



Hesperia Civic Center



City of Hesperia

California

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2011



Fire Station 305



San Gabriel Mountains



Hesperia Police Department



Civic Plaza Park

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF HESPERIA CALIFORNIA

Russ Blewett, Mayor

Bill Holland, Mayor Pro Tem

Paul Bosacki, Council Member

Mike Leonard, Council Member

Thurston Smith, Council Member

(At Date of Issuance)

Mike Podegracz, City Manager

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YEAR ENDED JUNE 30, 2011

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City of Hesperia

CALIFORNIA

December 30, 2011

To the Honorable Mayor, City Council, City Manager and Citizens of the City of Hesperia:

It is a pleasure to present the City of Hesperia's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2011. State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Hesperia. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hesperia has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the City of Hesperia's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Hesperia's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

In accordance with the aforementioned guidelines, the accompanying report is presented in three sections:

- Introductory: The Introductory Section includes this transmittal letter, the City's Organizational Chart, a List of the Principal Public Officials and Administrative Personnel, and the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the City's Fiscal Year Ended June 30, 2010 CAFR.
- Financial: The Financial Section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), Basic Financial Statements, Fund Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, Other Supplementary Information, and Combining and Individual Fund Financial Schedules.
- Statistical: The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

The City's financial statements have been audited by White Nelson Diehl Evans LLP, Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hesperia for the Fiscal Year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Hesperia's financial statements for the Fiscal Year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Hesperia was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Hesperia's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Hesperia's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Adorned by the San Bernardino Mountain Range along its southern border, the City of Hesperia is located in the High Desert area of San Bernardino County, approximately 35 miles north of the City of San Bernardino and 90 miles northeast of Los Angeles. The City encompasses nearly 75 square miles and is home to an estimated 90,726 residents.

The City was incorporated on July 1, 1988, under the laws of the State of California and enjoys all the rights and privileges afforded to a general law city. The City is governed by a five member City Council under the Council-Manager form of government. Policy-making and legislative authority are vested in the governing council, consisting of the mayor and four other members. Council Members are elected at-large and do not represent any one district or area within the City. All Council Members are elected to a four-year term and the City does not have term limits. Regular elections are conducted in November of even numbered years for the purpose of electing City Council Members and the Mayor is appointed annually by and from the City Council. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council and for overseeing the day-to-day operations of the government.

The City of Hesperia, including its component districts, employs approximately 307 full-time employees. Services provided include police protection; fire protection; the construction and maintenance of streets and other infrastructure; as well as water, wastewater, and community services. In addition to general government activities, the City Council also serves as the Board of Directors for the Hesperia Fire Protection District, Hesperia Water District, Hesperia Community Redevelopment Agency, Hesperia Public Financing Authority, Hesperia Public Facilities Corporation, and the newly authorized Hesperia Housing Authority, Community Development Commission, and Non-Profit Corporations. Therefore, these activities have been included as an integral part of the City of Hesperia's financial statements where appropriate. Additional information on these entities can be found in Note 1 in the notes to the financial statements.

The City of Hesperia contracts with the San Bernardino County Sheriff's Department for its police services, which for FY 2010-11 included a captain, lieutenant, 8 sergeants, 42 deputies, and 19 non-sworn employees that handle various administrative, clerical and technical duties.

Fire protection for the City of Hesperia is provided by the San Bernardino County Fire Department through a contractual agreement with the Hesperia Fire Protection District. The County Fire Department is a full service department, providing to the community; fire suppression, fire prevention and planning, disaster preparedness, hazardous materials management and emergency medical services. For Fiscal Year 2010-11, the department consisted of 53 safety personnel, and 6 non-safety staff persons. During the reporting period, services were provided from four manned stations and one unmanned (reserve) station that serves as the City's hazardous disposal facility.

The annual budget serves as the foundation for the City of Hesperia's financial planning and control. Each year the budget development guidelines, for use in preparing the next year's budget, are reviewed and updated. These guidelines are structured to reflect the City Council's goals and objectives and to provide the framework in which the Budget is prepared. Annually, the proposed budget is submitted to the City Council and a public hearing is conducted to obtain citizen comments. Prior to the beginning of the new fiscal year, the City Council adopts the annual Budget at a public meeting.

The City's budget policy is that all appropriations lapse at fiscal year-end. Outstanding encumbrance balances at fiscal year-end require re-approval by the City Council. The City Council may amend the budget at any time during the fiscal year. The City Manager may authorize budget transfers between line items and programs within a fund, as long as the total budget for each fund has not exceeded the amount approved by the City Council. The level of budgetary control is set at the fund level to ensure compliance with the budget as approved by the City Council; therefore, any budgetary changes at the fund level require City Council approval.

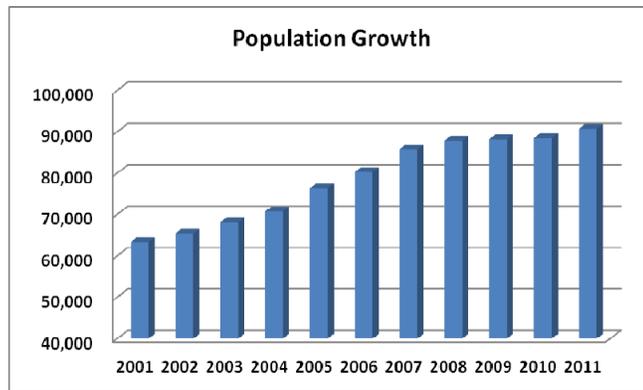
Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Hesperia operates.

Local economy

The City of Hesperia is located in the northern region of the Inland Empire, an area which, prior to the recession, had been recognized as being one of the fastest growing parts of Southern California, due in large part to its affordable undeveloped land along multiple transportation corridors. Including the 17 miles of prime freeway frontage along the I-15 Freeway corridor at the top of the Cajon Pass, Hesperia is strategically positioned to derive key benefits from development in the future.

The City of Hesperia is home to approximately 90,726 individuals. Current and projected growth in Hesperia provides the City with a large and expanding workforce. Between 2001 and 2011, Hesperia encountered substantial growth in its population, growing approximately 43%. This growth is dramatic compared to the county (21.5%), state (11.8%), and nation (9.8%) for the same time period. Further, the 43% population growth is in addition to the 24% growth Hesperia experienced over the previous decade. Over the last few years, however, Hesperia's growth trend has significantly slowed, with the most recent year increasing by approximately 2.5% percent.



The demographics of Hesperia indicate a strong and growing ability to meet the workforce demands of employers. Currently, a large portion of the labor pool commutes daily into the Los Angeles basin due to the lack of available employment in the High Desert. While some progress has been made attracting new businesses and expanding existing businesses, as addressed in the next section of this letter, the overall high desert is in need of additional job opportunities for its residents. This long-term need has been further exacerbated by the recession from which the High Desert continues to be significantly impacted and has not observed any meaningful signs of recovery, as evidenced in Hesperia's current unemployment rate of 16.4%, according to October 2011 data released by the California Employment Development Department (EDD).

The City of Hesperia has 74 square miles of space to accommodate residential, commercial, and industrial development. Hesperia's previously strong housing market was not immune to the housing downturn. As the housing boom stalled and values began free-falling in late 2007, Hesperia has seen its median home sales price return to 2002 levels. As a result, the High Desert has some of the most affordable housing in California according to the California Association of Realtors.

Consistent with the dramatic decline in the overall national economy, Fiscal Year 2010-11 residential building activity in the City of Hesperia was lacking. Zero residential building permits were issued in FY 2010-11, which is a dramatic decline from the City's high of 1,645 permits in FY 2005-06, dropping to 634 in FY 2006-07, 106 in FY 2007-08, 12 in FY 2008-09, down to 3 in FY 2009-10 and zero residential permits in FY 2010-11. Although down approximately 87% from the previous year, commercial construction saw a bit of positive news, with 36,402 square feet in commercial building permit activity. Additional commercial projects are projected for FY 2011-12, as discussed in the Subsequent Goals, Efforts, and Actions section of this letter.

Traditionally sales tax had been the City's largest revenue source. However, as a result of the State of California's issuance of bonds used to balance its budget in 2004, the State created the 'Triple Flip' which converted the majority of the City's vehicle license fee revenue into a property tax revenue, the growth of which is tied to the growth of the City's assessed valuation. For the past three fiscal years, vehicle license fee revenue had been the top single revenue source for the City of Hesperia's General Fund. However, beginning Fiscal Year 2010-11, the largest General Fund revenue source is again sales tax. Fiscal Year 2010-11 sales tax showed a 36% increase from the prior year but is still 5% below its FY 2006-07 high. Still, even with the economic downturn, sales tax has grown \$1.8 million over the last six years, a reflection of the City's population growth and a growth in shopping opportunities.

Despite a slow economy, the City of Hesperia is working diligently to provide vital services to citizens, while continuing to prepare for the next growth cycle waiting on the horizon.

Fiscal Year 2010-11 Goals, Efforts, and Actions

Leveraging limited resources to derive the greatest benefit for the good of the entire community, is at the heart of the City Council's commitment to conservative fiscal management. This prudent management philosophy has made it possible for the City Council to further their goals toward building a strong community and improving the quality of life for Hesperia residents, businesses, and visitors.

During the Fiscal Year Ended June 30, 2011, the City not only continued to provide the normal level of municipal services expected by its citizens, but also made substantial progress in accomplishing a variety of goals and projects, all of which will benefit the Hesperia community. Some of the more significant accomplishments were:

- ❖ The City is making steady progress on the long-awaited Rancho Underpass Project. This underpass will connect Rancho Road where it currently terminates on each side of the Burlington Northern Santa Fe railroad tracks. Once completed, a new bridge will maintain access for the railroad while Rancho Road dips underneath, allowing residents in east Hesperia to travel directly to the freeway, providing a much needed additional City ingress/egress. With the right of way acquisition completed in January 2011 and authorization to proceed with construction obtained in June 2011, a groundbreaking ceremony was held on August 31, 2011. Construction is estimated to take two years.



- ❖ The Fiscal Year 2011-12 Budget was adopted with a General Fund cash reserve of approximately 34% of budgeted expenditures.

- ❖ On October 13, 2010, a ribbon cutting ceremony was held for the City's new Police Station located in the Civic Plaza. The 40,000 square foot facility was awarded LEED Gold certification from the U.S. Green Building Council due to the utilization of sustainable energy, including the installation of solar panels which will generate between 50% - 90% of the energy needed to operate the building. This new facility will meet the Police Department's needs for many years and is also large enough to accommodate the City's Code Enforcement staff, which is beneficial given the building's close proximity to City Hall, while also allowing for the expansion of a variety of community based policing programs, such as Neighborhood Watch and Citizens on Patrol (COPs). Also newly completed is the County of San Bernardino High Desert Government Center, located next door to the Police Station. In order to achieve economies of scale, both buildings were bid and built simultaneously, resulting in a savings of approximately 30% of original construction estimates. Completed on time and under budget, both buildings are significant additions to the City's developing Civic Plaza.



- ❖ On April 1, 2010, the Hesperia Enterprise Zone obtained final designation from the California Department of Housing and Community Development. This highly competitive program, designed to stimulate the local economy, provides tax incentives for eligible businesses including hiring credits, sales and use tax credits, and business tax deductions, as well as wage credits for the employees of a business within the Zone. The 15-year program helps both existing business owners and businesses looking to relocate as well. Since its launch in Hesperia, the program has already resulted in one business expansion, with a net of five new jobs.
- ❖ In September 2010, the City completed its first update to the General Plan in almost 20 years and, subsequent to its adoption, received the Association of Environmental Professional's 2011 Merit Award for the Climate Action Plan portion. The General Plan serves as the primary guide for the future growth and development of the City and directs decision-making for land use developments. Because Hesperia has grown considerably since the General Plan was first adopted in 1991, the update addresses changes in laws, State requirements, and updates the City's goals for development.
- ❖ The Official City website received two awards in 2010; the WebAwards Government Standard of Excellence and the Communicator Award of Distinction.
- ❖ For the ninth consecutive year, the City has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2010.
- ❖ To better prepare the community in the event of an emergency, the City developed a Citizens Corps Council to allow the City to conduct Citizen Emergency Response Training (CERT). In addition to training all City staff, 100 citizens have been provided with the necessary skills to help care for their neighborhood in the event of a disaster until emergency services can respond.
- ❖ A Memorandum of Understanding was executed with the County of San Bernardino Department of Public Health to locate two Points of Dispensing (POD) trailers in the City to dispense medications in the event of a public health crisis.
- ❖ The Industrial Park Lead Track Project continued in FY 2010-11 through the combined funding of Hesperia Community Redevelopment Agency funds and a \$2 million grant from the U.S. Department of Commerce Economic Development Administration (EDA) grant. As the most heavily travelled rail line in the United States with the most international traffic runs through Hesperia and connects to Burlington Northern Santa Fe's system of 32,000 route miles throughout the United States, this lead track project will promote development within the City's industrial corridor and facilitate business expansion efforts and job creation. Once completed there will be 200 acres of property in the City's industrial area with direct rail access and a team transload facility, which allows multiple companies to partner together to move shipments at one location without individual agreements with the railroad. The City anticipates a ribbon-cutting ceremony in Spring 2012.
- ❖ In an effort to provide our water and sewer utility customers with a more convenient way to access bill history as well as offer an additional payment method, an Electronic Payment and Processing (E-Pay) Program was implemented, which allows utility customers to make payments online via auto draft or schedule bank draft and credit card payments.

- ❖ During the Fall of 2010, several grand openings within the new High Desert Gateway Center, took place. Two major discount retail stores, Marshalls and Ross, as well as stores dedicated to fashion, specialty services, and restaurants, including the Golden Corral and Farmer Boys, opened for business. These new shopping opportunities are in addition to an 180,000 square-foot Super Target which anchors the center.
- ❖ Under an agreement with the County of San Bernardino, the City of Hesperia provided animal control services, including shelter services, for the cat population within the unincorporated areas of the County.
- ❖ To directly address one of the highest crime residential areas in the City, construction of the new Township Project continued in FY 2010-11. This project has been developed to bring sewer, sidewalks, street lighting, low interest loans, and housing and fencing standards to the residents in the City's original Town Center in an effort to reduce crime and encourage greater community pride.

