | (4,709) | 5,809,631 | 5,880,341 | 10,911,612 |
| Total liabilities and fund balances | \$ 6,099,354 | \$ 354,272 | \$ 6,392,541 | \$ 12,788,215 | \$ 25,634,382 |

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, 2006**

| | | |
|--|----|--------------|
| Fund balances of governmental funds | \$ | 10,911,612 |
| 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. | | 336,404 |
| 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. | | 1,569,519 |
| Long-term debt and compensated absences have not been included in the governmental funds: | | |
| Tax allocation bonds and revenue bonds | | (50,299,799) |
| Intermountain Power Agency settlement | | (1,989,390) |
| San Bernardino County tax increment loans | | (10,479,040) |
| Compensated absences | | (133,395) |
| Deferred charges, net of accumulated amortization for debt issuance costs and discounts on long-term debt have not been reported in the governmental funds. | | 1,333,332 |
| Deferred losses on refunding, net of accumulated amortization for long-term debt issuance have not been reported in the governmental funds. | | 1,153,293 |
| Accrued interest payable due on long-term debt has not been reported in the governmental funds. | | (644,409) |
| The internal service fund is used by management to charge the costs of equipment maintenance and repair to individual funds. The assets and liabilities of the internal service fund must be added to the statement of net assets. | | 600,000 |
| Net assets of governmental activities | \$ | (47,641,873) |

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, 2006

| | General Fund | Sanitation Special Revenue Fund | Redevelopment Agency Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------------------------|--|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes and assessments | \$ 3,942,881 | \$ - | \$ 3,881,469 | \$ 306,021 | \$ 8,130,371 |
| Licenses and permits | 1,226,872 | | | 2,428,964 | 3,655,836 |
| Fines, forfeitures, and penalties | 101,225 | | | 20,238 | 121,463 |
| Investment earnings | 1,363,390 | 660 | 256,148 | 639,149 | 2,259,347 |
| Charges for current services | 1,904,995 | 2,493,402 | | 54,559 | 4,452,956 |
| Intergovernmental revenue | 1,307,095 | | | 3,282,020 | 4,589,115 |
| Other revenues | 214,885 | | | 1,201 | 216,086 |
| Total revenues | <u>10,061,343</u> | <u>2,494,062</u> | <u>4,137,617</u> | <u>6,732,152</u> | <u>23,425,174</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 2,167,829 | | | 148,691 | 2,316,520 |
| Public safety | 6,072,003 | | | 75,390 | 6,147,393 |
| Public works | 2,237,718 | 2,468,802 | | 527,069 | 5,233,589 |
| Community development | 830,924 | | | 351,894 | 1,182,818 |
| Parks and recreation | 112,757 | | | 173,742 | 286,499 |
| Pass-through payments | | | 129,382 | | 129,382 |
| Capital outlay | 211,863 | | | 2,492,157 | 2,704,020 |
| Debt service: | | | | | |
| Principal retirement | | | 1,791,381 | | 1,791,381 |
| Interest and other charges | 48,127 | | 4,821,029 | 44,978 | 4,914,134 |
| Total expenditures | <u>11,681,221</u> | <u>2,468,802</u> | <u>6,741,792</u> | <u>3,813,921</u> | <u>24,705,736</u> |
| Excess of revenues over (under) expenditures | <u>(1,619,878)</u> | <u>25,260</u> | <u>(2,604,175)</u> | <u>2,918,231</u> | <u>(1,280,562)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceed from issuance of long term debt | | | 2,859,405 | | 2,859,405 |
| Transfers in | 1,991,949 | | | 135,361 | 2,127,310 |
| Transfers out | (361) | | (100,000) | (965,000) | (1,065,361) |
| Total other financing sources (uses) | <u>1,991,588</u> | | <u>2,759,405</u> | <u>(829,639)</u> | <u>3,921,354</u> |
| Net change in fund balances | <u>371,710</u> | <u>25,260</u> | <u>155,230</u> | <u>2,088,592</u> | <u>2,640,792</u> |
| Fund balances - July 1, 2005 | (1,145,361) | (29,969) | 5,654,401 | 3,750,363 | 8,229,434 |
| Prior period adjustments | | | | 41,386 | 41,386 |
| Fund balances - July 1, 2005, restated | <u>(1,145,361)</u> | <u>(29,969)</u> | <u>5,654,401</u> | <u>3,791,749</u> | <u>8,270,820</u> |
| Fund balances - June 30, 2006 | <u>\$ (773,651)</u> | <u>\$ (4,709)</u> | <u>\$ 5,809,631</u> | <u>\$ 5,880,341</u> | <u>\$ 10,911,612</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, 2006

| | | |
|--|----|------------------|
| Net change in fund balances - total governmental funds | \$ | 2,640,792 |
| 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 cost of those capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceed capital outlay 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. | | (77,103) |
| 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. | | 801,110 |
| 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 expenditures in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net assets. | | (1,068,024) |
| 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. | | (2,717) |
| 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. | | (36,333) |
| The internal service fund is used by management to charge the costs of equipment repair and maintenance to individual funds. The net revenues (expenses) of the internal service fund is reported with governmental activities. | | (150,000) |
| Change in net assets of governmental activities | \$ | <u>1,968,281</u> |

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

| | Enterprise Funds | | Total | Governmental |
|---|--------------------------|-----------------------------|----------------------|--|
| | Correctional Facility | Public Utility Authority | | Activities Internal Service Fund |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash investments | \$ 2,744,581 | \$ 18,946,969 | \$ 21,691,550 | \$ 600,000 |
| Restricted cash and investments with fiscal agents | 940,629 | 25,723,780 | 26,664,409 | |
| Accounts receivable, net | 1,626,653 | 1,481,197 | 3,107,850 | |
| Interest receivable | | 80,674 | 80,674 | |
| Inventory | | 60,252 | 60,252 | |
| Due from other funds | 379,222 | 4,816,642 | 5,195,864 | |
| Total Current Assets | <u>5,691,085</u> | <u>51,109,514</u> | <u>56,800,599</u> | <u>600,000</u> |
| Noncurrent Assets: | | | | |
| Deferred issuance costs | 156,985 | 9,078,115 | 9,235,100 | |
| Investment in Adelanto Public Financing Authority Bonds | | 18,474,798 | 18,474,798 | |
| Capital assets: | | | | |
| Land | 104,660 | 4,279,895 | 4,384,555 | |
| Depreciable buildings and improvements, net | 6,422,114 | 19,476,622 | 25,898,736 | |
| Depreciable equipment, net | 60,287 | 190,316 | 250,603 | |
| Construction in progress | | 914,893 | 914,893 | |
| Total Noncurrent Assets | <u>6,744,046</u> | <u>52,414,639</u> | <u>59,158,685</u> | |
| Total Assets | <u>12,435,131</u> | <u>103,524,153</u> | <u>115,959,284</u> | <u>600,000</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 67,474 | 159,224 | 226,698 | |
| Accrued liabilities | 136,584 | 83,102 | 219,686 | |
| Accrued interest payable | 53,660 | 217,431 | 271,091 | |
| Deposits payable | | 530,789 | 530,789 | |
| Due to other funds | 1,138,296 | | 1,138,296 | |
| Current portion of long-term obligations | 1,040,000 | | 1,040,000 | |
| Total Current Liabilities | <u>2,436,014</u> | <u>990,546</u> | <u>3,426,560</u> | |
| Noncurrent Liabilities: | | | | |
| Noncurrent portion of long-term obligations: | | | | |
| Compensated absences | 133,563 | 14,398 | 147,961 | |
| Bonds payable | 3,395,000 | 70,635,000 | 74,030,000 | |
| Total Noncurrent Liabilities | <u>3,528,563</u> | <u>70,649,398</u> | <u>74,177,961</u> | |
| Total Liabilities | <u>5,964,577</u> | <u>71,639,944</u> | <u>77,604,521</u> | |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 2,309,046 | (15,951,474) | (13,642,428) | |
| Restricted for debt service | 886,969 | 4,762,664 | 5,649,633 | |
| Unrestricted | 3,274,539 | 43,073,019 | 46,347,558 | 600,000 |
| Total Net Assets | <u>\$ 6,470,554</u> | <u>\$ 31,884,209</u> | <u>\$ 38,354,763</u> | <u>\$ 600,000</u> |

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, 2006

| | Enterprise Funds | | | Governmental Activities Internal Service Fund |
|---|--------------------------|-----------------------------|----------------------|--|
| | Correctional Facility | Public Utility Authority | Total | |
| Operating Revenues: | | | | |
| Sales and service charges | \$ 6,101,080 | \$ 12,380,392 | \$ 18,481,472 | \$ - |
| Rents | 1,254,638 | | 1,254,638 | |
| Other | 377,442 | 1,351,421 | 1,728,863 | |
| Total Operating Revenues | 7,733,160 | 13,731,813 | 21,464,973 | |
| Operating Expenses: | | | | |
| Salaries and benefits | 3,828,797 | 611,997 | 4,440,794 | |
| Contractual services | 122,080 | 845,165 | 967,245 | |
| Utilities | 420,998 | 1,119,919 | 1,540,917 | |
| Maintenance and supplies | 937,858 | | 937,858 | |
| Sewer operations | | 296,773 | 296,773 | |
| Water operations | | 682,593 | 682,593 | |
| Allocated overhead | 759,298 | | 759,298 | |
| Administration | | 192,064 | 192,064 | |
| Depreciation | 194,203 | 526,022 | 720,225 | |
| Total Operating Expenses | 6,263,234 | 4,274,533 | 10,537,767 | |
| Operating Income (Loss) | 1,469,926 | 9,457,280 | 10,927,206 | |
| Nonoperating Revenues (Expenses): | | | | |
| Interest revenue | 38,349 | 1,086,563 | 1,124,912 | |
| Interest expense and fiscal charges | (245,196) | (3,618,199) | (3,863,395) | |
| Amortization expense | (41,864) | (315,848) | (357,712) | |
| Other | | | - | |
| Total Nonoperating Revenues (Expenses) | (248,711) | (2,847,484) | (3,096,195) | |
| Income (Loss) Before Transfers | 1,221,215 | 6,609,796 | 7,831,011 | |
| Transfers in | | 2,800,000 | 2,800,000 | |
| Transfers out | | (3,711,949) | (3,711,949) | (150,000) |
| Net Transfers | | (911,949) | (911,949) | (150,000) |
| Changes in Net Assets | 1,221,215 | 5,697,847 | 6,919,062 | (150,000) |
| Net Assets | | | | |
| Beginning of fiscal year, July 1, 2005 | 5,249,339 | 26,186,362 | 31,435,701 | 750,000 |
| End of fiscal year, June 30, 2006 | <u>\$ 6,470,554</u> | <u>\$ 31,884,209</u> | <u>\$ 38,354,763</u> | <u>\$ 600,000</u> |

