

High Desert Corridor
Joint Powers Authority

June 9, 2014

Meeting Materials

Item 6

Approve and File Audit Report for the Year
Ending June 30, 2013



To the Board of Directors
High Desert Corridor JPA
San Bernardino, California

We have audited the financial statements of the governmental activities and the General Fund of the High Desert Corridor JPA (the Authority) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 16, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the current fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 14, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Varrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 14, 2014

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY
San Bernardino, California

Independent Auditors' Reports,
Basic Financial Statements,
Required Supplementary Information,
and Other Reports

For the Fiscal Year Ended June 30, 2013

HIGH DESERT CORRIDOR JPA
For the Fiscal Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
High Desert Corridor JPA
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the High Desert Corridor JPA (Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 63 -- *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 15 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, on our consideration of the Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 14, 2014

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

ASSETS

Cash and investments	\$ 201,381
Due from other governments	175,340
Total Assets	<u>376,721</u>

LIABILITIES

Accounts payable	8,900
Due to other governments	7,044
Total Liabilities	<u>15,944</u>

NET POSITION

Unrestricted	<u>360,777</u>
Total Net Position	<u>\$ 360,777</u>

See accompanying notes to the basic financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

**STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
FUNCTIONS/PROGRAMS			
Public Ways & Facilities:			
Professional and administrative services	\$ 141,554	\$ 175,340	\$ 33,786
Total Governmental Activities	<u>\$ 141,554</u>	<u>\$ 175,340</u>	<u>33,786</u>
General revenues:			
Interest and other income			<u>1,342</u>
Total General Revenues			<u>1,342</u>
Change in Net Position			35,128
Net Position - Beginning of Year			<u>325,649</u>
 Net Position- End of Year			<u><u>\$ 360,777</u></u>

See accompanying notes to the basic financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 201,381
Due from other governments	175,340
	<hr/>
Total Assets	\$ 376,721
	<hr/> <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 8,900
Due to other governments	7,044
Deferred revenue	175,340
	<hr/>
Total Liabilities	191,284
	<hr/>
Fund Balance:	
Unassigned	185,437
	<hr/>
Total Fund Balance	185,437
	<hr/>
Total Liabilities and Fund Balance	\$ 376,721
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund balance of governmental funds	\$ 185,437
Amounts reported for <i>governmental activities</i> in the Statement of Net Position (page 3) are different because:	
Certain assets are not available to pay for current period expenditures and are deferred in the funds.	175,340
Net Position of Governmental Activities	<u>\$ 360,777</u>

See accompanying notes to the basic financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>
REVENUES	
Investment earnings	<u>\$ 1,342</u>
Total Revenues	<u>1,342</u>
EXPENDITURES	
Current:	
Public Ways and Facilities -	
Services and supplies	37,164
Other charges	104,390
Total Expenditures	<u>141,554</u>
Excess (Deficiency) of Revenues	
Over (Under) Expenditures	<u>(140,212)</u>
Beginning Fund Balance	<u>325,649</u>
Ending Fund Balance	<u>\$ 185,437</u>

See accompanying notes to the basic financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net Change in Fund Balance - Total Governmental Fund	\$ (140,212)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.	175,340
Change in Net Position of Governmental Activities	<u>\$ 35,128</u>

See accompanying notes to the basic financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – REPORTING ENTITY

Authorized Legislation and Organization

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

The Authority is governed by a Board of Directors made up of nine members, including one Board of Supervisor each from San Bernardino County (First District) and Los Angeles County (Fifth District). The San Bernardino County Board member can appoint three additional members from San Bernardino County, the City of Adelanto, the City of Victorville, the City of Hesperia, or the Town of Apple Valley. The Los Angeles County Board member can appoint three additional members from Los Angeles County, the City of Palmdale and the City of Lancaster. A ninth member is appointed jointly by the First District Supervisor of San Bernardino County and the Fifth District Supervisor of Los Angeles County and appointed by action of the Board.

The Authority proposes to create and establish the High Desert Corridor, a sixty-three mile stretch of freeway connecting the Los Angeles County communities of Palmdale/Lancaster with the San Bernardino County communities of Victorville, Apple Valley, and Adelanto. Members may contribute annually to provide financial support to further the purpose of the Authority. The Authority's Board has designated the County of San Bernardino with administrative oversight of the Authority.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the primary government (the Authority).

The Statement of Activities presents direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Basis of Presentation, (Continued)

Fund Financial Statements

The fund financial statements provide information about the Authority's fund, which include only *governmental funds*.

The Authority reports the following major governmental fund:

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

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest and certain State and Federal grants are accrued when their receipt occurs within 270 days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

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.