Subsequent Goals, Efforts, and Actions

- ❖ The Hesperia City Council provided an additional \$2.0 million in funding for the Fiscal Year 2011-12 Budget as part of its annual Residential Road Improvement Program. These funds were used to enhance streets throughout the City and are in addition to the ongoing Street Maintenance Program. Over the last ten years, this program has reconstructed over 277 miles of roads, with an additional 42 miles of slurry sealed roads.
- ❖ The 16th Annual Kosmont-Rose Institute *Cost of Doing Business Survey* recently named the City of Hesperia as one of the "Top Ten Least Expensive California Cities in which to do Business". The survey, which compiles a variety of information from over 400 cities nationwide, analyzes business license fees, various tax rates, economic incentives, sales and property tax rates, hotel tax rates, and other state and local government fees. This survey information is used by site selectors and commercial brokers to assist clients in their location decision-making process.
- ❖ A groundbreaking took place in July 2011 for the long-awaited Wal-Mart Supercenter, which is being constructed on the west side of the City. The 195,000 square foot Supercenter will offer general merchandise such as clothing, electronics, home furnishings and housewares, an auto center, garden center, pharmacy, grocery, and a Subway sandwich shop. As the first anchor store in the proposed 43-acre retail center, it is scheduled to be completed in Fall of 2012.
- ❖ A 36,000 square foot, 12-screen movie theater will soon join more than 185,000 square feet of governmental office development within the Hesperia Civic Plaza. The theater, which will create 40 new jobs, will feature state-of-the-art digital technology and stadium seating for 1,800. In addition, Cinema West is offering access to one theater for the City to utilize for community and city events. Construction is slated to begin in early 2012.
- ❖ Right-of-Way acquisition continued in Fiscal Year 2011-12 for the Rancho Road Interchange Project. This project will facilitate the additional traffic resulting from the Rancho Underpass project by providing direct freeway access. Of the estimated \$40 million project, significant funding amounting to \$27 million has been committed from Federal, State, and regional SANBAG sources.



- ❖ The City launched a new educational outreach program, Citizen Academy, which invites residents to get involved in local government. The Hesperia Citizen's Academy provides a unique opportunity for residents to learn more about their City. This 7-session program is designed to provide the community with insight into the day-to-day operations of the City, as well as an understanding of more complex city projects. Academy participants gained a better understanding of the council-manager form of government, as well as the challenges that local governments face.
- ❖ Subsequent to acting on the rare opportunity to acquire 678 acre feet of needed permanent water rights that were attached to the sale of the Hesperia Golf Course in June 2010, the City held several public forums soliciting input from citizens regarding the future of the golf course. In August 2011, after contemplating all of the feedback provided, the Council made the decision to continue to operate the former 211 acre PGA golf course.
- ❖ Through the Housing and Economic Recovery Act, the City received funding for a Neighborhood Stabilization Program. This program administered a total of \$3.92 billion for emergency assistance nationwide. The City was awarded \$4.6 million which has been used to acquire abandoned and foreclosed residential properties for the purpose of resale or rent to moderate, low, or very low-income households. The rehabilitation of the foreclosed homes is currently underway.

Financial Information

Debt Administration - The prudent financial management that the Council continues to display has placed the City in a better position to handle future unknowns with respect to shifts in the overall economy. For example, the implementation of policies such as the Council's Debt Prepayment Policy has placed the City in a better position to respond to the current economic downturn by reducing the cost to service the debt. Under this policy, debt obligations are evaluated annually to determine if opportunities exist to prepay outstanding principal, thereby lowering the overall cost of borrowing. In addition, the City of Hesperia and its component units have several variable rate debt issues. The lower interest rate environment associated with variable rate debt issues has resulted in the opportunity to prepay principal, through interest cost savings, thus lowering the overall outstanding debt more quickly and reducing the interest rate risk through the term of the issue, as the debt obligation will be retired sooner than as required through the original amortization schedule.

Through this long-term financial plan to retire debt in advance of its stated maturity, the City has been able to prepay a total of \$2.4 million on its 2004 Refunding Variable Rate Bonds, and \$500,000 on the Water District's 1998A Variable Rate Lease Revenue Refunding Bonds over the past five years. For Fiscal Year 2010-11, a \$150,000 prepayment was made on the 1996 Housing and Urban Development (HUD) Section 108 Loan. Additional information about the long-term debt of the City and its component units can be found in the notes to the financial statements.

Budget - Under the City Council's Balanced Budget Policy, operational revenue funds operational expenditures; ongoing expenditures are not funded by one-time revenue. The General Fund has met this commitment, even with the substantial decrease in revenues over the last four years of 17%. The ability to reduce expenditures commensurate with declining revenues was accomplished in several ways, a few of which are discussed below.

During the years of high residential building activity between Fiscal Year 2002-03 through Fiscal Year 2006-07, the City contracted for building related services such as plan check and building inspection services to deal with the increased activity, as opposed to adding staff. Doing so, allowed the City to very quickly respond to the eventual decline in building activity, by reducing contracts commensurate with the decline in activity.

In addition to reducing and/or eliminating contracts, the City has extensively reduced other operating expenditures wherever possible. With all viable non-personnel related cuts made, the remaining significant categories of salaries & benefits were addressed. In order to minimize the cost of salaries, a freeze on merit step increases was put into place, as well as a 5% reduction in pay for all staff, which was implemented in July 2010. Thus far, the implementation of pay cuts and reduced benefit costs, along with normal attrition, have precluded the need for a forced reduction in staff in order to balance the budget.

Benefits have also been addressed through changes in the funding of the employee pension plan. The City of Hesperia contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan for its personnel. As a part of the City Council's policy for responsible financial management, the Council has gradually but purposefully moved from the City bearing the cost of the full 8% employee contribution, to placing that cost reasonably with employees. This shift began in FY 2007-08, when employees began paying 2% of the 8% employee contribution. In July 2010, the employees' contribution increased to 5%. The remaining 3% will go into effect in July 2012, which will result in employees funding the full 8% employee contribution. Additional information about the City of Hesperia's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

Hesperia Fire Protection District - Measure F - Due primarily to falling property values, resulting in the decline of property tax-related revenues, the Hesperia Fire Protection District (HFPD) has experienced increasing revenue challenges. After having reduced expenditures wherever possible, reorganizing positions to reduce increases in the annual County contract, reserves being depleted, and the need for a \$1.9 million subsidy from the City General Fund required to balance the HFPD budget for Fiscal Year 2010-11, at the June 2011 City Council meeting, the HFPD Fiscal Year 2011-12 Proposed Budget recommended the elimination of nine positions, which was needed in order to structurally balance the budget. After listening to the concerns of firefighters and the public, the City Council/Fire Board approved the Fiscal Year 2011-12 Budget leaving the positions intact, resulting in a \$1.1 million deficit.

In order to address the shortfall, in July 2011, the Council/Board directed staff to place an \$85 parcel tax measure on the November 2011 ballot to fund fire suppression and medical services costs for the District without cutting positions. During the same meeting, the Council/Board also adopted a resolution directing the General Manager to amend the contract between the HFPD and San Bernardino County Fire to reduce service levels by nine positions beginning January 2012, should the parcel tax measure fail. The November 8, 2011 election results revealed that Measure F failed, as 80% of the voters rejected the proposed five-year parcel tax. As a result, fire staff will be reduced by nine positions in January 2012 and the Council/Board directed that the oldest fire station, which is currently in dire need of repair, be closed. The City is currently seeking grant funding to rehabilitate the building so that it can be reopened when property values return, resulting in a restoration of Fire District revenue.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hesperia for its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010. This was the ninth consecutive year that the City has achieved the prestigious award. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a governmental entity and its management. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report could not have been accomplished without the support and cooperation of all City of Hesperia staff. These dedicated members assisted and contributed to its preparation. Special recognition is given to the Management Services staff, and specifically to Anne Duke, George Pirsko, Casey Brooksher, Keith Cheong, Jose Mendoza, and Virginia Villasenor. Their efforts made it possible to prepare the Comprehensive Annual Financial Report, thereby improving the quality of the information being reported to the citizens, the City Council, and other users on a timely basis. Appreciation is also expressed to the Mayor, the City Council, and the City Manager for their interest and support in planning and conducting the financial activities of the City in a responsible and prudent manner.

Sincerely,



Brian D. Johnson
Assistant City Manager/Management Services

CITY OF HESPERIA

LIST OF PRINCIPAL OFFICIALS

(At Date of Issuance)

ELECTED OFFICIALS

Russ Blewett, Mayor

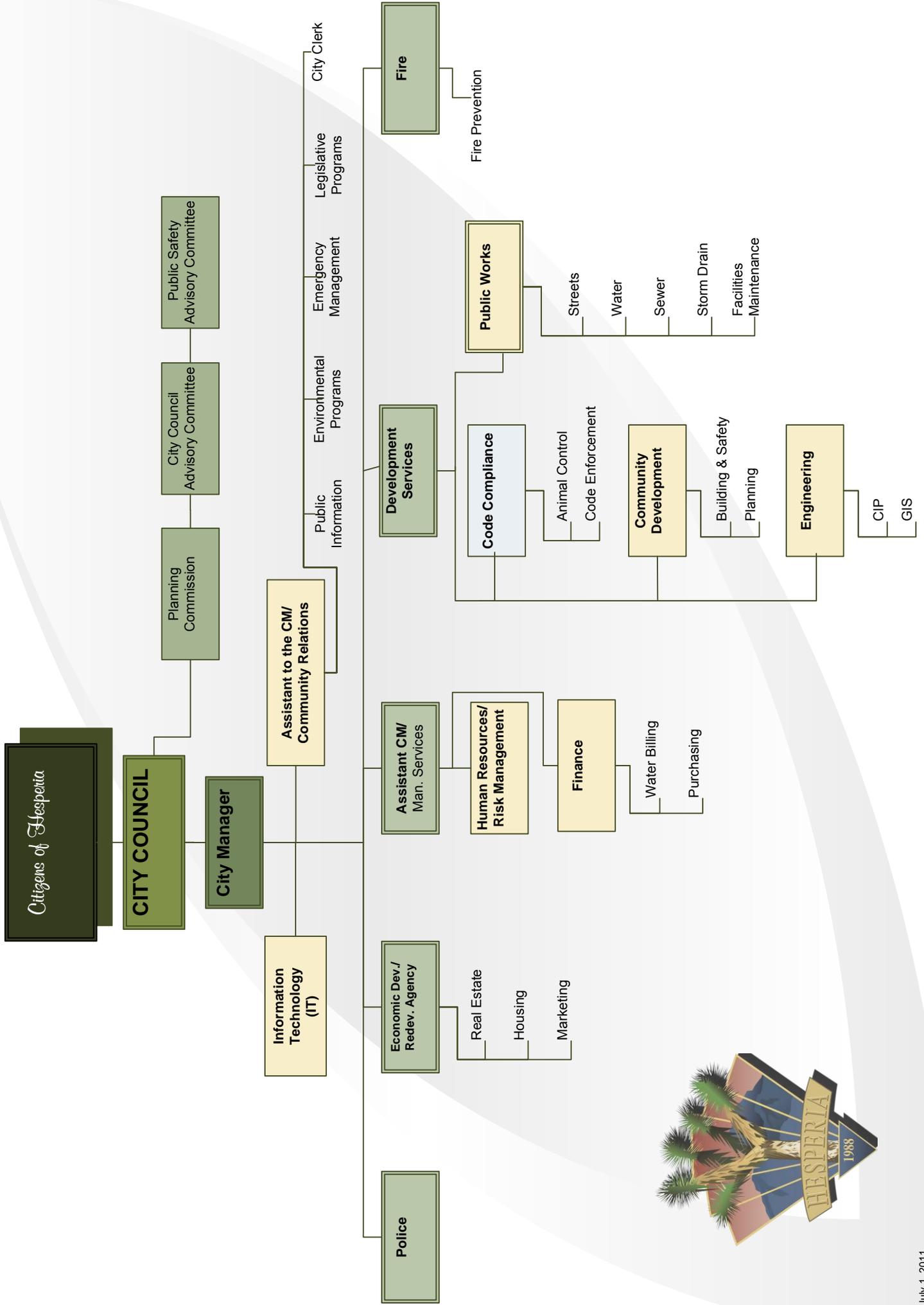
Bill Holland, Mayor Pro Tem
Mike Leonard, Council Member

Paul Bosacki, Council Member
Thurston Smith, Council Member

ADMINISTRATIVE STAFF

Mike Podegracz City Manager/City Clerk
Brian D. Johnson.....Assistant City Manager- Management Services
Kim SummersAssistant to the City Manager/Community Relations
Scott PriesterDevelopment Services Director
Steven J. LantsbergerDeputy Director of Economic Development
Barry Fox.....Fire Chief
Stephen HigginsPolice Chief

City of Hesperia Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Hesperia
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Egan

Executive Director



INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Hesperia, 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 Hesperia, California, as of and for the year ended June 30, 2011, 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 of Hesperia, California'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hesperia, California, as of June 30, 2011, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1b, the City has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011.