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006**

| | Enterprise Funds | | | Governmental Activities Internal Service Fund |
|--|--------------------------|-----------------------------|----------------------|--|
| | Correctional Facility | Public Utility Authority | Total | |
| Cash Flows from Operating Activities: | | | | |
| Cash received from customers and users | \$ 6,829,490 | \$ 13,775,678 | \$ 20,605,168 | \$ - |
| Cash paid to suppliers for goods and services | (2,097,723) | (3,129,979) | (5,227,702) | |
| Cash paid to employees for services | (3,805,203) | (658,315) | (4,463,518) | |
| Net Cash Provided (Used) by Operating Activities | 926,564 | 9,987,384 | 10,913,948 | |
| Cash Flows from Non-Capital Financing Activities: | | | | |
| Cash transfers from/(to) other funds | | 2,603,710 | 2,603,710 | (150,000) |
| Due from other funds | (273,153) | (4,710,509) | (4,983,662) | |
| Due to other funds | 250,159 | | 250,159 | |
| Net Cash Provided (Used) by Non-Capital Financing Activities | (22,994) | (2,106,799) | (2,129,793) | (150,000) |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Proceeds from debt issuance | | 70,635,000 | 70,635,000 | |
| Purchases of capital assets | (21,399) | (895,182) | (916,581) | |
| Principal paid on capital debt | (1,000,000) | (44,325,000) | (45,325,000) | |
| Interest paid on capital debt | (255,196) | (3,496,887) | (3,752,083) | |
| Increase in deferred charges | | (2,575,346) | (2,575,346) | |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (1,276,595) | 19,342,585 | 18,065,990 | |
| Cash Flows from Investing Activities: | | | | |
| Interest received | 38,349 | 1,039,632 | 1,077,981 | |
| Principal repayment on bond investment | | (169,729) | (169,729) | |
| Net Cash Provided (Used) by Investing Activities | 38,349 | 869,903 | 908,252 | |
| Net Increase (Decrease) in Cash and Cash Equivalents | (334,676) | 28,093,073 | 27,758,397 | (150,000) |
| Cash and Cash Equivalents at Beginning of Fiscal Year | 4,019,886 | 16,577,676 | 20,597,562 | 750,000 |
| Cash and Cash Equivalents at End of Fiscal Year | <u>\$ 3,685,210</u> | <u>\$ 44,670,749</u> | <u>\$ 48,355,959</u> | <u>\$ 600,000</u> |
| Reconciliation to Statement of Net Assets: | | | | |
| Cash and investments | \$ 2,744,581 | \$ 18,946,969 | \$ 21,691,550 | \$ 600,000 |
| Restricted cash and investments with fiscal agents | 940,629 | 25,723,780 | 26,664,409 | |
| Cash and Cash Equivalents | <u>\$ 3,685,210</u> | <u>\$ 44,670,749</u> | <u>\$ 48,355,959</u> | <u>\$ 600,000</u> |

(Continued)

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006
(Continued)**

| | Enterprise Funds | | | Governmental Activities Internal Service Fund |
|---|--------------------------|-----------------------------|----------------------|--|
| | Correctional Facility | Public Utility Authority | Total | |
| Reconciliation of Operating Income (loss) to net Cash Provided (Used) by Operating Activities: | | | | |
| Operating income (loss) | \$ 1,469,926 | \$ 9,457,280 | \$ 10,927,206 | \$ - |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 194,203 | 526,022 | 720,225 | |
| (Increase) decrease in accounts receivable | (903,670) | 2,391 | (901,279) | |
| Increase (decrease) in accounts payable | 48,529 | (60,175) | (11,646) | |
| Increase (decrease) in accrued liabilities | 93,982 | 66,710 | 160,692 | |
| Increase (decrease) in other payables | | | | |
| Increase (decrease) in compensated absences | 23,594 | (46,318) | (22,724) | |
| Increase (decrease) in deposits payable | | 41,474 | 41,474 | |
| Total Adjustments | (543,362) | 530,104 | (13,258) | |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 926,564</u> | <u>\$ 9,987,384</u> | <u>\$ 10,913,948</u> | <u>\$ -</u> |

See Notes to the Basic Financial Statements

CITY OF ADELANTO
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

| | Private Purpose Trust | Pension Trust | Agency Funds | |
|---|--------------------------|------------------------------|---------------------------|------------------|
| | Luetke Foundation | Inmate Welfare Benefit | Assessment District 1A | Inmate Trust |
| ASSETS | | | | |
| Cash and investments | \$ 25,473 | \$ 255,378 | \$ 2,265,196 | \$ 63,651 |
| Restricted cash and investments with fiscal agents | | | 1,284,517 | |
| Accounts receivable | | 64,786 | | |
| Due from other funds | | 2,712,080 | | |
| Inventories | | 17,100 | | |
| Total assets | <u>\$ 25,473</u> | <u>\$ 3,049,344</u> | <u>\$ 3,549,713</u> | <u>\$ 63,651</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 7,265 | \$ 41,070 | \$ 7,127 | \$ 53,099 |
| Accrued liabilities | | 2,921 | | |
| Advances from other funds | | | 50,609 | |
| Due to other funds | 10,565 | 1,111,606 | 390,145 | 10,552 |
| Due to bondholders | | | 3,101,832 | |
| Total liabilities | <u>17,830</u> | <u>1,155,597</u> | <u>3,549,713</u> | <u>63,651</u> |
| NET ASSETS | | | | |
| Unrestricted | <u>7,643</u> | <u>1,893,747</u> | | |
| Total net assets | <u>\$ 7,643</u> | <u>\$ 1,893,747</u> | <u>\$ -</u> | <u>\$ -</u> |

See Notes to the Basic Financial Statements

**CITY OF ADELANTO
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Private-Purpose Trust | Pension Trust |
|--------------------------------|--------------------------|------------------------------|
| | Luetke Foundation | Inmate Welfare Benefit |
| Additions | | |
| Inmate phone increment charges | \$ - | \$ 446,185 |
| Other | | 30,986 |
| | <hr/> | <hr/> |
| Total additions | | 477,171 |
| | <hr/> | <hr/> |
| Deletions | | |
| General government | | 401,261 |
| | <hr/> | <hr/> |
| Total deletions | | 401,261 |
| | <hr/> | <hr/> |
| Change in net assets | | 75,910 |
| Net assets - July 1, 2005 | 7,643 | 1,817,837 |
| | <hr/> | <hr/> |
| Net assets - June 30, 2006 | <u>\$ 7,643</u> | <u>\$ 1,893,747</u> |

See Notes to the Basic Financial Statements

Notes to Basic Financial Statements

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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. The two project areas were merged in 1995. In July 2002, the Agency established Project Area #3. 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 units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and 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, 2006

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 and the Authority. The blended component units, although legally separate are, in substance, part of the City's operations, therefore data from the units are 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 are 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, 2006

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 solid waste system within the City's boundaries.

The 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 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 and water 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, 2006

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

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

The Internal Service Fund is used to account for financial transactions related to the City's equipment maintenance and repairs. These services are provided to other departments or agencies of the City on a cost reimbursement basis.

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 Funds 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, 2006

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. Additionally, the value of the Public Financing Authority Bonds are stated at cost.

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)
- Local Agency Bonds

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006

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 its 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, 2006

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 that 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, 2006.

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 governmental activities except for the Redevelopment Agency and the Transit Fund. Due to the lack of records, no opinion has been given on the capital assets, accumulated depreciation, or depreciation expense related to 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' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding are included in interest expense in the Statement of Activities.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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 specific purposes. 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 | 327,704 |
| | <u>\$ 336,404</u> |

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, 2006

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 accumulated amortization of \$757,508 | \$ 1,333,332 |
| Deferred losses on refunding, net of accumulated amortization of \$631,890 | 1,153,293 |
| | \$ 2,486,625 |

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 | \$ 10,479,040 |
| Tax allocation refunding bonds | 11,315,000 |
| Revenue bonds | 38,984,799 |
| Settlement agreement payable | 1,989,390 |
| Compensated absences | 133,395 |
| | \$ 62,901,624 |

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 is 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 | \$ 1,533,294 |
| Appreciation/Accretion of revenue bonds | 1,326,111 |
| Total debt incurred | \$ 2,859,405 |
| Debt principal repayment: | |
| Revenue bonds | \$ 1,791,381 |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

g. Implementation of New GASB Pronouncements

Governmental Accounting Standards Board Statement No. 46

For fiscal year June 30, 2006, the City implemented Governmental Accounting Standards Board Statement No. 46, "Net assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34." This Statement is effective for fiscal periods beginning after June 15, 2005. This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the City – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2006, but required additional disclosure related to restricted net assets.

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 are legally 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, as adopted, on a basis consistent with accounting principles generally accepted in the United States of America.

Budgets were adopted for all general, special revenue, capital projects, and debt service funds except for the Community Facilities District Special Revenue Fund, FEMA/OES Special Revenue Fund, and LLMD Annexation Special Revenue Fund.

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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

Fund Deficits

The following funds contained a deficit fund balance as of June 30, 2006:

Major Fund

| | |
|------------|--------------|
| General | \$ (773,651) |
| Sanitation | (4,709) |

Nonmajor Funds

| | |
|-------------------------------------|-------------|
| <u>Special Revenue Fund:</u> | |
| Maverick Stadium | (1,946,531) |
| Community Facilities District | (20,105) |
| LLMD Annexation | (25,810) |
| <u>Capital Projects Fund:</u> | |
| Redevelopment Agency Project Area 3 | (174,531) |

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.

The City has a deficit in governmental net assets of \$47,641,873 at June 30, 2006. The City projects that future resources will be sufficient to pay long-term obligations as they become due.

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 | \$ 10,336,257 | \$ 11,681,221 | \$ 1,344,964 |
| Sanitation Special Revenue Fund | 1,878,200 | 2,468,802 | 590,602 |
| Redevelopment Agency Debt Service Fund | 3,630,000 | 6,741,792 | 3,111,792 |
| <u>NONMAJOR GOVERNMENTAL FUNDS:</u> | | | |
| Community Facilities District Special Revenue Fund | | 20,593 | 20,593 |
| Traffic Offender Special Revenue Fund: | | 146 | 146 |
| TDA Article 8 Special Revenue Fund: | 165,000 | 167,859 | 2,859 |
| FEMA/OES Special Revenue Fund | | 117,733 | 117,733 |
| California AB Distributions Special Revenue Fund | 4,800 | 6,271 | 1,471 |
| LLMD Annexation Special Revenue Fund | | 58,810 | 58,810 |
| Transit Special Revenue Fund | 35,000 | 35,456 | 456 |
| Redevelopment Agency Project Area 3 Capital Projects Fund | 20,000 | 50,072 | 30,072 |
| Redevelopment Agency Project Area 3 Debt Service Fund | 30,000 | 44,978 | 14,978 |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 3 **Cash and Investments**

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

| | |
|---|---------------|
| Statement of net assets: | |
| Cash and investments | \$ 29,909,552 |
| Restricted cash and investments with fiscal agents | 32,966,461 |
| Investment in Adelanto Public Financing Authority Bonds | 18,474,798 |
| Fiduciary funds: | |
| Cash and investments | 2,609,698 |
| Restricted cash and investments with fiscal agents | 1,284,517 |
| Total cash and investments | \$ 85,245,026 |

Cash and investments as of June 30, 2006 consist of the following:

| | |
|--------------------------------------|---------------|
| Petty cash | \$ 7,285 |
| Deposits with financial institutions | 24,342,177 |
| Investments | 60,895,564 |
| Total cash and investments | \$ 85,245,026 |

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

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

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

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

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

B. Investments Authorized by Debt Agreements

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

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

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

C. Disclosures Relating to Interest Rate Risk

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

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

| <u>Investment Type</u> | <u>Totals</u> | <u>Remaining maturity (in Months)</u> | | | |
|------------------------|----------------------|---------------------------------------|------------------------|---------------------|----------------------------|
| | | <u>12 Months or Less</u> | <u>13 to 24 Months</u> | <u>25-60 Months</u> | <u>More Than 60 Months</u> |
| State Investment Pool | \$ 8,169,788 | \$ 8,169,788 | \$ - | \$ - | \$ - |
| Held by Bond Trustees: | | | | | |
| Money Market Funds | 7,746,263 | 7,746,263 | | | |
| Investment Agreements | 26,504,715 | | 19,601,204 | 918,500 | 5,985,011 |
| Bonds | 18,474,798 | | | | 18,474,798 |
| | <u>\$ 60,895,564</u> | <u>\$ 15,916,051</u> | <u>\$ 19,601,204</u> | <u>\$ 918,500</u> | <u>\$ 24,459,809</u> |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

E. Disclosures Relating to Credit Risk

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

| Investment Type | Amount | Minimum Legal Rating | Exempt From Disclosure | Rating as of Fiscal Year End | | | |
|-----------------------|----------------------|----------------------------|------------------------------|------------------------------|-------------|-------------|----------------------|
| | | | | AAA | AA | A | Not Rated |
| State Investment Pool | \$ 8,169,788 | N/A | \$ - | \$ - | \$ - | \$ - | \$ 8,169,788 |
| Held by bond trustee: | | | | | | | |
| Money Market Funds | 7,746,263 | N/A | | 7,746,263 | | | |
| Investment Agreements | 26,504,715 | N/A | | | | | 26,504,715 |
| Bonds | 18,474,798 | | | | | | 18,474,798 |
| Total | \$ 60,895,564 | | \$ - | \$ 7,746,263 | \$ - | \$ - | \$ 53,149,301 |

F. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

| Issuer | Investment Type | Reported Amount |
|---|-----------------------|-----------------|
| IXIS Investment Agreements | Investment Agreements | \$ 23,881,298 |
| Adelanto Public Financing Authority Bonds | Bonds | 18,474,798 |

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, governmental activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.) are as follows:

The Adelanto Public Utility Authority holds investments in IXIS Investment Agreements equal to \$23,881,298. The agreements mature on January 2, 2008 and September 30, 2015 and pay interest of 4.060% and 4.360%.