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

Cash and Investments

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

Investments held in the County of San Bernardino's investment pool are available on demand and are stated at amortized cost plus accrued interest, which approximates fair value. The Authority had no deposit or investment policy that addressed a specific type of risk. The County of San Bernardino Treasurer's investment pool is subject to oversight by the Treasury Oversight Committee.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Due From Other Governments

Due from other governments receivables are recorded at their gross value and, where appropriate, are reduced by the portion that is considered uncollectible. Receivables consist primarily of grant claims that have been filed but not received as of year-end. Management believes its receivable balance to be fully collectible and, accordingly, no allowance for doubtful accounts has been recorded.

Use of Estimates

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

Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance classification for government funds are made up of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: amounts held for perpetuity and prepaid amounts.
- *Restricted Fund Balances* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority. Commitments may be changed or lifted only by the adoption of a Board Resolution.
- *Assigned Fund Balance* – comprises amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. Intent is expressed by Authority's Board of Directors.
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose.

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

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

As of June 30, 2013, the Authority's fund balance is recorded as unassigned.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Effective Accounting Pronouncements

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for period beginning after December 15, 2011, improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. This statement did not have a material effect on the financial statements.

GASB Statement No. 61, *The Financial Reporting Entity – an amendment of GASB Statements No. 14 and No.34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement did not have a material effect on the financial statements.

GASB Statement No.62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* are effective for financial statements for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement did not have a material effect on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net assets reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The Authority has applied its effect on the financial statements.

Future Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Authority has not determined its effect on the financial statements.

GASB Statement No. 66, *Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62*. The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The Statement is effective for the periods after December 15, 2012. The Authority has not determined its effect on the financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Future Accounting Pronouncements (Continued)

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosure*. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. The Authority has not determined its effect on the financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosure*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2014. The Authority has not determined its effect on the financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. This Statement is effective for fiscal years beginning after December 15, 2013. The Authority has not determined its effect on the financial statements.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The Authority has not determined its effect on the financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The Authority has not determined its effect on the financial statements.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3 – CASH AND INVESTMENTS

Cash and cash equivalents includes the cash balance of monies deposited with the San Bernardino County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Authority's account based upon the Authority's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2013.

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

NOTE 4 – FEDERAL AND STATE GRANTS

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

NOTE 5 - CONTINGENCIES

On-going funding of Authority's activities is provided through an agreement for reimbursement with Los Angeles County Metropolitan Transportation Agency (LACMTA). While the contract with LACMTA provides for reimbursement of operating costs related to the Authority, the contract includes a not to exceed amount of \$500,000. The original contract expired on June 30, 2011. The contract was subsequently extended through June 30, 2014. As of June 30, 2013, the Authority has accrued \$175,340, representing the remaining amount on this contract. Authority management expects to collect this amount after March 31, 2014, and thus, this amount is deferred in the governmental fund financial statements.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Authority uses other County of San Bernardino departments for other services, such as Authority administration. Expenditures paid to the County of San Bernardino for these services during the year were \$104,390.

REQUIRED SUPPLEMENTARY INFORMATION

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HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

**SCHEDULE OF REVENUE, EXPENDITURE AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2013
GENERAL FUND**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 124,000	\$ 124,000	\$ -	\$ (124,000)
Investment earnings	4,000	4,000	1,342	(2,658)
Total Revenues	<u>128,000</u>	<u>128,000</u>	<u>1,342</u>	<u>(126,658)</u>
EXPENDITURES				
Current:				
Services and supplies	46,500	46,500	37,164	9,336
Other charges	101,000	101,000	104,390	(3,390)
Total Expenditures	<u>147,500</u>	<u>147,500</u>	<u>141,554</u>	<u>5,946</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(19,500)</u>	<u>(19,500)</u>	<u>(140,212)</u>	<u>(120,712)</u>
NET CHANGE IN FUND BALANCE (GAAP BASIS)	<u>\$ (19,500)</u>	<u>\$ (19,500)</u>	<u>\$ (140,212)</u>	<u>\$ (120,712)</u>

See accompanying note to the required supplementary information.

HIGH DESERT CORRIDOR JOINT POWERS AUTHORITY

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device for the General Fund. All annual appropriations lapse at fiscal year-end. The Management of the Authority prepare and submit a proposed budget to the Board of Directors for review. After reviewing the proposed budget and making such revisions as it may deem advisable, a final budget is prepared and adopted. Revisions to the adopted budget must be presented to the Board of Directors by management of the Authority and approved by resolution.

OTHER REPORTS

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**INDEPENDENT AUDITORS' 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**

To the Board of Directors
High Desert Corridor JPA
San Bernardino, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and General Fund of the High Desert Corridor JPA Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 14, 2014. Our report includes an emphasis of a matter for the Authority's adoption of new accounting guidance GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 14, 2014