As described further in Note 17, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2011 on our consideration of the City of Hesperia, California's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and budgetary comparison information, as listed in the table of contents as required supplementary information 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 management's discussion and analysis and the schedule of funding progress 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and the schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedules and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements of the City of Hesperia or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information and related note are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements of the City or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Hesperia, California as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Diehl Evans LLP

December 30, 2011
Carlsbad, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hesperia's financial performance provides an overview of the City's financial activities for the Fiscal Year (FY) Ended June 30, 2011. Please read this in conjunction with the accompanying transmittal letter, the accompanying basic financial statements, and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets decreased \$17.7 million, or negative 7.4%, from \$237.6 million to \$219.9 million during the year ended June 30, 2011. Contributing to the decrease of net assets is the \$103.2 million decrease in cash and investments with fiscal agents, which is due to expending the bond proceeds of 2007 Tax Allocation Revenue Bonds on capital projects. In addition, \$25.1 million of the 2007 Tax Allocation Revenue Bonds Series A were called, which thereby reduced the City's long-term liability. Finally, a developer deposit received during the year ended June 30, 2006, for public safety costs, totaling \$1.2 million and a \$0.2 million developer donation for public facilities were determined to be revenue earned in 2006 and therefore are added as a restatement of the June 30, 2010 Net Assets.
- During the year, the City's expenses exceeded revenues by \$17.7 million. Specifically, the governmental activities expenses exceeded revenues by \$15.2 million, while the business activities experienced expenditures exceeding revenues by \$2.5 million.
- The total revenues from all sources decreased \$11.3 million (12.3%) from the prior year. This change is principally the result of decreased property tax revenue of \$5.5 million, \$4.9 million decrease in operating contributions and grants, and decreased Unrestricted investment earnings of \$3.2 million.
- The total cost of all City programs was \$98.4 million, a decrease of \$0.2 million or 0.2% from June 30, 2010. The decrease can be attributed primarily to the reduced spending of \$1.7 million in the General government function and a reduction in the Interest on Long-term Debt function of \$0.9 million. These decreases were netted against a \$1.1 million increase in Water and \$0.5 million increase to Wastewater.
- For the General Fund, actual resources available for appropriation (resources or inflows) were \$0.9 million more than the final budget while actual appropriations (outflows) were \$0.8 million less than the final budget. Finally, prior to transfers, overall General Fund revenues were \$0.4 million more than expenditures.
- The General Fund reported resources (revenue and transfers) under expenditures of \$0.2 million, which is \$2.1 million less than expected during the creation of the FY 2010-11 budget, which is due to receiving more revenue than anticipated. The total General Fund revenue budget, including transfers, for year ended June 30, 2011 was \$22.6 million, whereas actual receipts, including transfers, were \$23.5 million.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE CITY AS A WHOLE

The financial statements presented herein include all the activities of the City of Hesperia and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Assets and the Statement of Activities – report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting method*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities—All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, and public works. Property taxes, transient occupancy taxes, sales taxes, franchise fees, and various special revenues finance most of these activities.
- Component units—The City's governmental activities include the blending of two separate legal entities—the Hesperia Community Redevelopment Agency and the Hesperia Fire Protection District with the City. Although legally separate, these "component units" are important because the City is financially accountable for them.
- Business-Type activities—The City's business-type activities, water service and sewer service, are provided by the Hesperia Water District.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies. The City's two kinds of operating funds—*governmental* and *proprietary*—use different accounting approaches. The City also oversees *fiduciary* funds as described below.

- *Governmental funds*—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you

determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation following the fund financial statements.

- *Proprietary funds*—When the City charges fees to its own departments or to its citizens to cover the costs for certain services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City uses proprietary funds to report its water utility activities.

The City as Trustee — Fiduciary Responsibilities

The City is the trustee, or *fiduciary*, for certain amounts held on behalf of developers, property owners, and others. The City's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities as well as Changes in Fiduciary Assets and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

Our analysis focuses on the Condensed Statement of Net Assets (Table 1) and Condensed Statement of Activities (Table 2) of the City's governmental activities and business-type activities. In prior years, the City incurred debt to build some of the infrastructure. The Condensed Statement of Net Assets presents capital assets net of the debt incurred to pay for those assets. The City of Hesperia is reporting, under the Governmental Activities - capital assets, the full infrastructure value of the City's streets, storm drains, traffic signals, and other assets.

The City's net assets decreased from \$237.6 million to \$219.9 million. This net decrease of \$17.7 million comes from the change in net assets as recorded in the Condensed Statement of Activities and flows through the Condensed Statement of Net Assets. The nonproprietary (governmental activities) infrastructure includes: paved streets, sidewalks, traffic signals, storm drains, and flood control channels, etc. The Water District continues to maintain the water and sewer infrastructure which includes water storage tanks, water pumping equipment, water transmission lines, and sewer lines, etc.

Table 1
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$ 225,898,824	\$ 171,507,408	\$ 7,542,031	\$ 6,695,007	\$ 233,440,855	\$ 178,202,415
Capital assets	195,815,039	204,462,524	92,751,289	90,334,079	288,566,328	294,796,603
Total Assets	421,713,863	375,969,932	100,293,320	97,029,086	522,007,183	472,999,018
Current and other liabilities	42,511,619	43,503,141	6,014,976	5,839,487	48,526,595	49,342,628
Long-term debt outstanding	221,800,845	190,229,750	14,125,262	13,523,916	235,926,107	203,753,666
Total Liabilities	264,312,464	233,732,891	20,140,238	19,363,403	284,452,702	253,096,294
Net Assets:						
Invested in capital assets, net of related debt	79,556,447	15,931,422	72,865,322	77,118,870	152,421,769	93,050,292
Restricted	14,710,200	31,239,474	1,890,305	1,890,305	16,600,505	33,129,779
Unrestricted	63,134,752	95,066,145	5,397,455	(1,343,492)	68,532,207	93,722,653
Total Net Assets	\$ 157,401,399	\$ 142,237,041	\$ 80,153,082	\$ 77,665,683	\$ 237,554,481	\$ 219,902,724

A brief explanation for the balance change of Table 1 follows below. These explanations tell the story behind the \$17.7 million decrease in net assets:

- Current and other assets – governmental activities decreased by \$54.4 million or 24.1% from June 30, 2010. The decrease is primarily due to the reduction of cash and investments with fiscal agent by \$103.2 million primarily due to drawing upon the 2007 Tax Allocation Revenue Bonds for capital projects during the year. Business-type activities decreased by \$0.8 million or 11.2% from June 30, 2010, which is due in part to the \$0.7 million reduction of inventories.
- Capital assets – increased, for governmental activities, by \$17.1 million (\$8.6 million net of depreciation). As illustrated in Table 3, the majority of the increase is related to building and improvements. Specifically, the increase is related to the completion of the new police station.

For the business-type activities, capital assets increased by \$1.4 million; however, net of depreciation, the capital assets decreased by \$2.4 million over June 30, 2010. The increase is primarily attributed to the replacement of aged steel water lines of the Water District, which cost \$1.4 million and is netted against the \$3.8 million of current year depreciation.

- Current and other liabilities – for governmental activities increased by \$1.0 million when compared to June 30, 2010. The net effect of the increase is due to a \$8.1 million increase of unearned revenue, which is related to a \$6.6 million loan to PDDC San Remo Hesperia; \$5.9 million decrease to accounts payable, which is due to the payment of invoices associated with completed capital projects; and \$1.1 million decrease to due to other governmental agencies, which reflects the decrease of the Redevelopment Agency's pass-through obligations loan as a result of decreased property valuations.

Business-type activities current and other liabilities decreased by 2.9% or \$0.2 million from June 30, 2010, which is primarily due to \$1.4 million decrease to accounts payable due to the timing of invoices at June 30, 2011.

- Long-term debt outstanding – decreased by \$31.6 million, which is due to \$25.1 million of the 2007 Tax Allocation Revenue Bonds Series A being called and remaining reduction is from the scheduled annual debt service activity. Debt service for business-type activities resulted in a \$0.6 million decrease from the June 30, 2010 total primarily due to servicing long-term debt.
- Invested in capital assets, net of debt – decreased for governmental activities by \$63.2 million during the fiscal year, which is related to drawing upon the 2007 Tax Allocation Revenue Bonds for capital projects. Business-type activities increased by \$4.3 million, which is due to changing the calculation of the debt owed to the Hesperia Community Redevelopment Agency (HCRA).
- Unrestricted net assets for the business-type activities decreased by \$6.7 million or 124.9% primarily due to the \$4.8 million loan payable in 2010 that was classified as Invested in Capital Assets, Net of Related Debt instead of Unrestricted Net Assets.

As reflected in Table 2, the City's Net Assets decreased \$17.7 million, from \$237.6 million to \$219.9 million, from the prior fiscal year. The June 30, 2011 total Program Revenues decreased by \$2.4 million and were 43.6% of total revenues. The Program Revenues funded 35.8% of total expenses, while expenses decreased by \$0.2 million or 0.2% from June 30, 2010.

Table 2
Condensed Statement of Activities

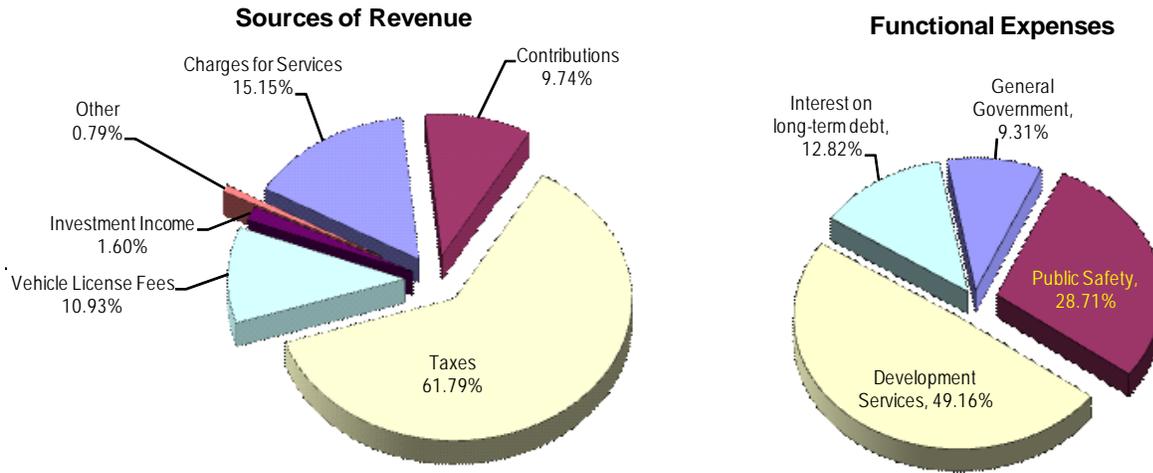
	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues						
Program revenues:						
Charges for services	\$ 8,992,855	\$ 8,999,758	\$ 17,993,175	\$ 19,134,211	\$ 26,986,030	\$ 28,133,969
Operating contributions and grants	10,668,638	5,788,385	-	-	10,668,638	5,788,385
Capital contributions and grants	-	1,316,660	-	-	-	1,316,660
Total program revenues	19,661,493	16,104,803	17,993,175	19,134,211	37,654,668	35,239,014
General revenues:						
Taxes:						
Property taxes	31,253,867	25,705,048	247,343	262,581	31,501,210	25,967,629
Sales and use tax	7,035,338	7,509,243	-	-	7,035,338	7,509,243
Transient occupancy tax	807,411	843,063	-	-	807,411	843,063
Franchise tax	2,450,261	2,497,862	-	-	2,450,261	2,497,862
Document transfer tax	175,336	153,516	-	-	175,336	153,516
Motor vehicle in-lieu	7,069,737	6,495,727	-	-	7,069,737	6,495,727
Unrestricted investment earnings	4,240,121	951,489	36,712	130,657	4,276,833	1,082,146
System improvement and replacement	-	-	498,973	187,560	498,973	187,560
Gain/(Loss) on disposal of capital assets	(4,015)	-	-	-	(4,015)	-
Other	214,155	471,890	402,320	336,740	616,475	808,630
Total general revenues	53,242,211	44,627,838	1,185,348	917,538	54,427,559	45,545,376
Total revenues	72,903,704	60,732,641	19,178,523	20,051,749	92,082,227	80,784,390
Expenses						
General government	8,786,012	7,057,475	-	-	8,786,012	7,057,475
Public safety	21,219,049	21,768,668	-	-	21,219,049	21,768,668
Development services	37,148,535	37,275,002	-	-	37,148,535	37,275,002
Interest on long-term debt	10,578,499	9,726,254	-	-	10,578,499	9,726,254
Water	-	-	18,798,545	19,928,163	18,798,545	19,928,163
Wastewater	-	-	2,147,458	2,680,585	2,147,458	2,680,585
Total expenses	77,732,095	75,827,399	20,946,003	22,608,748	98,678,098	98,436,147
Excess/(Deficiency) of revenues over/ (under) expenses	(4,828,391)	(15,094,758)	(1,767,480)	(2,556,999)	(6,595,871)	(17,651,757)
Transfers in	322,491	-	-	69,600	322,491	69,600
Transfers out	-	(69,600)	(322,491)	-	(322,491)	(69,600)
Change in net assets	(4,505,900)	(15,164,358)	(2,089,971)	(2,487,399)	(6,595,871)	(17,651,757)
Net assets at July 1	160,422,237	157,401,399	82,243,053	80,153,082	242,665,290	237,554,481
Restatement of net assets at July 1,	1,485,062	-	-	-	1,485,062	-
Net assets at July 1, as restated	161,907,299	157,401,399	82,243,053	80,153,082	244,150,352	237,554,481
Net assets at June 30	\$ 157,401,399	\$ 142,237,041	\$ 80,153,082	\$ 77,665,683	\$ 237,554,481	\$ 219,902,724

GOVERNMENTAL ACTIVITIES

The City's net assets from governmental activities decreased by \$15.2 million. The cost of all governmental activities this year was \$75.8 million. However, as shown in Table 2, the amount that the taxpayers ultimately financed for these activities was \$59.7 million (\$75.8 million of total expenses less \$16.1 million total of program revenue). The \$16.1 million of program revenue entails \$9.0 million of costs paid by those who directly benefited from the programs, \$5.8 million by other governments and organizations that partially funded certain programs with operating grants and contributions, and \$1.3 million of capital contributions.

Overall, the City's governmental Program Revenues were \$16.1 million. The City paid for the remaining "public benefit" portion of governmental activities with \$59.7 million in taxes (some of which could only be used for certain programs) and other revenues, such as vehicle license fees and general entitlements.

Fiscal Year 2011 Government Activities
(see Table 2)



The City's programs for governmental activities include General Government, Public Safety (Fire and Police), Development Services, and Interest on Long-Term Debt. The programs for the business type activities include the water and wastewater utilities.

BUSINESS-TYPE ACTIVITIES

The District's net assets decreased \$2.5 million or 3.1%. The cost of all Water District activities this year was \$22.6 million which is about \$1.7 million less than the \$20.9 million from the prior year. As shown in the Condensed Statement of Revenues, Expenses, and Changes in Net Assets (Table 2), the amount paid by users of the systems was \$19.1 million, which is an increase of \$1.1 million or 6.3% from the June 30, 2010 total of \$18.0 million. The increase is attributed to the 4% water rate and a 7% sewer rate increase which became effective on November 1, 2010. Non-operating revenues of \$1.0 million make up the remainder of the \$20.1 million total revenues.

Non-operating revenues decreased \$0.3 million in FY 2010-11 largely due to a \$0.3 million decrease in capital facility and capital surcharge revenues. The capital facility and capital surcharge revenues are primarily a reflection of the development activity occurring in Hesperia and are mostly attributable to offsetting the costs of adding the customers to the system. As seen in the above table, this revenue group reflects the continued decrease of the development activity within the City of Hesperia which saw a decrease in single family residential permits issued from 12 in FY 2008-09 to 3 for FY 2009-10 to 0 for FY 2010-11.