The Adelanto Water Authority holds investments (including amounts held by bond trustees) in Public Financing Authority Bonds in the amount of \$18,474,798. These bonds are \$13,901,987 in the 1995 Series C Bonds and \$4,572,811 in the 1995 Series D Bonds.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

G. Custodial Credit Risk

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

As of June 30, 2006, \$25,208,406 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

As of June 30, 2006, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

| <u>Investment Type</u> | <u>Reported Amount</u> |
|------------------------|----------------------------|
| Money market funds | \$ 7,746,263 |
| Investment Agreements | 26,504,715 |

Note 4 **Notes Receivable**

Notes receivable aggregating \$32,916,633 from the sale of the Water and Wastewater System at fair value are discussed as follows:

- The \$26,485,464 note receivable 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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 4 **Notes Receivable (Continued)**

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. Prior to January 1998, management did not anticipate that any payment in excess of the minimum annual payments due on the note would 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. In a subsequent amendment dated September 2005, the purchase agreement was amended and the interest rate was changed to accrue on the unpaid balance at the rate of 5.0% per annum, from the date of delivery of the 2005 Bonds, to the date on which the full balance has been paid.

- 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. Prior to January 1998, management did not anticipate that any payment in excess of the annual payments due on the note would 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%. In September 2005, the interest rate was amended to accrue on the unpaid balance at the rate of 5.0% per annum, from the date of delivery of the 2005 Bonds, to the date on which the full balance has been paid. The Authority is a component unit of the City and therefore, the Note has been eliminated for reporting purposes.

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

At June 30, 2006, \$1,490,465 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 City 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, 2006:

| | Receivable | Allowance | Net |
|--|--------------|-------------|--------------|
| Governmental Activities - Accounts | \$ 2,556,601 | \$ (49,820) | \$ 2,506,781 |
| Business-type Activities - Accounts | \$ 3,196,246 | \$ (88,396) | \$ 3,107,850 |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 6 **Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2006.

a. Transfers

| Fund | Transfers-in | Transfers-out |
|---------------------------------------|---------------------|---------------------|
| Major Funds: | | |
| General | \$ 1,991,949 | \$ 361 |
| Redevelopment Agency Debt Service | | 100,000 |
| Nonmajor Governmental Funds: | | |
| Gas Tax | | 460,000 |
| Measure "I" | | 35,000 |
| Community Development Block Grant | 361 | |
| Traffic Offender | | 30,000 |
| TDA Article 8 | | 225,000 |
| Asset Forfeiture State | | 25,000 |
| Public Safety | | 90,000 |
| COPS Grant | | 100,000 |
| Transit | 35,000 | |
| Redevelopment Agency Capital Projects | 100,000 | |
| Major Enterprise Funds: | | |
| Public Utility Authority | 2,800,000 | 3,711,949 |
| Internal Service Fund | | |
| Equipment Replacement | | 150,000 |
| Totals | <u>\$ 4,927,310</u> | <u>\$ 4,927,310</u> |

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, 2006

Note 6 **Interfund Activity (Continued)**

b. Due To/ From Other Funds

| Fund | Receivable | Payable |
|---------------------------------------|----------------------|----------------------|
| Major Funds: | | |
| General | \$ 3,161,641 | \$ 5,844,179 |
| Sanitation | | 31,513 |
| Redevelopment Agency Debt Service | | 582,910 |
| Nonmajor Funds: | | |
| Maverick Stadium | | 1,974,004 |
| Redevelopment Agency Capital Projects | 582,910 | 558,725 |
| Major Enterprise Funds: | | |
| Correctional Facility | 379,222 | 1,138,296 |
| Public Utility Authority | 4,816,642 | |
| Fiduciary Funds: | | |
| Luetke Foundation | | 10,565 |
| Inmate Welfare Benefit | 2,712,080 | 1,111,606 |
| Assessment District 1 A | | 390,145 |
| Inmate Trust | | 10,552 |
| | <u>\$ 11,652,495</u> | <u>\$ 11,652,495</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, 2006, the funds below have made/received advances that were not expected to be repaid within one year.

| Fund | Receivable | Payable |
|--|---------------------|---------------------|
| Major Fund: | | |
| General | \$ 2,374,852 | \$ - |
| Nonmajor Funds: | | |
| Redevelopment Agency Project Area 3 Capital Projects | | 400,000 |
| Redevelopment Agency Capital Projects | | 1,924,243 |
| Fiduciary Fund: | | |
| Assessment District 1A | | 50,609 |
| | <u>\$ 2,374,852</u> | <u>\$ 2,374,852</u> |

The advances between the City of Adelanto, the Redevelopment Agency, and the Assessment District 1A 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, 2006

Note 7 **Capital Assets**

a. Governmental Activities (Redevelopment Agency and Transit Fund Only)

Capital assets of governmental activity for the fiscal year ended June 30, 2006 was as follows:

| | Balance at July 1, 2005 | Additions | Deletions | Balance at June 30, 2006 |
|---|----------------------------|-------------------|-------------|-----------------------------|
| Redevelopment Agency | | | | |
| 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 | (135,228) | (9,168) | | (144,396) |
| Structures and Improvements | (5,900) | (400) | | (6,300) |
| Total | <u>(141,128)</u> | <u>(9,568)</u> | | <u>(150,696)</u> |
| Capital Assets being depreciated, net | <u>337,272</u> | <u>(9,568)</u> | | <u>327,704</u> |
| Capital Assets, net | <u>\$ 345,972</u> | <u>\$ (9,568)</u> | <u>\$ -</u> | <u>\$ 336,404</u> |
| 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> |

Depreciation is charged to community development expense in the Statement of Activities.

b. Business-type activities

Capital assets of business-type activity for the fiscal year ended June 30, 2006 was as follows:

| | Balance at July 1, 2005 | Additions | Deletions | Balance at June 30, 2006 |
|---|----------------------------|---------------------|-------------|-----------------------------|
| Correctional Facility | | | | |
| 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 | 991,830 | 21,399 | | 1,013,229 |
| Less - Accumulated depreciation | <u>(3,561,537)</u> | <u>(194,203)</u> | | <u>(3,755,740)</u> |
| Total Capital Assets, being depreciated | <u>6,655,205</u> | <u>(172,804)</u> | | <u>6,482,401</u> |
| Total Correctional Facility Capital Assets, net | <u>\$ 6,759,865</u> | <u>\$ (172,804)</u> | <u>\$ -</u> | <u>\$ 6,587,061</u> |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 7 **Capital Assets (Continued)**

b. Business-type activities (Continued)

Capital assets of business-type activity for the fiscal year ended June 30, 2006 was as follows: (Continued)

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 |
|---|-------------------------|-------------------|-------------|--------------------------|
| Public Utility Authority Activity | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 1,155,096 | \$ - | \$ - | \$ 1,155,096 |
| Water rights | 3,124,799 | | | 3,124,799 |
| Construction in progress | 235,412 | 679,481 | | 914,893 |
| Total Capital Assets, not being depreciated | <u>4,515,307</u> | <u>679,481</u> | <u>-</u> | <u>5,194,788</u> |
| Capital Assets, being depreciated: | | | | |
| Fields and grounds | 7,086,133 | 19,714 | | 7,105,847 |
| Wells and pump stations | 4,573,578 | 95,800 | | 4,669,378 |
| Reservoirs | 387,863 | | | 387,863 |
| Machinery and equipment | 286,077 | 100,187 | | 386,264 |
| Pipelines | 12,553,861 | | | 12,553,861 |
| Vehicles | 138,656 | | | 138,656 |
| Less - Accumulated Depreciation | (5,048,909) | (526,022) | | (5,574,931) |
| Total Capital Assets, being depreciated | <u>19,977,259</u> | <u>(310,321)</u> | | <u>19,666,938</u> |
| Total Authority Capital Assets, net | <u>\$ 24,492,566</u> | <u>\$ 369,160</u> | <u>\$ -</u> | <u>\$ 24,861,726</u> |
| Total Enterprise Funds | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,259,756 | \$ - | \$ - | \$ 1,259,756 |
| Water rights | 3,124,799 | | | 3,124,799 |
| Construction in progress | 235,412 | 679,481 | | 914,893 |
| Total Capital Assets, not being depreciated | <u>4,619,967</u> | <u>679,481</u> | | <u>5,299,448</u> |
| Capital Assets, being depreciated: | | | | |
| Fields and grounds | 16,311,045 | 19,714 | | 16,330,759 |
| Wells and pump stations | 4,573,578 | 95,800 | | 4,669,378 |
| Reservoirs | 387,863 | | | 387,863 |
| Machinery and equipment | 1,277,907 | 121,586 | | 1,399,493 |
| Pipelines | 12,553,861 | | | 12,553,861 |
| Vehicles | 138,656 | | | 138,656 |
| Less - Accumulated depreciation | (8,610,446) | (720,225) | | (9,330,671) |
| Total Capital Assets, being depreciated | <u>26,632,464</u> | <u>(483,125)</u> | | <u>26,149,339</u> |
| Total Capital Assets, net | <u>\$ 31,252,431</u> | <u>\$ 196,356</u> | <u>\$ -</u> | <u>\$ 31,448,787</u> |

Depreciation is charged to public utility authority expense in the Statement of Activities.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006:

| | Balance July 1, 2005 | Additions/ Accretions | Repayments | Balance June 30, 2006 | 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 | 4,910,000 | | 400,000 | 4,510,000 | 430,000 |
| Adelanto Public Financing Authority, Local Agency Second Subordinated Revenue Bonds 1995 Series B | 16,235,000 | | 235,000 | 16,000,000 | 245,000 |
| Adelanto Public Financing Authority, Local Agency Third Subordinated Revenue Bonds 1995 Series C | 13,733,019 | 994,210 | 825,241 | 13,901,988 | 386,418 |
| Adelanto Public Financing Authority, Local Agency Fourth Subordinated Revenue Bonds 1995 Series D | 4,572,050 | 331,901 | 331,140 | 4,572,811 | |
| Total bonded indebtedness | <u>50,765,069</u> | <u>1,326,111</u> | <u>1,791,381</u> | <u>50,299,799</u> | <u>1,061,418</u> |
| Compensated Absences | 97,062 | 36,333 | | 133,395 | |
| Intermountain Power Agency Settlement Agreement | 1,989,390 | | | 1,989,390 | |
| San Bernardino County Tax Increment Loans | 8,945,746 | 1,533,294 | | 10,479,040 | |
| Total other long-term obligations | <u>11,032,198</u> | <u>1,569,627</u> | | <u>12,601,825</u> | |
| Total long-term obligations | <u>\$ 61,797,267</u> | <u>\$ 2,895,738</u> | <u>\$ 1,791,381</u> | <u>\$ 62,901,624</u> | <u>\$ 1,061,418</u> |

A description of individual long-term obligations outstanding at June 30, 2006 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, 2006

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:

| Redemption dates | Redemption Price |
|-------------------------------------|-------------------------|
| 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 the reserve fund at June 30, 2006 is \$750,393. Such amount has been included in restricted cash and investments with fiscal agents in the accompanying financial statements.