The District's total expenses increased approximately \$1.7 million or 7.9% in FY 2010-11. This increase is largely a result of the \$1.4 million recognition of water costs in FY 2010-11, and a \$0.5 million increase in wastewater expenses in large part due to increased wastewater treatment fees.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At year-end, the City's governmental funds reported combined fund balances of \$128.1 million, which is a decrease of \$55.3 million or 30.2% from last year.

- At year-end, the General Fund balance was \$16.9 million, which is a decrease of \$0.6 million from the restated prior year balance of \$17.5 million. While the expenditures exceeded revenues by \$0.1 million, the transfer out for the General Fund of \$2.0 million exceeded transfers in by \$0.5

million, thereby causing a reduction to the June 30, 2011 fund balance. The majority of the \$2.0 million is related to \$1.9 million contribution to the Fire Protection District.

- The Fire Protection District reported a balance of \$1.7 million, which is an increase of about \$0.4 million or 29.4% from June 30, 2010's restated ending fund balance of \$1.3 million. The change in the fund balance is due to the \$1.9 million transfer from the City of Hesperia netted with expenditures exceeding revenues by \$1.5 million.
- The Redevelopment Agency Low/Moderate reported a fund balance of \$49.3 million at June 30, 2011, which is \$28.8 million less than the June 30, 2010 fund balance of \$78.1 million. The decrease that is due to expending bond proceeds for projects and the calling of \$20.2 million of the 2007 Series A bonds related to housing projects.
- The fund balance for the Development Impact Fees - Streets fund decreased by \$0.9 million with expenditures exceeding revenues. The expenditures were used to support capital projects.
- The combined Redevelopment Agency Debt Service Funds reported a fund balance of negative \$8.4 million, which is a decrease of \$19.7 million or 174.3% from the June 30, 2010 fund balance of \$11.3 million. The reduction of fund balance is primarily due to the recording of loans of \$16.2 million, classified as 'Advances', for the State of California's SERAF II (Supplemental Educational Revenue Augmentation Fund) payment and for capital improvement projects, and the decrease in the Agency's property tax revenue.
- The June 30, 2011 combined fund balance for the Redevelopment Agency Capital Projects totaled \$19.4 million, which is a decrease of \$19.3 million from the previous year. The decrease of the fund balance is primarily due to expending the 2007 bond proceeds on capital projects.

The final expenditures for the General Fund at year-end were \$0.8 million less than the final budget. The budget to actual variance in appropriations was principally due to conservative estimates at mid-year by management. The actual General Fund revenues, including transfers, of \$23.5 million were \$0.9 million or 4.0% more than the final budget of \$22.6 million. The primary cause for the surplus is that actual sales tax revenue was \$0.8 million more than budgeted, which is the result of recovering sales tax revenue. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

CAPITAL ASSETS

The capital assets of the City are those assets that are used in the performance of the City's functions including infrastructure assets (See Table 3 below). For more detailed information about the City's assets, see Note 4 Capital Assets. At June 30, 2011, capital assets, net of depreciation, of the governmental activities totaled \$204.5 million an increase of \$8.6 million, from the prior year, which is comprised primarily by the completion of the new police building and the new fire station. Also, at June 30, 2011 the net capital assets of the business-type activities totaled \$90.3 million reflecting a net decrease of \$2.5 million, from the prior year, primarily the result of recording depreciation. Depreciation on capital assets is recognized in the Government-Wide financial statements.

The City has elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting for the streets. Using the Basic Approach the City depreciates the value of the streets over a twenty (20) year period. As repaving of street segments is done (overlays must be at least one inch thick), the value of that work will be added and any remaining book value of that segment will be reduced from the streets infrastructure class.

Table 3
Capital Assets at Year-End

	Balance at June 30, 2010			Current Year Depreciation	Balance at June 30, 2011
	Net of Accumulated Depreciation	Increases	Decreases		Net of Accumulated Depreciation
Governmental Activities:					
Land	\$ 28,407,919	\$ 1,047,276	\$ -	\$ -	\$ 29,455,195
Water rights	2,645,233	-	-	-	2,645,233
Construction in process	36,696,268	15,991,716	(33,324,886)	-	19,363,098
Land improvements	4,189,914	-	-	(113,129)	4,076,785
Vehicles	2,886,724	-	-	(501,828)	2,384,896
Buildings and improvements	27,762,153	26,938,132	-	(1,019,528)	53,680,757
Machinery and equipment	1,697,556	88,823	-	(350,422)	1,435,957
Infrastructure	91,529,272	6,386,754	-	(6,495,423)	91,420,603
	<u>\$ 195,815,039</u>	<u>\$ 50,452,701</u>	<u>\$ (33,324,886)</u>	<u>\$ (8,480,330)</u>	<u>\$ 204,462,524</u>
Business-type Activities:					
Land	\$ 3,174,528	\$ -	\$ -	\$ -	\$ 3,174,528
Water rights	1,699,000	-	-	-	1,699,000
Land improvements	241,538	-	-	(20,877)	220,661
Vehicles	998,107	-	-	(203,683)	794,424
Buildings and improvements	1,982,875	-	-	(239,560)	1,743,315
Machinery and equipment	794,639	7,384	-	(165,776)	636,247
Infrastructure:					
Water facilities	78,812,367	-	-	(2,969,309)	75,843,058
Sewer facilities	4,149,115	-	-	(178,951)	3,970,164
Construction in progress	899,120	1,353,562	-	-	2,252,682
	<u>\$ 92,751,289</u>	<u>\$ 1,360,946</u>	<u>\$ -</u>	<u>\$ (3,778,156)</u>	<u>\$ 90,334,079</u>

DEBT ADMINISTRATION

Debt issued by the City of Hesperia and component governmental entities is not the responsibility of the Hesperia Water District (business-type activities); in like manner the debt issued by the Hesperia Water District is not the responsibility of the City of Hesperia and its component governmental entities. Table 4, below, presents the outstanding debt. For more detailed information about debt, see Note 5 Long-Term Debt.

Table 4
Outstanding Debt at Year-End

	Principal Balance at June 30, 2010	Additions	Deductions	Principal Balance at June 30, 2011
Governmental Activities:				
Loans	\$ 900,000	\$ -	\$ (300,000)	\$ 600,000
Certificates of participation	13,900,000	-	(200,000)	13,700,000
Revenue bonds	200,065,000	-	(28,925,000)	171,140,000
Less deferred amounts:				
Bond premiums	2,858,654	-	(109,248)	2,749,406
Bond discounts	(921,270)	-	41,758	(879,512)
Notes payable for land purchases	3,941,077	-	(2,119,872)	1,821,205
Compensated absences	636,032	476,633	(493,862)	618,803
Claims payable	421,352	368,617	(310,121)	479,848
	<u>\$ 221,800,845</u>	<u>\$ 845,250</u>	<u>\$ (32,416,345)</u>	<u>\$ 190,229,750</u>
Business-type Activities:				
Certificates of participation	990,000	-	(50,000)	940,000
Revenue bonds	14,205,000	-	(705,000)	13,500,000
Less: deferred amounts:				
Bond discounts	(113,436)	-	7,305	(106,131)
On refunding	(1,195,597)	-	76,937	(1,118,660)
Compensated absences	172,523	156,454	(153,432)	175,545
Claims payable	66,772	252,802	(186,412)	133,162
	<u>\$ 14,125,262</u>	<u>\$ 409,256</u>	<u>\$ (1,010,602)</u>	<u>\$ 13,523,916</u>

Debt, considered a liability of government activities, decreased in FY 2010-11 by a net of \$31.6 million, which was primarily due to calling \$25.1 million of the 2007 Tax Allocation Revenue Bonds Series A. The remaining \$6.5 million decrease was the result of servicing, or making payments on long-term debt. Debt of the business-type activities decreased by \$0.6 million in FY 2010-11 due to scheduled debt service activity including the retirement of one debt issue.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the FY 2011-12 Budget, the estimated revenues budgeted of \$100.4 million is an 8% decrease from the FY 2010-11 Budget of \$108.9 million. The decrease of overall revenue is primarily due to the completion of the High Desert County Government Center, which was reimbursed by the County for construction costs during FY 2010-11. General Fund revenue is expected to decrease by 1% to a total of \$20.1 million from the prior year total of \$22.1 million, which is related to the expected decrease of property tax related revenues and grants. In FY 2011-12, the Redevelopment Agency budget reflects tax increment revenue of \$18.4 million, which is \$1.2 million less, or 6% less, than the 2010-11 fiscal year total of \$19.6 million. Due to decreased water sales, the Hesperia Water District's FY 2011-12 revenue is budgeted expected to decrease by 1%, while the Fire Protection District's revenue is expected to increase by 4%.

Development related revenues are expected remain flat during FY 2011-10, which is primarily the result of the continued housing market slowdown. The measurement used by the City to diagnose the health

of the local housing market is the number of single family residential (SFR) permits issued. To illustrate the current housing slowdown, for FY 2005-06 the number of SFRs issued was 1,645 followed by 634 in FY 2006-07, 106 in FY 2007-08, 12 SFRs in FY 2008-09, 3 FY 2009-10, and finally, 0 permits issued during FY 2010-11. For FY 2010-11, the City has budgeted only 10 SFRs.

The following is a listing of factors that will be addressed during FY 2011-12:

Transportation: \$29.4 million is budgeted toward transportation projects for FY 2011-12. These projects include:

- \$2.0 million for the FY 2011-12 Street Improvement Program, which is expected to pave and repair approximately 8 miles of roads within the City.
- \$6.9 million is budgeted toward the Rancho road/I-15 Interchange.
- \$13.5 million is budgeted for construction for the Rancho Road Undercrossing.
- \$5.1 million for the construction of the Industrial Park Lead Track project.
- \$1.9 million is budgeted toward five other street projects varying from phases related to planning to project completion.

Police: An increase of \$0.9 million, for a total of \$12.3 million, would be needed to maintain the current level of police service during FY 2011-12. The City Council approved to eliminate five (5) vacant Sheriff Deputy positions and two (2) marked patrol units, which resulted in an estimated savings of \$1.0 million savings, which brings the estimated cost of police services to \$11.3 million.

Fire: Since the City of Hesperia may not continue to offset ongoing revenue shortfalls of the Fire District, a reduction in the level of staffing was proposed for fiscal year 2011-12. This reduction in staffing would decrease the San Bernardino County Fire Protection District contract from \$9.5 million to \$8.1 million for a \$1.4 million or 13.7% decrease. The proposed reduction in staffing of 9 Firefighter/Paramedics from 21 to 12 is anticipated to reduce costs while minimizing the impact of a service level reduction. However, the proposed staffing reduction was delayed, when the budget was adopted, pending a parcel tax vote, and the proposed staffing reduction will be implemented mid-fiscal year if the voting outcome is not favorable. A mid-year staff reduction will still reduce the costs of the District.

Water: During the 2007-08 fiscal year the Board approved a series of water rate increases over a five year period starting with FY 2007-08. The overall water rate increase for the first three years is 9% followed by two years of 4%. In addition, the Board approved sewer rate increases of 7% for all five years. The water rate increase for FY 2011-12 will be 4%, while the sewer rate increase will be 7%. As detailed in the FY 2011-12 Budget, the District will not make any planned expenses related to capital improvement.

Redevelopment Agency: On June 28, 2011, the Governor of the State of California signed ABx1 26 and ABx1 27 into law. ABx1 26, the Dissolution Act, calls for the dissolution of all redevelopment agencies by October 1, 2011 and the transfer of the management of outstanding obligations to a successor agency determined by the State. ABx1 27, the Voluntary Alternative Redevelopment Program, allows the Agency to continue operations if the City adopts a resolution by October 1, 2011, committing the Agency to make annual payments into a Special District Allocation Fund (SDAF) and an Educational Revenue Augmentation Fund (ERAF). The City of Hesperia adopted Ordinance No. 2011-12, which complied with ABx1 27 and committed the Agency to make such payments. The 2011-12 fiscal year SDAF and ERAF obligation is \$7,161,943.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Division, at the City of Hesperia, 9700 Seventh Avenue, Hesperia, California 92345.



CITY OF HESPERIA

STATEMENT OF NET ASSETS
June 30, 2011

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 69,890,707	\$ 1,177,373	\$ 71,068,080
Receivables			
Accounts	2,230,930	3,233,188	5,464,118
Accrued interest	95,993	2,292	98,285
Due from other governmental agencies	4,258,461	31,416	4,289,877
Land held for resale	25,319,162	-	25,319,162
Inventories	-	1,261,998	1,261,998
Deposits	37,480	25,601	63,081
Deferred asset from derivative instrument	-	2,357,194	2,357,194
Restricted assets:			
Cash and investments with fiscal agent	382,342	1,890,305	2,272,647
Cash and cash equivalents	14,464,876	-	14,464,876
Cash held for bondholders	-	393,285	393,285
Cash held for bond reserves	16,392,256	-	16,392,256
Total Current Assets	133,072,207	10,372,652	143,444,859
Noncurrent Assets:			
Other Noncurrent Assets:			
Notes receivable, net of allowance	28,468,950	-	28,468,950
Prepaid expenses	-	497,600	497,600
Internal balance	4,800,000	(4,800,000)	-
Deferred charges	4,306,364	263,801	4,570,165
Deposits for self-insurance	859,887	360,954	1,220,841
Total Other Noncurrent Assets	38,435,201	(3,677,645)	34,757,556
Capital Assets:			
Not being depreciated:			
Land	29,455,195	3,174,528	32,629,723
Water rights	2,645,233	1,699,000	4,344,233
Construction in progress	19,363,098	2,252,682	21,615,780
Being depreciated:			
Land improvements	4,667,382	790,727	5,458,109
Buildings and improvements	57,307,390	7,889,838	65,197,228
Equipment and vehicles	12,661,150	6,578,874	19,240,024
Infrastructure	137,403,220	-	137,403,220
Water and sewer facilities	-	124,545,913	124,545,913
Less: Accumulated depreciation	(59,040,144)	(56,597,483)	(115,637,627)
Total Capital Assets	204,462,524	90,334,079	294,796,603
Total Noncurrent Assets	242,897,725	86,656,434	329,554,159
Total assets	\$ 375,969,932	\$ 97,029,086	\$ 472,999,018

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

LIABILITIES	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable and other current liabilities	\$ 2,379,653	\$ 2,263,264	\$ 4,642,917
Accrued interest payable	2,821,235	57,755	2,878,990
Deposits	15,000	506,189	521,189
Due to other governmental agencies	4,449,388	-	4,449,388
Current liabilities payable from restricted assets - due to bondholders	-	393,285	393,285
Liability from derivative instrument	-	2,357,194	2,357,194
Long-term debt-due within one year	5,994,211	953,523	6,947,734
Total Current Liabilities	15,659,487	6,531,210	22,190,697
Noncurrent Liabilities:			
Net OPEB obligation	732,252	261,800	994,052
Unearned revenue	33,105,613	-	33,105,613
Long-term debt-due in more than one year	184,235,539	12,570,393	196,805,932
Total Noncurrent Liabilities	218,073,404	12,832,193	230,905,597
Total liabilities	233,732,891	19,363,403	253,096,294
NET ASSETS			
Invested in capital assets, net of related debt	15,931,422	77,118,870	93,050,292
Restricted for debt service	16,774,598	1,890,305	18,664,903
Restricted for community development	14,464,876	-	14,464,876
Unrestricted	95,066,145	(1,343,492)	93,722,653
Total net assets	\$ 142,237,041	\$ 77,665,683	\$ 219,902,724

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 7,057,475	\$ 4,563,118	\$ -	\$ -
Public safety	21,768,668	2,517,302	943,275	812,211
Transportation	-	-	4,293,260	504,449
Development services	37,275,002	1,919,336	551,850	-
Interest on long-term debt	9,726,254	-	-	-
Total governmental activities	<u>75,827,399</u>	<u>8,999,756</u>	<u>5,788,385</u>	<u>1,316,660</u>
Business-type activities:				
Water	19,928,163	15,926,606	-	-
Sewer	2,680,585	3,207,605	-	-
Total business-type activities	<u>22,608,748</u>	<u>19,134,211</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 98,436,147</u>	<u>\$ 28,133,967</u>	<u>\$ 5,788,385</u>	<u>\$ 1,316,660</u>

General Revenues

- Property taxes
- Sales and use tax
- Transient occupancy tax
- Franchise tax
- Document transfer tax
- Motor vehicle in lieu
- Unrestricted investment earnings
- Unrestricted system improvement and replacement
- Other

Transfers

- Total general revenues
- Change in net assets
- Net assets at beginning of year
- Restatement of beginning net assets
- Net assets at beginning of year, restated
- Net assets at end of year

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

Net (Expense)/Revenue and
Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (2,494,357)	\$ -	\$ (2,494,357)
(17,495,880)	-	(17,495,880)
4,797,709	-	4,797,709
(34,803,816)	-	(34,803,816)
(9,726,254)	-	(9,726,254)
<u>(59,722,598)</u>	<u>-</u>	<u>(59,722,598)</u>
-	(4,001,557)	(4,001,557)
-	527,020	527,020
<u>-</u>	<u>(3,474,537)</u>	<u>(3,474,537)</u>
<u>(59,722,598)</u>	<u>(3,474,537)</u>	<u>(63,197,135)</u>
25,705,050	262,581	25,967,631
7,509,243	-	7,509,243
843,063	-	843,063
2,497,862	-	2,497,862
153,516	-	153,516
6,495,727	-	6,495,727
951,489	130,657	1,082,146
-	187,560	187,560
471,890	336,740	808,630
(69,600)	69,600	-
<u>44,558,240</u>	<u>987,138</u>	<u>45,545,378</u>
(15,164,358)	(2,487,399)	(17,651,757)
155,916,337	80,153,082	236,069,419
1,485,062	-	1,485,062
<u>157,401,399</u>	<u>80,153,082</u>	<u>237,554,481</u>
<u>\$ 142,237,041</u>	<u>\$ 77,665,683</u>	<u>\$ 219,902,724</u>

See accompanying independent auditors' report and notes to financial statements.





CITY OF HESPERIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Fire District	Redevelopment Agency Low/Moderate
Assets			
Cash and cash equivalents	\$ 15,394,966	\$ 1,202,725	\$ -
Restricted investments	-	-	4,044,813
Restricted cash and cash equivalents	-	-	14,464,876
Accounts receivable	1,048,539	725,180	4,500
Accrued interest	17,123	443	17,670
Notes receivable, net of allowance	-	-	16,972,044
Due from other governmental agencies	2,110,645	194,771	120,608
Land held for resale	-	-	818,555
Deposits	-	-	-
Due from other funds	62,496	-	797,991
Advance to other funds	-	-	24,385,964
Advance to Hesperia Water District	-	-	4,800,000
Total Assets	\$ 18,633,769	\$ 2,123,119	\$ 66,427,021
Liabilities and Fund Balances			
Liabilities			
Accounts payable and other current liabilities	\$ 552,737	\$ 2,481	\$ 75,259
Deferred revenue	1,152,228	413,043	17,029,230
Deposits	5,000	-	-
Due to other governmental agencies	-	-	-
Due to other funds	-	-	-
Advance from other funds	-	-	-
Total Liabilities	1,709,965	415,524	17,104,489
Fund Balances:			
Nonspendable:			
Advances	-	-	29,185,964
Land held for resale	-	-	818,555
Restricted:			
Debt Service	-	-	4,044,813
Transportation	-	-	-
Air quality	-	-	-
Public safety	-	1,707,595	-
Grants	-	-	-
Deposits	-	-	-
Low income housing	-	-	15,273,200
Other purposes	-	-	-
Committed:			
Self Insurance	150,000	-	-
Other purposes	-	-	-
Unassigned	16,773,804	-	-
Total Fund Balances	16,923,804	1,707,595	49,322,532
Total Liabilities and Fund Balances	\$ 18,633,769	\$ 2,123,119	\$ 66,427,021

(Continued)

See accompanying independent auditors' report and notes to financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

HOME Grant	Development Impact Fees Streets	Redevelopment Agency Debt Service	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 4,766	\$ 8,057,337	\$ 10,649,574	\$ 8,874,704	\$ 25,706,635	\$ 69,890,707
-	-	10,052,390	361,318	2,316,077	16,774,598
-	-	-	-	-	14,464,876
-	-	-	7,500	12,110	1,797,829
6	9,606	14,162	-	36,983	95,993
11,496,906	-	-	-	-	28,468,950
-	-	215,364	126,510	1,490,563	4,258,461
-	9,002,541	-	11,351,637	4,146,429	25,319,162
-	-	-	37,480	-	37,480
-	-	-	492,873	-	1,353,360
-	-	-	-	-	24,385,964
-	-	-	-	-	4,800,000
<u>\$ 11,501,678</u>	<u>\$ 17,069,484</u>	<u>\$ 20,931,490</u>	<u>\$ 21,252,022</u>	<u>\$ 33,708,797</u>	<u>\$ 191,647,380</u>
\$ -	\$ 81,432	\$ -	\$ 1,062,298	\$ 605,446	\$ 2,379,653
11,496,906	-	-	-	1,276,662	31,368,069
-	-	-	10,000	-	15,000
-	-	4,449,388	-	-	4,449,388
-	-	492,873	797,991	62,496	1,353,360
-	-	24,385,964	-	-	24,385,964
<u>11,496,906</u>	<u>81,432</u>	<u>29,328,225</u>	<u>1,870,289</u>	<u>1,944,604</u>	<u>63,951,434</u>
-	-	-	-	-	29,185,964
-	9,002,541	-	11,351,637	4,146,429	25,319,162
-	-	8,171,813	361,318	5,086,004	17,663,948
-	7,985,511	-	-	3,992,737	11,978,248
-	-	-	-	189,142	189,142
-	-	-	3,450,730	1,284,144	6,442,469
4,772	-	-	-	1,099,727	1,104,499
-	-	-	37,480	-	37,480
-	-	-	-	-	15,273,200
-	-	-	-	1,051,168	1,051,168
-	-	-	-	-	150,000
-	-	-	4,180,568	14,972,069	19,152,637
-	-	(16,568,548)	-	(57,227)	148,029
<u>4,772</u>	<u>16,988,052</u>	<u>(8,396,735)</u>	<u>19,381,733</u>	<u>31,764,193</u>	<u>127,695,946</u>
<u>\$ 11,501,678</u>	<u>\$ 17,069,484</u>	<u>\$ 20,931,490</u>	<u>\$ 21,252,022</u>	<u>\$ 33,708,797</u>	<u>\$ 191,647,380</u>

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2011

Amounts reported for governmental activities in the statement of Net Assets are different because:

Total fund balances - governmental funds	\$ 127,695,946
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	204,462,524
Amounts receivable in the Statement of Net Assets differ from the amounts reported in the governmental funds due to accrued administrative fines received after the availability period for governmental funds.	433,101
Accrued interest on long-term debt is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.	(2,821,235)
Bond issue costs are capitalized net of amortization on the Statement of Net Assets.	4,306,364
The CFD 2005-1 has received special assessments and did not remit these to the City within the availability period. These revenues are recognized in the government-wide statements and deferred in the fund statements.	917,871
The Sales Tax "triple flip" is subject to a "true up" adjustment to be received in January 2012. These revenues are recognized in the government-wide statements and deferred in the fund statements.	647,399
Accrued interest on loans was not received in the current period, and therefore is not recognized in the governmental funds balance sheet.	57,186
The lease agreement between the City and the County provides current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Activities.	(3,360,000)
Deposits with Insurance providers to pay for long-term liabilities are not current financial resources and therefore are not recorded on the governmental fund balance sheets.	859,887
The Net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.	(732,252)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.	(190,229,750)
Net Assets of governmental activities	<u>\$ 142,237,041</u>

See accompanying independent auditors' report and notes to financial statements.



CITY OF HESPERIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year ended June 30, 2011

	General Fund	Fire District	Redevelopment Agency Low/Moderate
Revenues:			
Taxes	\$ 11,009,903	\$ 5,888,860	\$ 4,078,484
Licenses and permits	255,836	-	-
Fines and forfeits	783,589	-	-
Use of money and property	72,449	57,234	456,393
Intergovernmental	8,399,041	-	-
Charges for services	1,169,422	2,219,748	-
Grants	128,325	-	-
Other revenues	282,592	-	63,009
Total Revenues	22,101,157	8,165,842	4,597,886
Expenditures:			
Current:			
General government:			
City council	664,005	-	-
City manager	1,039,273	-	-
Management services	3,990,751	-	-
Public safety-police	11,332,518	-	-
Public safety-fire	-	9,698,466	-
Development services	5,089,533	-	9,132,072
Debt service:			
Interest	-	-	2,893,815
Principal	-	-	21,300,000
Pass through payments	-	-	-
SERAF payment	-	-	-
Bond administration expense	-	-	4,250
Capital outlay:			
Land	-	-	2,304
Buildings and improvements	-	-	-
Equipment and vehicles	67,554	-	-
Infrastructure	-	-	-
Total Expenditures	22,183,634	9,698,466	33,332,441
Excess (Deficiency) of Revenues Over (Under) Expenditures	(82,477)	(1,532,624)	(28,734,555)
Other Financing Sources (Uses):			
Transfers in	1,447,704	1,920,941	-
Transfers out	(1,986,501)	-	-
Total Other Financing Sources (Uses)	(538,797)	1,920,941	-
Net Change in Fund Balances	(621,274)	388,317	(28,734,555)
Fund balances at beginning of year	16,860,093	758,836	78,057,087
Prior period adjustment (Note 18)	684,985	560,442	-
Fund balances at beginning of year, as restated	17,545,078	1,319,278	78,057,087
Fund balances at end of year	\$ 16,923,804	\$ 1,707,595	\$ 49,322,532

(Continued)

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year ended June 30, 2011

HOME Grant	Development Impact Fees Streets	Redevelopment Agency Debt Service	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 15,716,750	\$ -	\$ 2,966,007	\$ 39,660,004
-	-	-	-	-	255,836
-	-	-	-	-	783,589
6	31,803	104,660	352,071	68,682	1,143,298
-	-	-	-	1,988,743	10,387,784
-	413,703	-	-	181,312	3,984,185
4,355	-	-	-	2,489,434	2,622,114
-	-	-	680,820	431,731	1,458,152
<u>4,361</u>	<u>445,506</u>	<u>15,821,410</u>	<u>1,032,891</u>	<u>8,125,909</u>	<u>60,294,962</u>
-	-	-	-	-	664,005
-	-	-	-	69,584	1,108,857
-	-	-	-	-	3,990,751
-	-	-	-	-	11,332,518
-	-	-	-	-	9,698,466
-	26,964	22,494	653,247	4,960,024	19,884,334
-	-	6,506,565	-	74,252	9,474,632
-	-	9,184,872	-	1,060,000	31,544,872
-	-	8,893,177	-	-	8,893,177
-	-	1,680,385	-	-	1,680,385
-	-	6,412	-	606,660	617,322
-	68,292	7,500	727,746	241,434	1,047,276
-	-	-	3,020,969	2,206,206	5,227,175
-	-	8,801	-	12,468	88,823
-	1,239,404	-	8,069,411	1,455,726	10,764,541
-	1,334,660	26,310,206	12,471,373	10,686,354	116,017,134
<u>4,361</u>	<u>(889,154)</u>	<u>(10,488,796)</u>	<u>(11,438,482)</u>	<u>(2,560,445)</u>	<u>(55,722,172)</u>
-	-	7,798,681	14,486,524	20,290,293	45,944,143
-	-	(16,993,029)	(22,359,977)	(4,604,636)	(45,944,143)
-	-	(9,194,348)	(7,873,453)	15,685,657	-
<u>4,361</u>	<u>(889,154)</u>	<u>(19,683,144)</u>	<u>(19,311,935)</u>	<u>13,125,212</u>	<u>(55,722,172)</u>
411	17,877,206	11,286,409	38,693,668	18,399,346	181,933,056
-	-	-	-	239,635	1,485,062
411	17,877,206	11,286,409	38,693,668	18,638,981	183,418,118
<u>\$ 4,772</u>	<u>\$ 16,988,052</u>	<u>\$ (8,396,735)</u>	<u>\$ 19,381,733</u>	<u>\$ 31,764,193</u>	<u>\$ 127,695,946</u>

See accompanying independent auditors' report and notes to financial statements.