The outstanding balance on the 1995 Series A Bonds at June 30, 2006 was \$4,510,000.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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:

| Redemption Dates | Redemption Price |
|-------------------------------------|-------------------------|
| 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 financial statements.

The outstanding balance on the 1995 Series B Bonds at June 30, 2006 was \$16,000,000.

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, 2006

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:

| Redemption Dates | Redemption Price |
|-------------------------------------|-------------------------|
| 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, 2006, the Redevelopment Agency recognized accretion of \$994,210 and made payments to the Water Authority of \$825,241. The balance outstanding on the 1995 Series C Bonds at June 30, 2006 was \$13,901,988.

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:

| Redemption Dates | Redemption Price |
|-------------------------------------|-------------------------|
| 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, 2006

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, 2006, the Redevelopment Agency recognized accretion of \$331,901 on the 1995 Series D Bonds and made payments to the Water Authority of \$331,140. The balance outstanding on the 1995 Series D Bonds at June 30, 2006 was \$4,572,811.

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, 2005, 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:

| Redemption Dates | Redemption Price |
|-----------------------------------|-------------------------|
| 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, 2006

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, 2006 was \$11,315,000.

C. Debt Service Requirements

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

| Fiscal Year ending June 30, | 1993 Series B Tax Allocation Bonds | | Total |
|--------------------------------|------------------------------------|---------------------|----------------------|
| | Principal | Interest | |
| 2007 | \$ - | \$ 622,325 | \$ 622,325 |
| 2008 | | 622,325 | 622,325 |
| 2009 | | 622,325 | 622,325 |
| 2010 | | 622,325 | 622,325 |
| 2011 | 540,000 | 296,313 | 836,313 |
| 2012-2016 | 3,180,000 | 2,544,575 | 5,724,575 |
| 2017-2021 | 4,290,000 | 1,534,225 | 5,824,225 |
| 2022-2024 | 3,305,000 | 278,988 | 3,583,988 |
| | <u>\$ 11,315,000</u> | <u>\$ 7,143,401</u> | <u>\$ 18,458,401</u> |

| Fiscal Year ending June 30, | 1995 Series A Revenue Bonds | | Total |
|--------------------------------|-----------------------------|---------------------|---------------------|
| | Principal | Interest | |
| 2007 | \$ 430,000 | \$ 299,770 | \$ 729,770 |
| 2008 | 455,000 | 270,894 | 725,894 |
| 2009 | 485,000 | 239,866 | 724,866 |
| 2010 | 520,000 | 206,190 | 726,190 |
| 2011 | 15,000 | 188,100 | 203,100 |
| 2012-2016 | 80,000 | 924,120 | 1,004,120 |
| 2017-2021 | 65,000 | 892,620 | 957,620 |
| 2022-2026 | 2,460,000 | 711,720 | 3,171,720 |
| | <u>\$ 4,510,000</u> | <u>\$ 3,733,280</u> | <u>\$ 8,243,280</u> |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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 long-term debt bonds outstanding as of June 30:

| Fiscal Year Ending June 30, | 1995 Series B Revenue Bonds | | Total |
|--------------------------------|-----------------------------|----------------------|----------------------|
| | Principal | Interest | |
| 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 | 295,000 | 1,015,981 | 1,310,981 |
| 2011 | 310,000 | 1,062,720 | 1,372,720 |
| 2012-2016 | 1,875,000 | 4,937,940 | 6,812,940 |
| 2017-2021 | 2,470,000 | 4,152,240 | 6,622,240 |
| 2022-2026 | 3,305,000 | 3,136,140 | 6,441,140 |
| 2027-2029 | 6,955,000 | 771,300 | 7,726,300 |
| | <u>\$ 16,000,000</u> | <u>\$ 18,024,758</u> | <u>\$ 34,024,758</u> |

| Fiscal Year Ending June 30, | 1995 Series C Revenue Bonds | | Total |
|--------------------------------|-----------------------------|----------------------|----------------------|
| | Principal | Interest | |
| 2007 | \$ 386,418 | \$ 475,649 | \$ 862,067 |
| 2008 | 375,119 | 525,698 | 900,817 |
| 2009 | 364,272 | 577,300 | 941,572 |
| 2010 | 353,877 | 630,756 | 984,633 |
| 2011 | 343,030 | 684,301 | 1,027,331 |
| 2012-2016 | 1,548,381 | 4,235,930 | 5,784,311 |
| 2017-2021 | 1,356,754 | 5,998,530 | 7,355,284 |
| 2022-2026 | 1,165,127 | 7,913,400 | 9,078,527 |
| 2027-2029 | 8,009,010 | 4,585,921 | 12,594,931 |
| | <u>\$ 13,901,988</u> | <u>\$ 25,627,485</u> | <u>\$ 39,529,473</u> |

| Fiscal Year Ending June 30, | 1995 Series D Revenue Bonds | | Total |
|--------------------------------|-----------------------------|----------------------|----------------------|
| | Principal | Interest | |
| 2007 | \$ - | \$ - | \$ - |
| 2008 | | | |
| 2009 | | | |
| 2010 | | | |
| 2011 | | | |
| 2012-2016 | 336,251 | 1,010,532 | 1,346,783 |
| 2017-2021 | 995,194 | 4,514,104 | 5,509,298 |
| 2022-2026 | 1,456,183 | 10,048,964 | 11,505,147 |
| 2027-2030 | 1,785,183 | 7,740,061 | 9,525,244 |
| | <u>\$ 4,572,811</u> | <u>\$ 23,313,661</u> | <u>\$ 27,886,472</u> |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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 | |
| 2007 | \$ 1,061,418 | \$ 2,396,235 | \$ 3,457,653 |
| 2008 | 1,095,119 | 2,402,170 | 3,497,289 |
| 2009 | 1,129,272 | 2,406,184 | 3,535,456 |
| 2010 | 1,168,877 | 2,475,252 | 3,644,129 |
| 2011 | 1,208,030 | 2,231,434 | 3,439,464 |
| 2012-2016 | 7,019,632 | 13,653,097 | 20,672,729 |
| 2017-2021 | 9,176,948 | 17,091,719 | 26,268,667 |
| 2022-2026 | 11,691,310 | 22,089,212 | 33,780,522 |
| 2027-2030 | 16,749,193 | 13,097,282 | 29,846,475 |
| | <u>\$ 50,299,799</u> | <u>\$ 77,842,585</u> | <u>\$ 128,142,384</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, 2006.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006 was \$10,479,040.

Note 9 Long-Term Liabilities – Enterprise Funds

The following is a schedule of changes in long-term debt of the City's enterprise funds for the fiscal year ended June 30, 2006:

| | Balance July 1, 2005 | Additions/ accretions | Principal payments | Balance June 30, 2006 | 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 Public Utility Authority Refunding Revenue Bonds, 2005 Series A | | 55,615,000 | | 55,615,000 | |
| Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series B | | 15,020,000 | | 15,020,000 | |
| Adelanto Correctional Facility Lease Revenue Refunding Bonds - 2001 | 5,435,000 | | (1,000,000) | 4,435,000 | 1,040,000 |
| Compensated absences | 170,685 | | (22,724) | 147,961 | |
| Total long-term debt | <u>\$ 49,930,685</u> | <u>\$ 70,635,000</u> | <u>\$ (45,347,724)</u> | <u>\$ 75,217,961</u> | <u>\$ 1,040,000</u> |

In regards to the 2005A and 2005B Bonds, the Adelanto Public Utility Authority (Authority) has entered into interest rate swap agreements pursuant to a master agreement, effective September 7, 2005. The swap provider is Piper Jaffray Financial Products Inc. Under the swap associated with the Series A Bonds, the Authority will pay a fixed rate of 3.387% and receive amounts based upon a variable rate (based on 63% of the One-Month London Interbank Offering Rate (LIBOR) plus 30 basis points). In regards to the 2005B Bonds, there are two separate swaps. The first swap's period start on September 7, 2005, to but excluding September 1, 2008. The Authority will pay a fixed rate of 4.485% and receive amounts based upon a variable rate (based on 63% of LIBOR plus 30 basis points). The second swap for the 2005 B Bonds begins on September 1, 2008 and continues for the remaining life of the 2005B Bonds. The Authority will pay a fixed rate of 3.447% and receive amounts based upon a variable rate (based on 63% of LIBOR plus 30 basis points). The payment obligations of the Authority under the 2005 SWAP (excluding Termination Payments thereunder) will constitute Parity Obligations and the payments received by the Authority under the 2005 Swap will be pledged to the payment of the 2005A Bonds and the 2005B Bonds. The payment obligations of the Authority under the 2005 Swap that constitute Termination Payments constitute Subordinate Obligations under the Indenture.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

Ambac Assurance Corporation has issued a financial guaranty insurance policy in regards to the issuance of the 2005A and 2005B Bonds. Ambac Assurance will pay the Bank of New York (or any successor) the portion of the principal and interest on the Bonds that become due and remain unpaid. The insurance will extend for the term of the Bonds and cannot be canceled.

Please see the disclosure under Commitments and Contingencies for additional information regarding the 2005A and 2005 B Bonds.

A description of individual long-term obligations outstanding at June 30, 2006 is as follows:

• **Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series A**

In September, 2005, the Adelanto Public Utility Authority issued \$55,615,000 of Variable Rate Refunding Revenue Bonds to advance refund \$30,670,000 of outstanding Revenue Bonds 2000 Series A and B. Interest on the 2005 Series A Revenue Bonds is payable initially on October 1, 2005, and monthly thereafter until November 1, 2034.

Net proceeds of approximately \$30.9 million (after payment of a \$436,578 underwriter's discount, \$1,254,983 in issuance costs, and \$3,308,384 to a reserve fund) plus an additional \$817,710 of 2000 Series A and B 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 2000 Series A and B Revenue Bonds. As a result, the 2000 Series A and B 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 \$20.5 million is to be used to finance improvements to both the Water and Wastewater Systems.

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:

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 2005 Bonds Series A and B is \$700,000. As of June 30, 2006, the total balance in the Rate Stabilization Fund was \$700,000 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 2005 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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

A description of individual long-term obligations outstanding at June 30, 2006 is as follows:
(Continued)

• **Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series A (Continued)**

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 2005 Series A Refunding Revenue Bonds at June 30, 2006 was \$55,615,000.

• **Adelanto Public Utility Authority Revenue Bonds, 2005 Series B**

In September, 2005, the Adelanto Public Utility Authority issued \$15,020,000 of Variable Rate Refunding Revenue Bonds (2005 Series B), approximately \$13.8 million, was used to advance refund \$13,655,000 of outstanding Revenue Bonds, 1990 Series C Bonds. Interest on the 2005 Series B Revenue Bonds is payable initially on October 1, 2005, and monthly thereafter through November 1, 2034.

The issuance resulted in net proceeds of approximately \$13.5 million (after payment of a \$117,907 underwriter's discount, \$495,356 in issuance costs, and \$971,711 in a reserve fund). Of the \$13.5 million in net proceeds and an additional \$300,696 in funds from prior bond reserve funds, \$13.8 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, to pay principal and interest on the 2000 Series C Revenue Bonds. As a result, the 2000 Series C Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

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 2005 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 2005 Series B Revenue Bonds at June 30, 2006 was \$15,020,000.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

A description of individual long-term obligations outstanding at June 30, 2006 is as follows:
(Continued)

• **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, 2005. 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.

These bonds were advance refunded through the issuance of the Adelanto Public Utility Authority Refunding Revenue Bonds Series 2005 A. As such the 2000 Bonds are considered to be defeased and the liability has been removed from the accompanying financial statements.

The outstanding balance on the 2000 Series A Revenue Bonds at June 30, 2006 was \$0.

• **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, 2005. 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.