CITY OF HESPERIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ (55,722,172)
Decrease in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.		(46,358)
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:		
Capital outlays	17,127,815	
Depreciation expense	(8,480,330)	8,647,485
Interest Expense is recognized when paid on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized when incurred on the Statement of Activities.		451,535
OPEB expense is recognized when paid in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized when incurred in the Statement of Activities.		(280,700)
Administrative fines received after the availability period are recognized in the government-wide statements and deferred in the fund statements.		433,101
The CFD 2005-1 has received special assessments and did not remit these to the City within the availability period. These revenues are recognized in the government-wide statements and deferred in the fund statements. During the current period some remittance was recognized and decreased the deferral in the fund statements.		(381,078)
The Sales Tax "triple flip" is subject to a "true up" adjustment to be received in January 2012. These revenues are recognized in the government-wide statements and deferred in the fund statements.		176,056
The revenue for the lease agreement between the City and the County is being recognized and deferred on the Statements of Activities over the life of the lease, and was previously recognized as a current financial resource on the governmental funds. This was previously recognized on the Statement of Revenues, Expenditures, and Changes in Fund Balance.		140,000
Accrued interest on loans was not received in the current period, and therefore is not recognized in the governmental funds balance sheet.		57,186
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal payments on long-term debt	31,544,872	
Amortization of costs of issuance, premiums and discounts	(143,021)	
Changes to compensated absences	17,229	
Changes to claims payable	(58,493)	31,360,587
Change in Net Assets of governmental activities		\$ (15,164,358)

See accompanying independent auditors' report and notes to financial statements.

Proprietary Funds

Proprietary funds are represented by two fund types: Enterprise funds and Internal Service funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City Council is that the costs of providing goods or services to the general public, on a continuing basis, be financed or recovered primarily through user charges. Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and to other government units, on a cost reimbursement basis. The City does not have any Internal service Funds at year ending June 30, 2010.

Individual Enterprise funds are as follows:

Water Operations and Capital - To account for the operation, maintenance, and system construction of the City's water operations, which is funded by user charges and other fees.

Sewer Operations and Capital - To account for the operation, maintenance, and system construction of the City's sewer system, which is funded by user charges and other fees.

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2011

	Water Operations & Capital	Sewer Operations & Capital	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 1,177,373	\$ 1,177,373
Receivables:			
Accounts	2,709,673	523,515	3,233,188
Accrued interest	873	1,419	2,292
Deposits	22,284	3,317	25,601
Inventories	1,261,998	-	1,261,998
Due from other funds	-	8,117,068	8,117,068
Due from other governmental agencies	20,633	10,783	31,416
Deferred asset from derivative instrument	2,357,194	-	2,357,194
Restricted Assets:			
Cash and investments with fiscal agent	1,890,305	-	1,890,305
Cash held for bondholders	393,285	-	393,285
Total Current Assets	<u>8,656,245</u>	<u>9,833,475</u>	<u>18,489,720</u>
Noncurrent Assets:			
Other Noncurrent Assets:			
Prepaid expenses	497,600	-	497,600
Deferred charges	263,801	-	263,801
Deposits for self-insurance	329,449	31,505	360,954
Total Other Noncurrent Assets	<u>1,090,850</u>	<u>31,505</u>	<u>1,122,355</u>
Capital Assets:			
Land	1,371,741	1,802,787	3,174,528
Water rights	1,699,000	-	1,699,000
Construction in progress	2,252,682	-	2,252,682
Land improvements	790,727	-	790,727
Vehicles	2,271,302	75,819	2,347,121
Machinery and equipment	3,965,985	265,768	4,231,753
Buildings and improvements	7,889,838	-	7,889,838
Water and sewer facilities	117,408,505	7,137,408	124,545,913
Less: Accumulated depreciation	<u>(53,248,451)</u>	<u>(3,349,032)</u>	<u>(56,597,483)</u>
Total Capital Assets	<u>84,401,329</u>	<u>5,932,750</u>	<u>90,334,079</u>
Total Noncurrent Assets	<u>85,492,179</u>	<u>5,964,255</u>	<u>91,456,434</u>
Total Assets	<u>\$ 94,148,424</u>	<u>\$ 15,797,730</u>	<u>\$ 109,946,154</u>

See accompanying independent auditors' report and notes to basic financial statements.

CITY OF HESPERIA

LIABILITIES	Water Operations & Capital	Sewer Operations & Capital	Total
Current Liabilities:			
Accounts payable	\$ 1,890,587	\$ 230,514	\$ 2,121,101
Accrued personnel costs	134,478	7,685	142,163
Accrued interest payable	57,755	-	57,755
Deposits	506,189	-	506,189
Due to other funds	8,117,068	-	8,117,068
Current liabilities payable from restricted assets - due to bondholders	393,285	-	393,285
Liability from derivative instrument	2,357,194	-	2,357,194
Long term debt due within one year	2,130,031	23,492	2,153,523
Total Current Liabilities	<u>15,586,587</u>	<u>261,691</u>	<u>15,848,278</u>
Noncurrent Liabilities:			
Net OPEB obligation	261,800	-	261,800
Compensated absences	6,043	979	7,022
Claims payable	120,063	13,099	133,162
Loan payable	3,600,000	-	3,600,000
Revenue bonds (net of unamortized discounts and deferred amounts on refunding)	11,545,209	-	11,545,209
Certificates of participation	885,000	-	885,000
Total Noncurrent Liabilities	<u>16,418,115</u>	<u>14,078</u>	<u>16,432,193</u>
Total Liabilities	<u>32,004,702</u>	<u>275,769</u>	<u>32,280,471</u>
NET ASSETS			
Invested in capital assets, net of related debt	71,186,120	5,932,750	77,118,870
Restricted for debt service	1,890,305	-	1,890,305
Unrestricted	(10,932,703)	9,589,211	(1,343,492)
Total Net Assets	<u>\$ 62,143,722</u>	<u>\$ 15,521,961</u>	<u>\$ 77,665,683</u>

See accompanying independent auditors' report and notes to basic financial statements.

CITY OF HESPERIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2011

	Water Operations & Capital	Sewer Operations & Capital	Total
OPERATING REVENUES			
Water sales	\$ 15,359,282	\$ -	\$ 15,359,282
Water services	247,606	-	247,606
Sewer services	-	3,207,605	3,207,605
Other	319,718	-	319,718
Total Operating Revenues	<u>15,926,606</u>	<u>3,207,605</u>	<u>19,134,211</u>
OPERATING EXPENSES			
General and administrative	7,576,566	-	7,576,566
Engineering	919,460	-	919,460
Production	3,085,362	-	3,085,362
Distribution	1,132,399	2,473,108	3,605,507
Customer service	2,797,816	-	2,797,816
Depreciation and amortization	3,588,593	207,477	3,796,070
Total Operating Expenses	<u>19,100,196</u>	<u>2,680,585</u>	<u>21,780,781</u>
OPERATING INCOME (LOSS)	<u>(3,173,590)</u>	<u>527,020</u>	<u>(2,646,570)</u>
NON-OPERATING REVENUES (EXPENSES)			
Unrestricted system improvement and replacement	187,560	-	187,560
Property taxes	261,549	-	261,549
Property taxes - debt service	1,032	-	1,032
Rent income	406,340	-	406,340
Interest income	14,275	116,382	130,657
Interest expense	(827,967)	-	(827,967)
Total Non-Operating Revenues (Expenses), Net	<u>42,789</u>	<u>116,382</u>	<u>159,171</u>
Change In Net Assets	<u>(3,130,801)</u>	<u>643,402</u>	<u>(2,487,399)</u>
Net assets at beginning of year	<u>65,274,523</u>	<u>14,878,559</u>	<u>80,153,082</u>
Net assets at end of year	<u>\$ 62,143,722</u>	<u>\$ 15,521,961</u>	<u>\$ 77,665,683</u>

See accompanying independent auditors' report and notes to basic financial statements.

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2011

	Water Operations & Capital	Sewer Operations & Capital	Total
Cash Flows from Operating Activities:			
Cash received from water and sewer customers	\$ 15,578,716	\$ 3,180,205	\$ 18,758,921
Cash received from other operating receipts	319,718	-	319,718
Cash payments for water purchases	(5,528,363)	-	(5,528,363)
Cash payments for sewer collection and maintenance	-	(2,863,775)	(2,863,775)
Cash payments for services and supplies	(1,164,865)	-	(1,164,865)
Cash payments to employees for services	(7,419,371)	-	(7,419,371)
Net Cash Provided (Used) by Operating Activities	1,785,835	316,430	2,102,265
Cash Flows from Noncapital and Related Financing Activities:			
Property taxes received	262,581	-	262,581
Advances from/to other funds	1,401,569	(1,401,569)	-
Net Cash Provided by Noncapital and Related Financing Activities	1,664,150	(1,401,569)	262,581
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(1,360,946)	-	(1,360,946)
Unrestricted system improvement and replacement receipts	187,560	-	187,560
Advance to VVWRA	-	(326,919)	(326,919)
Repayment of advance to VVWRA	-	1,904,017	1,904,017
Interest received from advances	-	103,464	103,464
Cash received from bondholders	2,528	-	2,528
Cash payment on loan payable to HCRA	(1,200,000)	-	(1,200,000)
Interest payments on long-term debt	(744,365)	-	(744,365)
Principal payments on long-term debt	(755,000)	-	(755,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,870,223)	1,680,562	(2,189,661)
Cash Flows from Investing Activities:			
Rents received	406,340	-	406,340
Interest received	16,426	45,439	61,865
Net Cash Provided by Investing Activities	422,766	45,439	468,205
Net Increase (Decrease) in Cash and Cash Equivalents	2,528	640,862	643,390
Cash and cash equivalents at beginning of year	2,281,062	536,511	2,817,573
Cash and cash equivalents at end of year	<u>\$ 2,283,590</u>	<u>\$ 1,177,373</u>	<u>\$ 3,460,963</u>

(continued)

See accompanying independent auditors' report and notes to basic financial statements.

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2011

	Water Operations & Capital	Sewer Operations & Capital	Total
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:			
Operating income (Loss)	<u>\$ (3,173,590)</u>	<u>\$ 527,020</u>	<u>\$ (2,646,570)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	3,588,593	207,477	3,796,070
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(28,172)	(36,057)	(64,229)
(Increase) decrease in deposits	89,846	10,485	100,331
(Increase) decrease in inventory	728,019	-	728,019
(Increase) decrease in due from other governments	6,559	9,367	15,926
Increase (decrease) in accounts payable	522,077	(366,434)	155,643
Increase (decrease) in accrued personnel costs	(5,236)	(710)	(5,946)
Increase (decrease) in customer deposits	(53,918)	(3,543)	(57,461)
Increase (decrease) in net OPEB obligation	105,300	-	105,300
Increase (decrease) in deferred revenue	-	(27,840)	(27,840)
Increase (decrease) in compensated absences	6,357	(3,335)	3,022
Total Adjustments	<u>4,959,425</u>	<u>(210,590)</u>	<u>4,748,835</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,785,835</u>	<u>\$ 316,430</u>	<u>\$ 2,102,265</u>
Supplemental Disclosures:			
Noncash Capital and Financing Activities			
Amortization Related to Long-Term Debt	\$ 84,242		

See accompanying independent auditors' report and notes to basic financial statements.

Fiduciary Fund Types

Fiduciary Fund types include trust and agency funds. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

Individual Agency funds are as follows:

Special Deposits - To account for various deposits that are held by the City as collateral, guarantee of work to be done, or for code compliance. The monies in this fund are returned to the depositor upon completion of projects and/or fulfillment of purpose.

Assessment District 91-1 - To account for the Joshua/West Main Street assessment district special taxes received and the payment of debt service related to bonds issued.

Community Facilities District 2005 - To account for the restructuring of the Community Facilities District #91-3 debt used to finance the infrastructure of the Belgate development.

Branch Library Fund - To account for donations that are held by the City, to assist in the financing of the future expansion of the community library.

Summit Valley HCP - To account for deposits that are held by the City to offset the costs for establishing the Summit Valley Habitat Conservation Plan.

County High Desert Government Center - To account for the costs to construct a County of San Bernardino Government Center building in the City of Hesperia located just to the north of the City's Civic Plaza.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2011

	Total Agency Funds
Assets	
Cash and investments	\$ 6,298,661
Cash and investments with fiscal agent	3,379,858
Accrued interest	8,484
Total Assets	<u><u>9,687,003</u></u>
Liabilities	
Accounts payable	940,927
Due to bondholders	8,261,554
Deposits payable	484,522
Total Liabilities	<u><u>\$ 9,687,003</u></u>

See accompanying independent auditors' report and notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Hesperia (Hesperia) was incorporated on July 1, 1988 under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city.

The accounting policies of Hesperia and its component units conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

a. Description and Scope of the Reporting Entity:

As required by generally accepted accounting principles, these financial statements present the City of Hesperia 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 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 to be financially accountable for an organization if that 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.

Based upon the above criteria, the component units of the City are:

1. Hesperia Fire Protection District - Originally organized as a subsidiary district under San Bernardino County, and later on July 1, 1988 became a subsidiary district of the City.
2. Hesperia Water District - Formed on March 28, 1975, and later on April 30, 1990, became a subsidiary district of the City.
3. Hesperia Redevelopment Agency - Established as a separate legal entity in accordance with state law. The purpose of the agency is to encourage investment and reinvestment within legally designated redevelopment areas in partnership with property owners.
4. Hesperia Public Facilities Corporation - Established as a separate legal entity on May 4, 1990 to provide financing for various projects of the Hesperia Water District.
5. Hesperia Public Financing Authority - Established as a separate legal entity in March 1993 to provide financing for various City capital projects.
6. Hesperia Housing Authority – the City of Hesperia adopted Resolution No. 2011-022 thereby establishing the Hesperia Housing Authority pursuant to California Housing Authority Law to carry out the future housing function of the Agency that will be ceded to the City and to accept the property transfers. As of June 30, 2011, no assets or liabilities have been transferred to the authority.
7. Community Development Commission – The City passed Ordinance No. 2011-005 for the purpose of establishing a community development commission (CDC) to transact business and exercise powers in the City, including redevelopment, housing, and economic development. As of June 30, 2011, no assets or liabilities have been transferred to the commission.

See accompanying independent auditors' report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

a. Description and Scope of the Reporting Entity (Continued):

8. On April 05, 2011, the City Council authorized the creation of two 501(c)(3) charitable trusts (non-profit corporation). One non-profit corporation will support affordable housing, while the second non-profit corporation will support economic development. As of June 30, 2011, the two non-profit corporations have not been legally formed.

Since the City Council serves as the governing board for these component units, all of the City's component units are considered to be blended component units. Blended component units although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with the interfund data of the primary government. Only the Hesperia Fire Protection District, the Hesperia Water District and the Redevelopment Agency issue separate component unit financial statements. Upon their completion, the financial statements of these 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 changes in net assets) report information on all the nonfiduciary activities of the primary government. 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 user fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses for 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.

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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.

The City has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. The fund balance reported on the fund statements now consist of the following categories:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Government-wide and Fund Financial Statements (Continued):

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. On the Governmental Funds Balance Sheet the Other Purposes consist of the following:

Fund	Amount	Purpose
Development Impact Fees-Public Services	1,051,168	Expanding Public Facilities

- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment. On the Governmental Funds Balance Sheet the Other Purposes consist of the following:

Fund	Amount	Purpose
Redevelopment Agency Capital Projects	4,180,568	Capital projects
Other Governmental Funds	14,972,069	Transportation and administrative services

- Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the City’s General Fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance in other governmental funds is limited to any negative residual fund balance after fund balance has been classified as restricted, committed, or assigned.

In the government-wide statements, the City considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the City uses the most restrictive funds first. The City would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

c. Measurement focus, basis of accounting and financial statement presentation:

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The accounting objectives of the economic measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Proprietary fund equity is classified as net assets.

See accompanying independent auditors' report.

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. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. Revenues are recognized as soon as they are both measurable and available. Revenues considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. For revenues of the Gas Tax Fund, revenues are considered to be available if they are collected within 90 days of the end of the current fiscal period. For revenues of the Article 8 Fund, revenues are considered to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service payments (principal and interest) unpaid vacation, compensatory time and claims and judgments are recorded only when payment is due.

Property taxes, sales tax, transient occupancy tax (T.O.T.) franchise taxes, vehicle license fees, highway users tax, interest associated with the current period, and some grants are all susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. The City reports the following major governmental funds:

The **General Fund** is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Fire District Special Revenue Fund** is used to account for revenues from special tax assessments and for expenditures relating to the City's fire prevention and protection.

The **Redevelopment Agency Low/Moderate Special Revenue Fund** is used to account for Low and Moderate Income Housing activity.

The **HOME Grant Special Revenue Fund** is used to account for the Department of Housing and Urban Development HOME Investment Partnership Act (HOME) grants requiring segregated fund accounting.

The **Development Impact Fees Special Revenue Fund** is used to account for the expansion of the existing capacity of streets, storm drains, police, fire, and other city facilities.

The **Redevelopment Agency Debt Service Fund** is used to account for the tax increment receipts and payment of the Redevelopment Agency bonded indebtedness.

The **Redevelopment Agency Capital Projects Fund** is used to account for construction activity within the Redevelopment Project Areas number 1 and 2.

See accompanying independent auditors' report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement focus, basis of accounting and financial statement presentation (Continued):

The City reports the following major proprietary funds:

The **Water Operations and Capital Fund** is used to account for the operation and maintenance of the City's water operations which is funded by user charges and other fees.

The **Sewer Operations and Capital Fund** is used to account for the operation and maintenance of the City's sewer systems which is funded by user charges and other fees.

The City's fund structure also includes the following fund types:

The **Special Revenue Funds** are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

The **Debt Service Funds** are used to account for the accumulation of resources and the payment of general obligation bond principal and interest from governmental resources, and special assessment bond principal and interest from special assessment levies, when the government is obligated in some manner for the payment.

The **Capital Projects Funds** are used to account for financial resources used for the acquisition or construction of major capital facilities.

The **Fiduciary Funds** include trust and agency funds. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary statements, even though excluded from the government-wide financial statements represent Agency Funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Special Deposits Fund – This fund is used to account for various deposits that are held by the City as collateral, guarantee of work to be done, or for code compliance. The monies in this fund are returned to the depositor upon completion of projects and/or fulfillment of purpose.

Assessment District 91-1 Fund – This fund accounts for the Joshua/West Main Street assessment district special taxes received and the payment of debt service related to bonds issued.

Community Facilities District 2005-1 Fund – This fund accounts for the restructuring of the Community Facilities District 91-3 debt used to finance the infrastructure of the Belgate Development.

Branch Library Fund – This fund accounts for the donations held by the City to assist in the financing of the future expansion of the new community library.

Summit Valley HCP Fund – This Fund accounts for deposits held by the City to offset the costs for establishing the Summit Valley Habitat Conservation Plan.

See accompanying independent auditors' report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement focus, basis of accounting and financial statement presentation (Continued):

County High Desert Government Center Fund – This Fund accounts for the costs of constructing the County of San Bernardino Government Center building, which is located just to the north of the City's Civic Plaza.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedure.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this rule are the charges between the water operations fund and sewer operations fund and the other functions of the City. 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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the funds principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customer for sales and services. Operating expenses for proprietary funds include the cost of sales and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

d. Cash and Cash Equivalents:

For purposes of the statements of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less.

e. Investments:

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings, changes in fair value, any gains or losses realized upon liquidation, maturity, or sale of investments. There are no significant differences between fair value and cost at June 30, 2011.

See accompanying independent auditors' report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Investments (Continued):

The City pools 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 investments. Investment income earned by the pooled investments is allocated to the various funds on a quarterly basis, based on each fund's average cash and investment balance.

f. Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Management estimates all receivables at June 30, 2011 to be collectible, as any receivables deemed uncollectible have been written off. The City's fiscal year end falls in the middle of a billing cycle for water and sewer. In order to accrue the amount of the year end receivables, the City estimates the amount of unbilled receivables based on that portion of the billing cycle that has elapsed as of the fiscal year end.

g. Inventory:

Inventories are valued at cost, which approximates market, in a first in first out basis. The inventory consists of meters, pipes and other parts required to provide water and wastewater services to customers.

h. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2011, in the opinion of the City's Attorney, the City had no material unrecorded claims which would require loss provision in the financial statements, including losses for claims which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid. Payments are typically paid from the General Fund, Fire District fund, and the Proprietary funds. The various amounts are based on information provided by the City's claims administrators.

i. Compensated Absences:

Vacation pay is payable to employees at the time used or upon termination of employment. In the government-wide financial statements (i.e. Statement of Net Assets and Statement of Activities) the cost of vacation is recorded as a liability when incurred for both governmental and business-type activities. Compensated absences once exercised are paid out of the same fund as they were originally accrued in including the following governmental funds: General Fund, Street Maintenance Fund, Community Development Block Grant Fund, Hesperia Redevelopment Agency Funds, and the following enterprise funds: Water Fund and Sewer Fund.

j. Interest Charges:

The City incurs interest charges on long term debt. Interest expense for the year ended June 30, 2011 and 2010 were \$10,554,221 and \$11,394,913 respectively. No amounts were capitalized as a cost of construction projects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

k. Capital Assets:

Capital assets, which include land, buildings, building improvements, infrastructure, and equipment are depreciated and are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. City policy has set the capitalization threshold for reporting capital assets at \$5,000.

Capital assets include additions to public domain (infrastructure) certain improvements including pavement, curb and gutter, sidewalks, traffic control devices, streetlights, storm drains, bridges, and right of way corridors within the City.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction in progress costs are capitalized and transferred to their respective fixed asset category upon completion of the project.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land and construction-in-progress are not depreciated.

Buildings	30-50 Years
Improvements	20 Years
Machinery and Equipment	5-30 Years
Vehicles	8-20 Years
Water and Sewer Facilities	40 Years
Infrastructure	20 Years

l. Long-term Obligations:

In the government-wide financial statements and the proprietary fund types in the 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of related debt. Long-term obligation payments are typically paid from the same fund as they originated including Marks-Roos Revenue Bonds, City Debt Service, and Redevelopment Agency Debt Service.

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

m. Property Taxes:

Real property taxes are levied on October 15 against owners of record on January 1. The taxes are due in two installments, on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Tax liens attach annually as of 12:01 a.m. on the first day of January in the fiscal year for which the taxes are levied. Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided it is collected within 60 days of the end of the year.

See accompanying independent auditors' report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**n. Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and expenditures during the reporting period. Specifically the City has made certain estimates and assumptions relating to the collectability of its receivables (including accounts receivable, loans receivable, and amounts due from other governments) and the ultimate outcome of claims and judgments. Actual results could differ from those estimates and assumptions.

o. Restricted Assets:

The primary government reports assets that are restricted for customer deposits, contributions designated for specific purposes, and funds held in trust which are restricted for debt service payments.

p. Land Held for Resale:

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balance has been reserved for land held for resale in the Redevelopment Agency Low/Moderate Fund, Development Impact Fees Fund, Redevelopment Agency Capital Projects Fund, and in the Neighborhood Stabilization Fund (Other Governmental Funds).

2. FIRE PROTECTION SERVICES AGREEMENT:

The Hesperia Fire Protection District entered into a fire protection services agreement with the San Bernardino County Consolidated Fire District (County) effective June 1, 2005. The agreement calls for the County to provide to the District fire prevention, fire investigation, fire suppression, advanced life support services, ambulance transportation service, hazardous materials, and rescue services. The District's expense to the County for these services during the fiscal year ending June 30, 2011 was \$9,474,569. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS:

Cash and cash equivalents	\$ 71,068,080
Restricted assets:	
Cash and investments with fiscal agent	2,272,647
Cash and cash equivalents	14,464,876
Cash held for bondholders	393,285
Cash held for bond reserves	16,392,256

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES:

Cash and investments	6,298,661
Cash and investments with fiscal agent	3,379,858
	<hr/>
Total cash and investments	\$114,269,663

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 15,075
Deposits with financial institutions	3,036,356
Investments	111,218,232
	<hr/>
Total cash and investments	\$ 114,269,663

Investments Authorized by the California Government Code and the City of Hesperia's Investment policy:

The table below identifies the investment types that are authorized for the City 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>
U.S. Treasury Obligations	5 years	100%	None
U.S. State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

See accompanying independent auditors' report.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

Investments Authorized by Debt Agreements:

Investments authorized for funds held by bond trustees include, U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, Certificates of Deposits, Commercial Paper, Local Agency Bonds, Bankers' Acceptances, Money Market Mutual Funds, Repurchase Agreements, Investment Contracts and any other investments permitted by bond insurer and are legal investments under State laws. There were no limitations on the maximum amount that can be invested in one issuer or maximum percentage allowed.

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.

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

Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
State investment pool	\$ 91,053,468	\$ 91,053,468	\$ -	\$ -	\$ -
Held by fiscal agent:					
Money market funds	20,164,764	20,164,764	-	-	-
Total	\$ 111,218,232	\$ 111,218,232	\$ -	\$ -	\$ -

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 the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year ended for each investment type.

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	A	Not Rated
State investment pool	\$ 91,053,468	N/A	\$ -	\$ -	\$ -	\$ 91,053,468
Held by fiscal agent:						
Money market funds	20,164,764	AAA	-	20,164,764	-	-
Total	\$ 111,218,232		\$ -	\$ 20,164,764	\$ -	\$ 91,053,468

See accompanying independent auditors' report.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

Concentration of Credit Risk:

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2011 there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pool) that represent 5% or more of the City's investments.

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 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 government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental 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, 2011, \$3,196,260 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State Investment Pool:

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. CAPITAL ASSETS:

Capital asset activity was as follows for the year ended June 30, 2011:

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,407,919	\$ 1,047,276	\$ -	\$ 29,455,195
Water rights	2,645,233	-	-	2,645,233
Construction in progress	36,696,268	15,991,716	(33,324,886)	19,363,098
Total capital assets, not being depreciated	67,749,420	17,038,992	(33,324,886)	51,463,526
Capital assets, being depreciated:				
Land improvements	4,667,382	-	-	4,667,382
Vehicles	7,744,603	-	-	7,744,603
Buildings	30,369,258	26,938,132	-	57,307,390
Machinery and equipment	4,827,724	88,823	-	4,916,547
Infrastructure	131,016,466	6,386,754	-	137,403,220
Total capital assets, being depreciated	178,625,433	33,413,709	-	212,039,142
Less accumulated depreciation for:				
Land improvements	(477,468)	(113,129)	-	(590,597)
Vehicles	(4,857,879)	(501,828)	-	(5,359,707)
Buildings	(2,607,105)	(1,019,528)	-	(3,626,633)
Machinery and equipment	(3,130,168)	(350,422)	-	(3,480,590)
Infrastructure	(39,487,194)	(6,495,423)	-	(45,982,617)
Total accumulated depreciation	(50,559,814)	(8,480,330)	-	(59,040,144)
Total capital assets, being depreciated, net	128,065,619	24,933,379	-	152,998,998
Governmental-type activities capital assets, net	\$ 195,815,039	\$ 41,972,371	\$ (33,324,886)	\$ 204,462,524

See accompanying independent auditors' report.