These bonds were advance refunded through the issuance of the Adelanto Public Utility Authority Refunding Revenue Bonds Series 2005A. As such the 2000 bonds are considered to be defeased and the liability has been removed from the accompanying financial statements.

The outstanding balance on the 2000 Series B Revenue Bonds at June 30, 2006 was \$0.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

A description of individual long-term obligations outstanding at June 30, 2006 is as follows:
(Continued)

• **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, 2005. 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.

These bonds were advance refunded through the issuance of the Adelanto Public Utility Authority Refunding Revenue Bonds 2005 Series B. As such these bonds are considered to be defeased and the liability has been removed from the financial statements.

The outstanding balance on the 2000 Series C Revenue Bonds at June 30, 2006 was \$0.

• **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 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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

A description of individual long-term obligations outstanding at June 30, 2006 is as follows:
(Continued)

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

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, 2006 is \$4,435,000.

- **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 | 2005 Public Utility Bonds Series A | 2005 Public Utility Bonds Series B | Total |
|--------------------------------------|---|--|--|---------------|
| 2007 | 1,254,638 | \$ 2,035,509 | \$ 751,000 | \$ 4,041,147 |
| 2008 | 1,253,238 | 2,035,509 | 751,000 | 4,039,747 |
| 2009 | 1,251,800 | 3,255,509 | 1,051,000 | 5,558,309 |
| 2010 | 1,252,475 | 3,260,857 | 1,046,000 | 5,559,332 |
| 2011 | | 3,259,375 | 1,045,500 | 4,304,875 |
| 2012-2016 | | 16,322,608 | 5,193,750 | 21,516,358 |
| 2017-2021 | | 16,365,320 | 5,142,750 | 21,508,070 |
| 2022-2026 | | 16,417,853 | 5,083,000 | 21,500,853 |
| 2027-2031 | | 16,489,634 | 4,993,000 | 21,482,634 |
| 2032-2035 | | 13,238,744 | 3,930,250 | 17,168,994 |
| | 5,012,151 | 92,680,918 | 28,987,250 | 126,680,319 |
| Less amount representing interest | 577,151 | 37,065,918 | 13,967,250 | 51,610,319 |
| Balance outstanding | \$ 4,435,000 | \$ 55,615,000 | \$ 15,020,000 | \$ 75,070,000 |

- **Defeasance of Debt**

At June 30, 2006, the principal amount of defeased debt still outstanding was as follows:

| | | |
|------|------------------------|---------------|
| 1995 | Series A Revenue Bonds | \$ 23,330,000 |
| 1998 | Series A Revenue Bonds | 3,150,000 |
| | Total | \$ 26,480,000 |

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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. 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.

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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

b. General Litigation (Continued)

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 years 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, 2006.

At June 30, 2006, 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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

d. 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 2006. Such deferral aggregated \$8,573,138. 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.

e. California Department of Corrections

The California Department of Corrections has a dispute with the City and is currently in discussions regarding costs claimed by the California Department of Corrections.

f. Victorville Water District

The Victorville Water District has a dispute with the City and is currently in discussions regarding costs claims by the Victorville Water District.

g. Adelanto Public Utility Authority

On June 1, 2009, Ambac Assurance Corporation filed a lawsuit against the Adelanto Public Utility Authority (which is a component of the City) (Authority) in a federal district court in the Southern District of New York and is seeking \$4,524,000 in damages plus interest and fees, costs and other expenses incurred by Ambac relating to or resulting from the alleged breach of the Authority of the Swap Agreement. In September 2005, the Authority issued \$70,635,000 of variable rate refunding revenue bonds (2005 A and 2005 B-Utility System Project). In order to hedge the risk from the Bonds, the Authority also entered into an interest rate swap agreement with Piper Jaffray Financial Products Incorporated (Piper). Ambac issued a surety bond for the swap agreement. The surety bond stated that if the Authority did not make certain payments pursuant to the swap agreement, Ambac would make those payments. On November 5, 2008, Moody's Investors Service downgraded Ambac's credit rating. The swap agreement provided that it could be terminated early upon the occurrence of certain events and when such early termination occurs, Piper shall be paid a "termination payment" to compensate it for the termination. The downgrade of Ambac's credit rating eventually led Piper on June 1, 2009, to terminate the swap agreement and demand \$4,524,000 from the Authority as a termination payment. Ambac, as surety per the surety bond, paid Piper the \$4,524,000 on June 3, 2009. Ambac in its lawsuit now seeks repayment of this amount from the Authority. The APUA has brought a motion to either: 1) dismiss the case based upon the John Act and make Ambac refile the case in California state court; or 2) transfer the case to the federal district court in the Central District of California. The Authority is awaiting the Court's ruling.

The Authority is attempting to resolve the matter via settlement, but at this time Ambac has only offered to settle the case for the full amount it has demanded and a full release of

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

g. Adelanto Public Utility Authority (Continued)

any liability against Ambac. The Authority has rejected the settlement offer. Although it is likely that Ambac could prevail on the simple contract argument that the Authority must make the termination payment, there are potential counterarguments as to the validity of the obligation and the priority of payment as compared to other Authority obligations and; hence, whether and when the termination payment is payable. Furthermore, the Authority believes that the actions of Ambac have damaged the Authority. The Authority has hired a financial advisor who prepared an analysis that demonstrates that the Authority has been damaged between \$5.7 and \$7.1 million as a result of higher interest paid by the Authority due to Ambac being downgraded and the Authority intends to bring a counterclaim against Ambac and potentially other parties regarding the overall transaction. Therefore, the final amount either due or owing the Authority in this matter is as of yet undetermined. It is still hoped that the parties reach an overall settlement of the matter. (this information was obtained from legal correspondence from the City of Adelanto's Attorney).

Note 12 **Proposition 218**

Proposition 218, which was approved by the voters in November 1996, will regulate the City's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

Note 13 **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.

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. As of June 30, 2006 the balance outstanding was \$10,479,040.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 14 **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, 2006 was 7.535%.

Annual Pension Cost

For the fiscal year ended June 30, 2006, the City's annual pension cost (employer contribution) of \$331,366 for employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, 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 13.15%, 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> |
|--------------------|--|--|-----------------------------------|
| 6/30/2004 | \$ 302,113 | 100% | \$ - |
| 6/30/2005 | 303,806 | 100% | - |
| 6/30/2006 | 331,366 | 100% | - |

Note 15 **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.

CITY OF ADELANTO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 16 **Subsequent Events**

On August 8, 2007 the City established the Adelanto Community Facilities District No. 2006-2 to designate two improvement areas to make environmental findings, to establish an appropriations limit, to authorize the levy of special taxes, and to submit the establishment of an appropriations limit and the levy of special taxes.

On December 4, 2007, the Redevelopment Agency issued the 2007 Tax Allocation Bonds in the amount of \$3,560,000. The bonds were issued for the purpose of (i) funding redevelopment projects of the Redevelopment Agency, (ii) funding the reserve requirement, and (iii) paying the costs of issuance on the bonds. The bonds are payable from and secured by the tax revenues allocated to the Redevelopment Agency from the project area. The bonds are being issued for sale to the Adelanto Public Financing Authority and the Authority will resell the bonds to the underwriter.

Note 17 **Prior Period Adjustments**

Government-wide statements

Governmental activities

| | |
|---|---------------------|
| Overstatement of notes receivable in prior year | \$ (340,112) |
| Understatement of land held for resale | 41,386 |
| | <u>\$ (298,726)</u> |

Fund financial statements

| | |
|--|------------------|
| Understatement of land held for resale | <u>\$ 41,386</u> |
|--|------------------|

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|-----------------------------------|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes and assessments | \$ 2,023,000 | \$ 2,023,000 | \$ 3,942,881 | \$ 1,919,881 |
| Licenses and permits | 1,960,800 | 1,960,800 | 1,226,872 | (733,928) |
| Fines, forfeitures, and penalties | 79,000 | 79,000 | 101,225 | 22,225 |
| Investment earnings | | | 1,363,390 | 1,363,390 |
| Intergovernmental revenue | 2,401,000 | 2,401,000 | 1,307,095 | (1,093,905) |
| Charges for current services | 583,300 | 583,300 | 1,904,995 | 1,321,695 |
| Other revenues | 12,000 | 12,000 | 214,885 | 202,885 |
| Total revenues | 7,059,100 | 7,059,100 | 10,061,343 | 3,002,243 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| City council | 90,740 | 90,740 | 93,884 | (3,144) |
| City manager | 303,970 | 303,970 | 308,434 | (4,464) |
| City clerk | 97,874 | 97,874 | 90,914 | 6,960 |
| Finance | 186,125 | 186,125 | 184,795 | 1,330 |
| City attorney | 250,000 | 250,000 | 359,285 | (109,285) |
| Non-departmental | 715,432 | 715,432 | 1,130,517 | (415,085) |
| Total general government | 1,644,141 | 1,644,141 | 2,167,829 | (523,688) |
| Public safety: | | | | |
| Police | 3,616,000 | 3,616,000 | 3,812,820 | (196,820) |
| Fire | 1,824,000 | 1,824,000 | 1,885,623 | (61,623) |
| Code enforcement | 277,260 | 277,260 | 251,132 | 26,128 |
| Animal control | 133,981 | 133,981 | 122,428 | 11,553 |
| Total public safety | 5,851,241 | 5,851,241 | 6,072,003 | (220,762) |
| Public works: | | | | |
| Street maintenance | 707,900 | 707,900 | 701,738 | 6,162 |
| Engineering and other | 466,569 | 466,569 | 1,023,908 | (557,339) |
| Building and safety | 453,273 | 453,273 | 437,232 | 16,041 |
| Vehicle maintenance | 71,256 | 71,256 | 74,840 | (3,584) |
| Total public works | 1,698,998 | 1,698,998 | 2,237,718 | (538,720) |
| Community development | 764,381 | 764,381 | 830,924 | (66,543) |

(Continued)

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006
(Continued)

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Parks and recreation | | | | |
| Senior Center | \$ 16,500 | \$ 16,500 | \$ 17,128 | \$ (628) |
| Community Center | 14,800 | 14,800 | 22,992 | (8,192) |
| Parks and grounds | <u>69,696</u> | <u>69,696</u> | <u>72,637</u> | <u>(2,941)</u> |
| Total parks and recreation | <u>100,996</u> | <u>100,996</u> | <u>112,757</u> | <u>(11,761)</u> |
| Capital outlay | <u>246,500</u> | <u>246,500</u> | <u>211,863</u> | <u>34,637</u> |
| Debt service: | | | | |
| Interest and other charges | <u>30,000</u> | <u>30,000</u> | <u>48,127</u> | <u>(18,127)</u> |
| Total expenditures | <u>10,336,257</u> | <u>10,336,257</u> | <u>11,681,221</u> | <u>(1,344,964)</u> |
| Excess of revenues over (under) expenditures | <u>(3,277,157)</u> | <u>(3,277,157)</u> | <u>(1,619,878)</u> | <u>1,657,279</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 3,658,000 | 3,658,000 | 1,991,949 | (1,666,051) |
| Transfers out | | | (361) | (361) |
| Total other financing sources (uses) | <u>3,658,000</u> | <u>3,658,000</u> | <u>1,991,588</u> | <u>(1,666,412)</u> |
| Net Change in Fund Balance | 380,843 | 380,843 | 371,710 | (9,133) |
| Fund balance (deficit) - July 1, 2005 | <u>(1,145,361)</u> | <u>(1,145,361)</u> | <u>(1,145,361)</u> | |
| Fund balance (deficit) - June 30, 2006 | <u>\$ (764,518)</u> | <u>\$ (764,518)</u> | <u>\$ (773,651)</u> | <u>\$ (9,133)</u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SANITATION SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|----------------------------|----------------------------|--------------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Investment earnings | \$ 400 | \$ 400 | \$ 660 | \$ 260 |
| Charges for current services | 1,933,000 | 1,933,000 | 2,493,402 | 560,402 |
| Total revenues | <u>1,933,400</u> | <u>1,933,400</u> | <u>2,494,062</u> | <u>560,662</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | 1,878,200 | 1,878,200 | 2,468,802 | (590,602) |
| Total expenditures | <u>1,878,200</u> | <u>1,878,200</u> | <u>2,468,802</u> | <u>(590,602)</u> |
| Excess of revenues over (under) expenditures | <u>55,200</u> | <u>55,200</u> | <u>25,260</u> | <u>(29,940)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (150,000) | (150,000) | | 150,000 |
| Total other financing sources (uses) | <u>(150,000)</u> | <u>(150,000)</u> | | <u>150,000</u> |
| Net Change in Fund Balance | (94,800) | (94,800) | 25,260 | 120,060 |
| Fund balance (deficit) - July 1, 2005 | <u>(29,969)</u> | <u>(29,969)</u> | <u>(29,969)</u> | |
| Fund balance (deficit) - June 30, 2006 | <u><u>\$ (124,769)</u></u> | <u><u>\$ (124,769)</u></u> | <u><u>\$ (4,709)</u></u> | <u><u>\$ 120,060</u></u> |

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, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Taxes | \$ 3,800,000 | \$ 3,800,000 | \$ 3,881,469 | \$ 81,469 |
| Investment earnings | 160,000 | 160,000 | 256,148 | 96,148 |
| Total revenues | <u>3,960,000</u> | <u>3,960,000</u> | <u>4,137,617</u> | <u>177,617</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Pass-through payments | 130,000 | 130,000 | 129,382 | 618 |
| Debt service: | | | | |
| Principal retirement | 3,500,000 | 3,500,000 | 1,791,381 | 1,708,619 |
| Interest and other charges | | | 4,821,029 | (4,821,029) |
| Total expenditures | <u>3,630,000</u> | <u>3,630,000</u> | <u>6,741,792</u> | <u>(3,111,792)</u> |
| Excess of revenues over (under) expenditures | <u>330,000</u> | <u>330,000</u> | <u>(2,604,175)</u> | <u>(2,934,175)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from loans and capital accretions | | | 2,859,405 | 2,859,405 |
| Transfer out | (100,000) | (100,000) | (100,000) | |
| Total other financing sources (uses) | <u>(100,000)</u> | <u>(100,000)</u> | <u>2,759,405</u> | <u>2,859,405</u> |
| Net Change in Fund Balance | 230,000 | 230,000 | 155,230 | (74,770) |
| Fund balance - July 1, 2005 | <u>5,654,401</u> | <u>5,654,401</u> | <u>5,654,401</u> | |
| Fund balance - June 30, 2006 | <u>\$ 5,884,401</u> | <u>\$ 5,884,401</u> | <u>\$ 5,809,631</u> | <u>\$ (74,770)</u> |

**CITY OF ADELANTO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006**

| | Special Revenue Funds | | | | |
|--|-----------------------|---------------------|---|---------------------|-------------------------------------|
| | Gas Tax Street | Measure "I" | Community Development Block Grant | Special Park | Community Facilities District |
| ASSETS | | | | | |
| Cash and investments | \$ 436,053 | \$ 1,935,736 | \$ - | \$ 1,452,209 | \$ 240,488 |
| Accounts receivable - net | 76,176 | 1,430,194 | | | |
| Interest receivable | | 7,878 | | | |
| Due from other funds | | | | | |
| Notes receivable | | | | | |
| Land held for resale | | | | | |
| Total assets | <u>\$ 512,229</u> | <u>\$ 3,373,808</u> | <u>\$ -</u> | <u>\$ 1,452,209</u> | <u>\$ 240,488</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ - | \$ 133,020 | \$ - | \$ - | \$ 20,593 |
| Accrued expenditures | | | | | |
| Deposit payable | | | | | 240,000 |
| Due to other funds | | | | | |
| Deferred revenue | 115,054 | | | | |
| Advances payable | | | | | |
| Total Liabilities | <u>115,054</u> | <u>133,020</u> | | | <u>260,593</u> |
| Fund Balances: | | | | | |
| Reserved: | | | | | |
| Land held for resale | | | | | |
| Debt service | | | | | |
| Unreserved: | | | | | |
| Designated for special revenue purposes | 397,175 | 3,240,788 | | 1,452,209 | |
| Undesignated | | | | | (20,105) |
| Total fund balances | <u>397,175</u> | <u>3,240,788</u> | | <u>1,452,209</u> | <u>(20,105)</u> |
| Total liabilities and fund balances | <u>\$ 512,229</u> | <u>\$ 3,373,808</u> | <u>\$ -</u> | <u>\$ 1,452,209</u> | <u>\$ 240,488</u> |

Special Revenue Funds

| Maverick Stadium | Traffic Offender | TDA Article 8 | Asset Forfeiture State | Redevelopment Agency Project Area 3 Housing Set-Aside | Drainage Impact |
|------------------------------------|------------------|-------------------|------------------------|---|---------------------|
| \$ - 37,332 | \$ 6,209 | \$ 275,795 | \$ 100,089 | \$ 56,098 | \$ 1,461,047 |
| <u>\$ 37,332</u> | <u>\$ 6,209</u> | <u>\$ 275,795</u> | <u>\$ 100,089</u> | <u>\$ 56,098</u> | <u>\$ 1,461,047</u> |
| \$ 8,498 1,361 1,974,004 | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>1,983,863</u> | | | | | |
| (1,946,531) | 6,209 | 275,795 | 100,089 | 56,098 | 1,461,047 |
| <u>(1,946,531)</u> | <u>6,209</u> | <u>275,795</u> | <u>100,089</u> | <u>56,098</u> | <u>1,461,047</u> |
| <u>\$ 37,332</u> | <u>\$ 6,209</u> | <u>\$ 275,795</u> | <u>\$ 100,089</u> | <u>\$ 56,098</u> | <u>\$ 1,461,047</u> |

(Continued)

**CITY OF ADELANTO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006
(Continued)**

| | Special Revenue Funds | | | | |
|--|----------------------------------|------------------|-------------------|-----------------------------------|--------------------|
| | Asset Forfeiture Education | Public Safety | FEMA/ OES | California AB Distributions | LLMD Annexation |
| ASSETS | | | | | |
| Cash and investments | \$ 51,930 | \$ 23,497 | \$ 179,454 | \$ 53,975 | \$ (25,810) |
| Accounts receivable - net | | | | 8,403 | |
| Interest receivable | | | | | |
| Due from other funds | | | | | |
| Notes receivable | | | | | |
| Land held for resale | | | | | |
| Total assets | <u>\$ 51,930</u> | <u>\$ 23,497</u> | <u>\$ 179,454</u> | <u>\$ 62,378</u> | <u>\$ (25,810)</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 86 | \$ - | \$ 45,530 | \$ - | \$ - |
| Accrued expenditures | | | | | |
| Deposit payable | | | | | |
| Due to other funds | | | | | |
| Deferred revenue | | | | | |
| Advances payable | | | | | |
| Total Liabilities | <u>86</u> | | <u>45,530</u> | | |
| Fund Balances: | | | | | |
| Reserved: | | | | | |
| Land held for resale | | | | | |
| Debt service | | | | | |
| Unreserved: | | | | | |
| Designated for special revenue purposes | 51,844 | | 133,924 | | |
| Undesignated | | 23,497 | | 62,378 | (25,810) |
| Total fund balances | <u>51,844</u> | <u>23,497</u> | <u>133,924</u> | <u>62,378</u> | <u>(25,810)</u> |
| Total liabilities and fund balances | <u>\$ 51,930</u> | <u>\$ 23,497</u> | <u>\$ 179,454</u> | <u>\$ 62,378</u> | <u>\$ (25,810)</u> |

| Special Revenue Funds | | | Capital Projects Funds | | | Totals |
|-----------------------|-------------------|------------------|------------------------|-------------------------------------|--|----------------------|
| Transit | COPS Grant | CLEEP | Redevelopment Agency | Redevelopment Agency Project Area 3 | Redevelopment Agency Project Area 3 Debt Service | |
| \$ 5,499 | \$ 104,326 | \$ 23,205 | \$ 747,436 | \$ 225,469 | \$ 179,198 | \$ 7,531,903 |
| | | | 72,600 | | | 1,624,705 |
| | | | 582,910 | | | 7,878 |
| | | | 1,454,465 | | | 582,910 |
| | | | 1,586,354 | | | 1,454,465 |
| | | | | | | 1,586,354 |
| <u>\$ 5,499</u> | <u>\$ 104,326</u> | <u>\$ 23,205</u> | <u>\$ 4,443,765</u> | <u>\$ 225,469</u> | <u>\$ 179,198</u> | <u>\$ 12,788,215</u> |
| \$ - | \$ - | \$ 711 | \$ 30,734 | \$ - | \$ - | \$ 239,172 |
| | | | 850 | | | 1,361 |
| | | | 558,725 | | | 240,850 |
| | | | 1,454,465 | | | 2,532,729 |
| | | | 1,924,243 | 400,000 | | 1,569,519 |
| | | | | | | 2,324,243 |
| | | 711 | 3,969,017 | 400,000 | | 6,907,874 |
| | | | 1,586,354 | | | 1,586,354 |
| | | | | | 179,198 | 179,198 |
| | 104,326 | 22,494 | | | | 7,301,998 |
| 5,499 | | | (1,111,606) | (174,531) | | (3,187,209) |
| 5,499 | 104,326 | 22,494 | 474,748 | (174,531) | 179,198 | 5,880,341 |
| <u>\$ 5,499</u> | <u>\$ 104,326</u> | <u>\$ 23,205</u> | <u>\$ 4,443,765</u> | <u>\$ 225,469</u> | <u>\$ 179,198</u> | <u>\$ 12,788,215</u> |

CITY OF ADELANTO
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

| | Special Revenue Funds | | | | |
|---|-----------------------|---------------------|---|---------------------|-------------------------------------|
| | Gas Tax Street | Measure "I" | Community Development Block Grant | Special Park | Community Facilities District |
| REVENUES | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and permits | | | | 1,040,593 | |
| Fines, forfeitures, and penalties | | | | | |
| Investment earnings | 6,831 | 96,517 | | 10,286 | 488 |
| Charges for current services | | | | | |
| Intergovernmental revenue | 542,431 | 2,104,500 | | | |
| Total revenues | <u>549,262</u> | <u>2,201,017</u> | | <u>1,050,879</u> | <u>488</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | | | | | |
| Public safety | | | | | |
| Public works | | 485,342 | | | |
| Community development | | | 361 | | 20,593 |
| Parks and grounds | | | | | |
| Capital outlay | | 2,275,068 | | | |
| Total expenditures | | <u>2,760,410</u> | <u>361</u> | | <u>20,593</u> |
| Excess of revenues over (under) expenditures | <u>549,262</u> | <u>(559,393)</u> | <u>(361)</u> | <u>1,050,879</u> | <u>(20,105)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | | 361 | | |
| Transfers out | (460,000) | (35,000) | | | |
| Total other financing sources (uses) | <u>(460,000)</u> | <u>(35,000)</u> | <u>361</u> | | |
| Net Change in Fund Balances | <u>89,262</u> | <u>(594,393)</u> | | <u>1,050,879</u> | <u>(20,105)</u> |
| Fund balances - July 1, 2005 | 307,913 | 3,835,181 | | 401,330 | |
| Prior period adjustments | | | | | |
| Fund balances - July 1, 2005, restated | <u>307,913</u> | <u>3,835,181</u> | | <u>401,330</u> | |
| Fund balances - June 30, 2006 | <u>\$ 397,175</u> | <u>\$ 3,240,788</u> | <u>\$ -</u> | <u>\$ 1,452,209</u> | <u>\$ (20,105)</u> |

Special Revenue Funds

| Maverick Stadium | Traffic Offender | TDA Article 8 | Asset Forfeiture State | Redevelopment Agency Project Area 3 Housing Set-Aside | Drainage Impact |
|-----------------------|------------------|-------------------|------------------------|---|---------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 38,505 | \$ - |
| | 20,238 | | | | 1,388,371 |
| 73,932 | 1,096 | 3,831 | 1,755 | | 8,429 |
| 21,559 | | 268,650 | | | |
| <u>95,491</u> | <u>21,334</u> | <u>272,481</u> | <u>1,755</u> | <u>38,505</u> | <u>1,396,800</u> |
| | 146 | | | | |
| 173,742 | | | | | |
| 3,700 | | 167,859 | | | |
| <u>177,442</u> | <u>146</u> | <u>167,859</u> | | | |
| (81,951) | 21,188 | 104,622 | 1,755 | 38,505 | 1,396,800 |
| | (30,000) | (225,000) | (25,000) | | |
| | (30,000) | (225,000) | (25,000) | | |
| (81,951) | (8,812) | (120,378) | (23,245) | 38,505 | 1,396,800 |
| (1,864,580) | 15,021 | 396,173 | 123,334 | 17,593 | 64,247 |
| <u>(1,864,580)</u> | <u>15,021</u> | <u>396,173</u> | <u>123,334</u> | <u>17,593</u> | <u>64,247</u> |
| <u>\$ (1,946,531)</u> | <u>\$ 6,209</u> | <u>\$ 275,795</u> | <u>\$ 100,089</u> | <u>\$ 56,098</u> | <u>\$ 1,461,047</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, 2006
(Continued)

| | Special Revenue Funds | | | | |
|---|----------------------------------|------------------|-------------------|-----------------------------------|--------------------|
| | Asset Forfeiture Education | Public Safety | FEMA/ OES | California AB Distributions | LLMD Annexation |
| REVENUES | | | | | |
| Taxes | \$ - | \$ 113,497 | \$ - | \$ - | \$ - |
| Licenses and permits | | | | | |
| Fines, forfeitures, and penalties | | | | | |
| Investment earnings | 571 | | 1,846 | 544 | |
| Charges for current services | | | | | 33,000 |
| Intergovernmental revenue | | | 249,811 | 15,865 | |
| Other revenues | | | | | |
| Total revenues | <u>571</u> | <u>113,497</u> | <u>251,657</u> | <u>16,409</u> | <u>33,000</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | | | | | |
| Public safety | 86 | | 72,203 | | |
| Public works | | | | 6,271 | |
| Community development | | | | | 58,810 |
| Parks and grounds | | | | | |
| Capital outlay | | | 45,530 | | |
| Debt service: | | | | | |
| Interest and other charges | | | | | |
| Total expenditures | <u>86</u> | | <u>117,733</u> | <u>6,271</u> | <u>58,810</u> |
| Excess of revenues over (under) expenditures | <u>485</u> | <u>113,497</u> | <u>133,924</u> | <u>10,138</u> | <u>(25,810)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | | | | |
| Transfers out | | (90,000) | | | |
| Total other financing sources (uses) | | <u>(90,000)</u> | | | |
| Net Change in Fund Balances | <u>485</u> | <u>23,497</u> | <u>133,924</u> | <u>10,138</u> | <u>(25,810)</u> |
| Fund balances - July 1, 2005 | 51,359 | | | 52,240 | |
| Prior period adjustments | | | | | |
| Fund balances - July 1, 2005, restated | <u>51,359</u> | | | <u>52,240</u> | |
| Fund balances - June 30, 2006 | <u>\$ 51,844</u> | <u>\$ 23,497</u> | <u>\$ 133,924</u> | <u>\$ 62,378</u> | <u>\$ (25,810)</u> |

| Special Revenue Funds | | | Capital Projects Funds | | | Redevelopment Agency Project Area 3 Debt Service | Totals |
|-----------------------|------------|-----------|------------------------|-------------------------------------|------------|--|--------|
| Transit | COPS Grant | CLEEP | Redevelopment Agency | Redevelopment Agency Project Area 3 | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 154,019 | \$ 306,021 | |
| | | | | | | 2,428,964 | |
| 4,754 | 1,520 | 267 | 425,825 | 657 | | 20,238 | |
| | 100,763 | | | | | 639,149 | |
| 1,201 | | | | | | 54,559 | |
| | | | | | | 3,282,020 | |
| 5,955 | 102,283 | 267 | 425,825 | 657 | 154,019 | 1,201 | |
| | | | | | | 6,732,152 | |
| | | | 98,691 | 50,000 | | 148,691 | |
| 35,456 | | 2,955 | | | | 75,390 | |
| | | | 272,058 | 72 | | 527,069 | |
| | | | | | | 351,894 | |
| | | | | | | 173,742 | |
| | | | | | | 2,492,157 | |
| | | | | | 44,978 | 44,978 | |
| 35,456 | | 2,955 | 370,749 | 50,072 | 44,978 | 3,813,921 | |
| (29,501) | 102,283 | (2,688) | 55,076 | (49,415) | 109,041 | 2,918,231 | |
| 35,000 | | | 100,000 | | | 135,361 | |
| | (100,000) | | | | | (965,000) | |
| 35,000 | (100,000) | | 100,000 | | | (829,639) | |
| 5,499 | 2,283 | (2,688) | 155,076 | (49,415) | 109,041 | 2,088,592 | |
| | 102,043 | 25,182 | 278,286 | (125,116) | 70,157 | 3,750,363 | |
| | | | 41,386 | | | 41,386 | |
| | 102,043 | 25,182 | 319,672 | (125,116) | 70,157 | 3,791,749 | |
| \$ 5,499 | \$ 104,326 | \$ 22,494 | \$ 474,748 | \$ (174,531) | \$ 179,198 | \$ 5,880,341 | |

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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 300 | \$ 6,831 | \$ 6,531 |
| Intergovernmental revenue | 409,000 | 542,431 | 133,431 |
| Total revenues | 409,300 | 549,262 | 139,962 |
| Excess of revenues over (under) expenditures | 409,300 | 549,262 | 139,962 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | (460,000) | (460,000) | |
| Total other financing sources (uses) | (460,000) | (460,000) | |
| Net Change in Fund Balance | (50,700) | 89,262 | 139,962 |
| Fund balance - July 1, 2005 | 307,913 | 307,913 | |
| Fund balance - June 30, 2006 | <u>\$ 257,213</u> | <u>\$ 397,175</u> | <u>\$ 139,962</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|--------------------|---------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 61,000 | \$ 96,517 | \$ 35,517 |
| Intergovernmental revenue | 3,497,000 | 2,104,500 | (1,392,500) |
| Total revenues | <u>3,558,000</u> | <u>2,201,017</u> | <u>(1,356,983)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public works | 90,000 | 485,342 | (395,342) |
| Capital outlay | 6,575,000 | 2,275,068 | 4,299,932 |
| Total expenditures | <u>6,665,000</u> | <u>2,760,410</u> | <u>3,904,590</u> |
| Excess of revenues over (under) expenditures | <u>(3,107,000)</u> | <u>(559,393)</u> | <u>2,547,607</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 50,000 | | (50,000) |
| Transfers out | (50,000) | (35,000) | 15,000 |
| Total other financing sources (uses) | <u></u> | <u>(35,000)</u> | <u>(35,000)</u> |
| Net Change in Fund Balance | (3,107,000) | (594,393) | 2,512,607 |
| Fund balance - July 1, 2005 | <u>3,835,181</u> | <u>3,835,181</u> | <u></u> |
| Fund balance - June 30, 2006 | <u>\$ 728,181</u> | <u>\$ 3,240,788</u> | <u>\$ 2,512,607</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-----------------|------------------|---|
| REVENUES | | | |
| Intergovernmental revenue | \$ 251,000 | \$ - | \$ (251,000) |
| Total revenues | 251,000 | | (251,000) |
| EXPENDITURES | | | |
| Current: | | | |
| Community development | | 361 | (361) |
| Capital outlay | 251,000 | | 251,000 |
| Total expenditures | 251,000 | 361 | 250,639 |
| Excess of revenues over (under) expenditures | | (361) | (361) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | | 361 | 361 |
| Total other financing sources (uses) | | 361 | 361 |
| Net Change in Fund Balance | | | |
| Fund balance - July 1, 2005 | | | |
| Fund balance - June 30, 2006 | \$ - | \$ - | \$ - |

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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---------------------------------------|---------------------|---------------------|---|
| REVENUES | | | |
| Licenses and permits | \$ 2,000,000 | \$ 1,040,593 | \$ (959,407) |
| Investment earnings | 1,000 | 10,286 | 9,286 |
| Intergovernmental revenue | 411,502 | | (411,502) |
| Total revenues | <u>2,412,502</u> | <u>1,050,879</u> | <u>(1,361,623)</u> |
| EXPENDITURES | | | |
| Capital outlay | <u>1,476,502</u> | | <u>1,476,502</u> |
| Total expenditures | <u>1,476,502</u> | | <u>1,476,502</u> |
| Net Change in Fund Balance | <u>936,000</u> | <u>1,050,879</u> | <u>114,879</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | <u>85,000</u> | | <u>(85,000)</u> |
| Total other financing sources (uses) | <u>85,000</u> | | <u>(85,000)</u> |
| Net change in Fund Balance | 1,021,000 | 1,050,879 | 29,879 |
| Fund balance - July 1, 2005 | <u>401,330</u> | <u>401,330</u> | |
| Fund balance - June 30, 2006 | <u>\$ 1,422,330</u> | <u>\$ 1,452,209</u> | <u>\$ 29,879</u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY FACILITIES DISTRICT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|-----------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ - | \$ 488 | \$ 488 |
| Total revenues | | 488 | 488 |
| EXPENDITURES | | | |
| Current: | | | |
| Community development | | 20,593 | (20,593) |
| Total expenditures | | 20,593 | (20,593) |
| Net Change in Fund Balance | | (20,105) | (20,105) |
| Fund balance - July 1, 2005 | | | |
| Fund balance - June 30, 2006 | \$ - | \$ (20,105) | \$ (20,105) |

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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|--|------------------------------|------------------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 73,200 | \$ 73,932 | \$ 732 |
| Charges for current services | 45,000 | 21,559 | (23,441) |
| Total revenues | <u>118,200</u> | <u>95,491</u> | <u>(22,709)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Parks and grounds | 178,802 | 173,742 | 5,060 |
| Capital outlay | 20,000 | 3,700 | 16,300 |
| Total expenditures | <u>198,802</u> | <u>177,442</u> | <u>21,360</u> |
| Net Change in Fund Balance | (80,602) | (81,951) | (1,349) |
| Fund balance (deficit) - July 1, 2005 | <u>(1,864,580)</u> | <u>(1,864,580)</u> | |
| Fund balance (deficit) - June 30, 2006 | <u><u>\$ (1,945,182)</u></u> | <u><u>\$ (1,946,531)</u></u> | <u><u>\$ (1,349)</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-------------------|------------------|---|
| REVENUES | | | |
| Fine, forfeitures, and penalties | \$ 26,000 | \$ 20,238 | \$ (5,762) |
| Investment earnings | 500 | 1,096 | 596 |
| Total revenues | <u>26,500</u> | <u>21,334</u> | <u>(5,166)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public safety | | 146 | (146) |
| Total expenditures | | <u>146</u> | <u>(146)</u> |
| Excess of revenues over (under) expenditures | <u>26,500</u> | <u>21,188</u> | <u>(5,312)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | <u>(30,000)</u> | <u>(30,000)</u> | |
| Total other financing sources (uses) | <u>(30,000)</u> | <u>(30,000)</u> | |
| Net Change in Fund Balance | (3,500) | (8,812) | (5,312) |
| Fund balance - July 1, 2005 | | <u>15,021</u> | <u>15,021</u> |
| Fund balance - June 30, 2006 | <u>\$ (3,500)</u> | <u>\$ 6,209</u> | <u>\$ 9,709</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-----------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 3,000 | \$ 3,831 | \$ 831 |
| Intergovernmental revenue | 200,000 | 268,650 | 68,650 |
| Total revenues | 203,000 | 272,481 | 69,481 |
| EXPENDITURES | | | |
| Capital outlay | 165,000 | 167,859 | (2,859) |
| Total expenditures | 165,000 | 167,859 | (2,859) |
| Excess of revenues over (under) expenditures | 38,000 | 104,622 | 66,622 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | (225,000) | (225,000) | |
| Total other financing sources (uses) | (225,000) | (225,000) | |
| Net Change in Fund Balance | (187,000) | (120,378) | 66,622 |
| Fund balance - July 1, 2005 | 396,173 | 396,173 | |
| Fund balance - June 30, 2006 | \$ 209,173 | \$ 275,795 | \$ 66,622 |

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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|------------------|-------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 1,000 | \$ 1,755 | \$ 755 |
| Total revenues | <u>1,000</u> | <u>1,755</u> | <u>755</u> |
| Excess of revenues over (under) expenditures | <u>1,000</u> | <u>1,755</u> | <u>755</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | <u>(50,000)</u> | <u>(25,000)</u> | <u>25,000</u> |
| Total other financing sources (uses) | <u>(50,000)</u> | <u>(25,000)</u> | <u>25,000</u> |
| Net Change in Fund Balance | (49,000) | (23,245) | 25,755 |
| Fund balance - July 1, 2005 | <u>123,334</u> | <u>123,334</u> | |
| Fund balance - June 30, 2006 | <u>\$ 74,334</u> | <u>\$ 100,089</u> | <u>\$ 25,755</u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY PROJECT AREA 3 HOUSING SET A-SIDE
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|------------------|------------------|---|
| REVENUES | | | |
| Taxes | \$ 6,000 | \$ 38,505 | \$ 32,505 |
| Total revenues | <u>6,000</u> | <u>38,505</u> | <u>32,505</u> |
| Net Change in Fund Balance | 6,000 | 38,505 | 32,505 |
| Fund balance - July 1, 2005 | <u>17,593</u> | <u>17,593</u> | |
| Fund balance - June 30, 2006 | <u>\$ 23,593</u> | <u>\$ 56,098</u> | <u>\$ 32,505</u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DRAINAGE IMPACT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|--|-------------------|---------------------|---|
| REVENUES | | | |
| Licenses and permits | \$ 2,300,000 | \$ 1,388,371 | \$ (911,629) |
| Investment earnings | 10,000 | 8,429 | (1,571) |
| Total revenues | <u>2,310,000</u> | <u>1,396,800</u> | <u>(913,200)</u> |
| EXPENDITURES | | | |
| Capital outlay | 1,500,000 | | 1,500,000 |
| Total expenditures | <u>1,500,000</u> | | <u>1,500,000</u> |
| Excess of revenues over (under) expenditures | <u>810,000</u> | <u>1,396,800</u> | <u>586,800</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | (20,000) | | 20,000 |
| Total other financing sources (uses) | <u>(20,000)</u> | | <u>20,000</u> |
| Net Change in Fund Balance | 790,000 | 1,396,800 | 606,800 |
| Fund balance - July 1, 2005 | <u>64,247</u> | <u>64,247</u> | |
| Fund balance - June 30, 2006 | <u>\$ 854,247</u> | <u>\$ 1,461,047</u> | <u>\$ 606,800</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|------------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 200 | \$ 571 | \$ 371 |
| Total revenues | <u>200</u> | <u>571</u> | <u>371</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public safety | 10,000 | 86 | 9,914 |
| Total expenditures | <u>10,000</u> | <u>86</u> | <u>9,914</u> |
| Net Change in Fund Balance | (9,800) | 485 | 10,285 |
| Fund balance - July 1, 2005 | <u>51,359</u> | <u>51,359</u> | |
| Fund balance - June 30, 2006 | <u>\$ 41,559</u> | <u>\$ 51,844</u> | <u>\$ 10,285</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-----------------|------------------|---|
| REVENUES | | | |
| Taxes | \$ 90,000 | \$ 113,497 | \$ 23,497 |
| Total revenues | <u>90,000</u> | <u>113,497</u> | <u>23,497</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | <u>(90,000)</u> | <u>(90,000)</u> | |
| Total other financing sources (uses) | <u>(90,000)</u> | <u>(90,000)</u> | |
| Net Change in Fund Balance | | 23,497 | 23,497 |
| Fund balance - July 1, 2005 | | | |
| Fund balance - June 30, 2006 | <u>\$ -</u> | <u>\$ 23,497</u> | <u>\$ 23,497</u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FEMA/OES SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|-----------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ - | \$ 1,846 | \$ 1,846 |
| Intergovernmental revenue | | 249,811 | 249,811 |
| Total revenues | | 251,657 | 251,657 |
| EXPENDITURES | | | |
| Current: | | | |
| Public safety | | 72,203 | (72,203) |
| Capital outlay | | 45,530 | (45,530) |
| Total expenditures | | 117,733 | (117,733) |
| Net Change in Fund Balance | | 133,924 | 133,924 |
| Fund balance - July 1, 2005 | | | |
| Fund balance - June 30, 2006 | \$ - | \$ 133,924 | \$ 133,924 |

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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-----------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 100 | \$ 544 | \$ 444 |
| Intergovernmental revenue | 12,000 | 15,865 | 3,865 |
| Total revenues | <u>12,100</u> | <u>16,409</u> | <u>4,309</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public works | 4,800 | 6,271 | (1,471) |
| Total expenditures | <u>4,800</u> | <u>6,271</u> | <u>(1,471)</u> |
| Excess of revenues over (under) expenditures | <u>7,300</u> | <u>10,138</u> | <u>2,838</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | <u>(50,000)</u> | | <u>50,000</u> |
| Total other financing sources (uses) | <u>(50,000)</u> | | <u>50,000</u> |
| Net Change in Fund Balance | (42,700) | 10,138 | 52,838 |
| Fund balance - July 1, 2005 | <u>52,240</u> | <u>52,240</u> | |
| Fund balance - June 30, 2006 | <u>\$ 9,540</u> | <u>\$ 62,378</u> | <u>\$ 52,838</u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LLMD ANNEXATION SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|-----------------|------------------|---|
| REVENUES | | | |
| Charges for current services | \$ - | \$ 33,000 | \$ 33,000 |
| Total revenues | | 33,000 | 33,000 |
| EXPENDITURES | | | |
| Current: | | | |
| Community development | | 58,810 | (58,810) |
| Total expenditures | | 58,810 | (58,810) |
| Net Change in Fund Balance | | (25,810) | (25,810) |
| Fund balance - July 1, 2005 | | | |
| Fund balance - June 30, 2006 | \$ - | \$ (25,810) | \$ (25,810) |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TRANSIT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-----------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ - | \$ 4,754 | \$ 4,754 |
| Other revenues | | 1,201 | 1,201 |
| Total revenues | | 5,955 | 5,955 |
| EXPENDITURES | | | |
| Current: | | | |
| Public works | 35,000 | 35,456 | (456) |
| Total expenditures | 35,000 | 35,456 | (456) |
| Excess of revenues over (under) expenditures | (35,000) | (29,501) | 5,499 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 35,000 | 35,000 | |
| Total other financing sources (uses) | 35,000 | 35,000 | |
| Net Change in Fund Balance | | 5,499 | 5,499 |
| Fund balance - July 1, 2005 | | | |
| Fund balance - June 30, 2006 | \$ - | \$ 5,499 | \$ 5,499 |

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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|--------------------------|--------------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 1,000 | \$ 1,520 | \$ 520 |
| Intergovernmental revenue | 100,000 | 100,763 | 763 |
| Total revenues | <u>101,000</u> | <u>102,283</u> | <u>1,283</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | (100,000) | (100,000) | |
| Total other financing sources (uses) | <u>(100,000)</u> | <u>(100,000)</u> | |
| Net Change in Fund Balance | 1,000 | 2,283 | 1,283 |
| Fund balance - July 1, 2005 | <u>102,043</u> | <u>102,043</u> | |
| Fund balance - June 30, 2006 | <u><u>\$ 103,043</u></u> | <u><u>\$ 104,326</u></u> | <u><u>\$ 1,283</u></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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|-------------------|------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 200 | \$ 267 | \$ 67 |
| Total revenues | <u>200</u> | <u>267</u> | <u>67</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public safety | <u>27,000</u> | <u>2,955</u> | <u>24,045</u> |
| Total expenditures | <u>27,000</u> | <u>2,955</u> | <u>24,045</u> |
| Net Change in Fund Balance | (26,800) | (2,688) | 24,112 |
| Fund balance - July 1, 2005 | <u>25,182</u> | <u>25,182</u> | |
| Fund balance - June 30, 2006 | <u>\$ (1,618)</u> | <u>\$ 22,494</u> | <u>\$ 24,112</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|---|
| REVENUES | | | |
| Investment earnings | \$ 140,200 | \$ 425,825 | \$ 285,625 |
| Total revenues | 140,200 | 425,825 | 285,625 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 221,350 | 98,691 | 122,659 |
| Community development | 175,000 | 272,058 | (97,058) |
| Pass-through payments | 370,000 | | 370,000 |
| Total expenditures | 766,350 | 370,749 | 395,601 |
| Excess of revenues over (under) expenditures | (626,150) | 55,076 | 681,226 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds of sale of property | 800,000 | | (800,000) |
| Transfers in | 100,000 | 100,000 | |
| Total other financing sources (uses) | 900,000 | 100,000 | (800,000) |
| Net Change in Fund Balance | 273,850 | 155,076 | (118,774) |
| Fund balance - July 1, 2005 | 278,286 | 278,286 | |
| Prior period adjustments | | 41,386 | 41,386 |
| Fund balance - July 1, 2005, restated | 278,286 | 319,672 | 41,386 |
| Fund balance - June 30, 2006 | <u>\$ 552,136</u> | <u>\$ 474,748</u> | <u>\$ (77,388)</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, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|--|---|---|---|
| REVENUES | | | |
| Investment earnings | \$ - | \$ 657 | \$ 657 |
| Total revenues | <u> </u> | <u> 657</u> | <u> 657</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | | 50,000 | (50,000) |
| Community development | 20,000 | <u> 72</u> | <u> 19,928</u> |
| Total expenditures | <u> 20,000</u> | <u> 50,072</u> | <u> (30,072)</u> |
| Net Change in Fund Balance | (20,000) | (49,415) | (29,415) |
| Fund balance (deficit) - July 1, 2005 | <u> (125,116)</u> | <u> (125,116)</u> | <u> </u> |
| Fund balance (deficit) - June 30, 2006 | <u><u> (145,116)</u></u> | <u><u> (174,531)</u></u> | <u><u> (29,415)</u></u> |

CITY OF ADELANTO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY PROJECT AREA 3 DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2006

| | Final Budget | Actual Amount | Variance with Final Budget Positive (Negative) |
|------------------------------|------------------|-------------------|---|
| REVENUES | | | |
| Taxes | \$ 3,000 | \$ 154,019 | \$ 151,019 |
| Total revenues | <u>3,000</u> | <u>154,019</u> | <u>151,019</u> |
| EXPENDITURES | | | |
| Debt service: | | | |
| Principal retirement | 30,000 | | 30,000 |
| Interest and other charges | | 44,978 | (44,978) |
| Total expenditures | <u>30,000</u> | <u>44,978</u> | <u>(14,978)</u> |
| Net Change in Fund Balance | (27,000) | 109,041 | 136,041 |
| Fund balance - July 1, 2005 | <u>70,157</u> | <u>70,157</u> | |
| Fund balance - June 30, 2006 | <u>\$ 43,157</u> | <u>\$ 179,198</u> | <u>\$ 136,041</u> |



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

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**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 of the
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, 2006 which collectively comprise the City of Adelanto's basic financial statements, and have issued our report thereon dated September 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in a separate report dated September 18, 2009.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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, the City Council, 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.

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