4. CAPITAL ASSETS (Continued):

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,174,528	\$ -	\$ -	\$ 3,174,528
Water rights	1,699,000	-	-	1,699,000
Construction in progress	899,120	1,353,562	-	2,252,682
Total capital assets, not being depreciated	<u>5,772,648</u>	<u>1,353,562</u>	<u>-</u>	<u>7,126,210</u>
Capital assets, being depreciated:				
Land improvements	790,727	-	-	790,727
Vehicles	2,347,121	-	-	2,347,121
Machinery and equipment	4,224,369	7,384	-	4,231,753
Building and improvements	7,889,838	-	-	7,889,838
Water facilities	117,408,505	-	-	117,408,505
Sewer facilities	7,137,408	-	-	7,137,408
Total capital assets, being depreciated	<u>139,797,968</u>	<u>7,384</u>	<u>-</u>	<u>139,805,352</u>
Less accumulated depreciation for:				
Land improvements	(549,189)	(20,877)	-	(570,066)
Vehicles	(1,349,014)	(203,683)	-	(1,552,697)
Machinery and equipment	(3,429,730)	(165,776)	-	(3,595,506)
Building and improvements	(5,906,963)	(239,560)	-	(6,146,523)
Water facilities	(38,596,138)	(2,969,309)	-	(41,565,447)
Sewer facilities	(2,988,293)	(178,951)	-	(3,167,244)
Total accumulated depreciation	<u>(52,819,327)</u>	<u>(3,778,156)</u>	<u>-</u>	<u>(56,597,483)</u>
Total capital assets, being depreciated, net	<u>86,978,641</u>	<u>(3,770,772)</u>	<u>-</u>	<u>83,207,869</u>
Total capital assets, net	<u>\$ 92,751,289</u>	<u>\$ (2,417,210)</u>	<u>\$ -</u>	<u>\$ 90,334,079</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 925,540
Public safety	737,684
Development services	<u>6,817,106</u>
Total depreciation expense - governmental activities	<u>\$ 8,480,330</u>
Business-type activities:	
Water	\$ 3,570,679
Sewer	<u>207,477</u>
Total depreciation expense - business-type activities	<u>\$ 3,778,156</u>

See accompanying independent auditors' report.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2011:

	Principal Balance at June 30, 2010	Additions	Deductions	Principal Balance at June 30, 2011	Due Within One Year
Governmental Activities:					
Loans	\$ 900,000	\$ -	\$ (300,000)	\$ 600,000	\$ 150,000
Certificates of Participation	13,900,000	-	(200,000)	13,700,000	500,000
Total Loans	<u>14,800,000</u>	<u>-</u>	<u>(500,000)</u>	<u>14,300,000</u>	<u>650,000</u>
Revenue Bonds	200,065,000	-	(28,925,000)	171,140,000	3,980,000
Less deferred amounts:					
Bond premiums	2,858,654	-	(109,248)	2,749,406	-
Bond discounts	(921,270)	-	41,758	(879,512)	-
Total Revenue Bonds	<u>202,002,384</u>	<u>-</u>	<u>(28,992,490)</u>	<u>173,009,894</u>	<u>3,980,000</u>
Notes payable for land purchases	3,941,077	-	(2,119,872)	1,821,205	770,160
Compensated absences	636,032	476,633	(493,862)	618,803	594,051
Claims payable	421,352	368,617	(310,121)	479,848	-
Total governmental activity	<u>\$ 221,800,845</u>	<u>\$ 845,250</u>	<u>\$ (32,416,345)</u>	<u>\$ 190,229,750</u>	<u>\$ 5,994,211</u>
Business-type activities:					
Certificates of Participation	\$ 990,000	\$ -	(50,000)	\$ 940,000	\$ 55,000
Total Loans	<u>990,000</u>	<u>-</u>	<u>(50,000)</u>	<u>940,000</u>	<u>55,000</u>
Revenue Bonds	14,205,000	-	(705,000)	13,500,000	730,000
Less deferred amounts:					
Bond discounts	(113,436)	-	7,305	(106,131)	-
On refunding	(1,195,597)	-	76,937	(1,118,660)	-
Total Revenue Bonds	<u>12,895,967</u>	<u>-</u>	<u>(620,758)</u>	<u>12,275,209</u>	<u>730,000</u>
Compensated absences	172,523	156,454	(153,432)	175,545	168,523
Claims payable	66,772	252,802	(186,412)	133,162	-
Total business-type activity	<u>\$ 14,125,262</u>	<u>\$ 409,256</u>	<u>\$ (1,010,602)</u>	<u>\$ 13,523,916</u>	<u>\$ 953,523</u>
Entity-wide total	<u>\$ 235,926,107</u>	<u>\$ 1,254,506</u>	<u>\$ (33,426,947)</u>	<u>\$ 203,753,666</u>	<u>\$ 6,947,734</u>

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

Governmental long-term debt as of June 30, 2011 is comprised of the following issues:

Balance at
June 30, 2011

Section 108 Loan:

On June 6, 1996, the City entered into a note for \$3,000,000 with Chase Manhattan Bank. The note is guaranteed by the Department of Housing and Urban Development (HUD) under Section 108 of the Housing and Community Development Act and is payable from future CDBG entitlements. These proceeds are to be used to make loans to assist for-profit businesses. The note bears interest at the London Interbank Offering Rate (LIBOR) and is adjusted on the first day of each month plus 0.20% (0.387% at June 30, 2011).

\$ 600,000

2005 Tax Allocation Revenue Bonds: Series A and Series B:

During the fiscal year ending June 30, 2005 the Hesperia Public Financing Authority issued, on behalf of the Hesperia Community Redevelopment Agency, \$49,285,000 Tax Allocation Bonds, Series A and B. The proceeds of the Series A bonds were used to refund the Senior Revenue Bonds, Series A, B, and C, repay loans made by the City of Hesperia to the Agency, and to provide funds for redevelopment project activity. The current refunding of the Senior Revenue Bonds Series A, B, and C resulted in an economic gain of \$4,602,700 and a reduction of \$1,184,022 in future debt service payments. A reserve fund for the 2005 Tax Allocation Revenue Bonds was established to be equal to the least of ten percent (10%) of the aggregate original issue price of the respective Series of Bonds, one hundred twenty five percent (125%) of the average annual debt service on the respective Series of Bonds for that and every subsequent bond year, or the maximum annual debt service on the respective Series of Bonds. As of June 30, 2011, the amounts held with the reserve accounts for the Series A and B bonds were \$2,535,792 and \$406,000, respectively.

Series A:

The Series A bonds consist of term current interest bonds and accrue interest at annual rates ranging from 3.0% to 5.00%. Interest and principal is payable on September 1st of each year with bond principal payments ranging in amounts from \$785,000 to \$2,415,000.

35,770,000

Series B:

The Series B bonds consist of term current interest bonds and accrue interest at annual rates ranging from 3.0% to 3.625%. Interest and principal is payable on September 1st of each year with bond principal payments ranging in amounts from \$440,000 to \$950,000.

4,060,000

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

Governmental long-term debt as of June 30, 2011 is comprised of the following issues (Continued):

Balance at
June 30, 2011

2007 Tax Allocation Revenue Bonds: Series A and Series B:

During the fiscal year ending June 30, 2008 the Hesperia Public Financing Authority issued, on behalf of the Hesperia Community Redevelopment Agency, \$154,320,000 Tax Allocation Bonds, Series A and B. The proceeds of the Series A & B bonds were used to provide funds for redevelopment project activity. During the fiscal year ending June 30, 2011, \$ 25,110,000 of Series A bonds were called, which resulted in a corresponding principal reduction. A reserve fund for the 2007 Tax Allocation Revenue Bonds was established to be equal to the least of ten percent (10%) of the aggregate original issue price of the respective Series of Bonds, one hundred twenty five percent (125%) of the average annual debt service on the respective Series of Bonds for that and every subsequent bond year, or the maximum annual debt service on the respective Series of Bonds. As of June 30, 2011, the amounts held with the reserve accounts for the Series A and B bonds were \$9,441,560 and \$1,699,130, respectively.

Series A:

The Series A bonds consist of term current interest bonds and accrue interest at annual rates ranging from 5.0% to 5.5%. Interest and principal is payable on September 1st of each year with bond principal payments ranging in amounts from \$125,000 to \$8,885,000.

107,040,000

Series B:

The Series B bonds consist of term current interest bonds and accrue interest at 5.864%. Interest is payable on March 1st and September 1st of each year with bond principal payments ranging in amounts from \$960,000 to \$1,965,000.

17,235,000

2004 Refunding Variable Rate Lease Revenue Bonds:

On October 1, 2004 the Hesperia Public Financing Authority issued the 2004 Variable Rate Demand Revenue Bonds in the amount of \$12,525,000 to refund the 1993 A Series Revenue Bonds in the amount of \$3,045,000 and the 1993 B Series Revenue Bonds in the amount of \$10,900,000. The issue initially bears interest at a weekly variable rate with an option to convert to a fixed rate. The weekly variable rate is set by the market. The issue matures through the year 2023 with principal payments ranging from \$185,000 to \$800,000. The 1993A bonds and 1993B bonds were called on October 1, 2004. The current refunding of the 1993 A and B Revenue Bonds resulted in an economic gain of \$3,461,053 and a reduction of \$6,442,436 in future debt service payments. A reserve fund for the 2004 Variable Rate Demand Revenue Bonds was established to be equal to the least of 1) 10% of the original principal amount of the bonds; 2) 125% of the average annual installment sale payments; or 3) the maximum annual installment payments assuming available rate of 0.35% on the outstanding certificates. At June 30, 2011, a total of \$1,289,069 was held in reserve.

7,035,000

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

Governmental long-term debt as of June 30, 2011 is comprised of the following issues (Continued):

Balance at
June 30, 2011

2005 Variable Rate Certificates of Participation:

On May 1, 2005, the Hesperia Public Financing Authority issued the 2005 Variable Rate Demand Certificates of Participation (Civic Plaza Financing) to finance the acquisition and construction of a civic plaza and related improvements. The issue initially bears interest at a weekly variable rate with an option to convert to a fixed rate. The weekly variable rate is set by the market. The issue matures through the year 2034 with principal payments ranging from \$500,000 to \$900,000. A reserve fund was established in the amount of the least of 1) maximum annual debt payments assuming a variable rate of 0.17% of the outstanding certificates; 2) 125% of the average annual debt payments or; 3) 10% of the original principal amounts of the certificates. At June 30, 2011, a total of \$1,289,069 was held in reserve.

13,700,000

Notes Payable for Land Purchases:

During the fiscal year ending June 30, 2010 the Hesperia Community Redevelopment Agency purchased land from three private land owners by issuing notes payable for the purchase amount over the down payment.

Steward – During the fiscal year ending June 30, 2009, the Hesperia Community Redevelopment Agency purchased one parcel of land for \$1,050,000 with a down payment of \$400,000 and a 5 year 6.75% note payable for \$650,000. The first payment against the note was during the fiscal year ending June 30, 2010.

415,144

Cappas – During the fiscal year ending June 30, 2009, the Hesperia Community Redevelopment Agency purchased one parcel of land for \$900,000 with a down payment of \$297,000 and a 5 year 6.00% note payable for \$603,000. The first payment against the note was during the fiscal year ending June 30, 2010.

382,642

Bugz – During the fiscal year ending June 30, 2010, the Hesperia Community Redevelopment Agency purchased four parcels of land for \$600,000 with a down payment of \$200,000 and a 2 year 6.50% note payable for \$400,000. The first payment against the note was during the fiscal year ending June 30, 2010. The note has been paid off as of June 30, 2011.

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See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

Governmental long-term debt as of June 30, 2011 is comprised of the following issues (Continued):

	<u>Balance at June 30, 2011</u>
<u>Hamann</u> – During the fiscal year ending June 30, 2010, the Hesperia Community Redevelopment Agency purchased two parcels of land for \$3,900,000 with a down payment of \$1,600,000 and a 2 year 6.50% note payable for \$2,300,000. The first payment against the note was during the fiscal year ending June 30, 2010. The note has been paid off as of June 30, 2011.	-
<u>Mega Factors</u> – During the fiscal year ending June 30, 2010, the Hesperia Community Redevelopment Agency purchased five parcels of land comprising the Hesperia Golf and Country Club for \$1,556,000 with no down payment and a 3 year 5.50% note payable for \$1,556,000. The first payment against the note was during the fiscal year ending June 30, 2010.	1,023,419
Compensated absences	618,803
Claims payable	<u>479,848</u>
Subtotal Governmental Long-Term Debt	188,359,856
Add: Deferred amounts on bonds	<u>1,869,894</u>
Total Governmental Long-Term Debt Before Current Portion	190,229,750
Less: Current Portion – Due Within One Year	<u>(5,994,211)</u>
Total Long-Term Portion of Governmental Debt	<u>\$184,235,539</u>

The business-type long-term debt as of June 30, 2011 is as follows:

	<u>Balance at June 30, 2011</u>
<u>1992B Certificates of Participation:</u> The District issued 30-year Certificates of Participation on June 1, 1992, for \$1,405,000 for the Administration Facilities Acquisition Project. The issue bears interest at a rate of 9% over its remaining life and matures through the year 2022 with principal payments ranging from \$20,000 to \$125,000. The Certificates will be financed by revenues generated by the District through set rates and charges for water and sewer services.	940,000

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

The business-type long-term debt as of June 30, 2011 is as follows:

Balance at
June 30, 2011

1998A Variable Rate Lease Revenue Refunding Bonds:

The District issued 28-year variable rate lease revenue refunding bonds on July 2, 1998 for \$18,040,000 to refund a 1991, \$17,675,000 Certificate of Participation issue. The 1991 Certificate of participation is considered defeased; therefore, the issue is not included in the City's financial statements. The bonds require the District to collect gross revenues, as defined in the agreement, of at least 125% of the annual debt service of the bonds and any parity debt of the District. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998A issue has an initial interest rate of 5.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2026, ranging from \$435,000 to \$1,105,000. The 1998A bonds were issued at a discount of \$180,400, which is being amortized over the life of the 1998A Bonds. The difference between the reacquisition price and the net carrying value of the 1991 Certificate of Participation, \$1,906,482 has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense. In June, 2004, the District entered into a variable-to-fixed-interest rate swap with Bank of America, N.A. The swap requires Bank of America, N.A. to pay the variable rate while fixing the District rate at 5.96%. The agreement provides up to \$10,000,000 can be fixed at 5.96%. The amount fixed with the counterparty decreases over time to \$6,910,000 at June 20, 2020. At June 30, 2011 the amount fixed was \$10,000,000.

12,315,000

1998B Variable Rate Lease Revenue Refunding Bonds:

The District issued 24-year variable rate lease revenue refunding bonds on July 2, 1998 for \$2,070,000 to refund a 1992, \$1,855,000 Certificate of Participation issue. The 1992A Certificate of Participation is considered defeased: therefore, the issue is not included in the City's financial statements. The bonds require the District to collect gross revenues, as defined in the agreement, of at least 125% of the annual debt service of the bonds and any parity debt of the District. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998B issue has a initial interest rate of 3.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2022, ranging from \$55,000 to \$130,000. The difference between the reacquisition price and the net carrying value of the 1992A Certificate of Participation, \$212,358 has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense.

1,185,000

Compensated absences

175,545

Claims payable

133,162

Subtotal Business Long-Term Debt

14,748,707

Less: Deferred amounts on bonds

(1,224,791)

Total Business Long-Term Debt Before Current Portion

13,523,916

Less: Current Portion – Due Within One Year

(953,523)

Total Long-Term Portion of Business-Type Debt

\$12,570,393

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

The annual debt service requirements by year for Loans Payable are as follows:

Governmental				
Fiscal Year				
Ending	Principal	Interest	Total	
2012	\$ 150,000	\$ 3,405	\$ 153,405	
2013	150,000	2,724	152,724	
2014	150,000	2,043	152,043	
2015	150,000	1,362	151,362	
	<u>\$ 600,000</u>	<u>\$ 9,534</u>	<u>\$ 609,534</u>	

Variable interest rate used for the Section 108 Loan was 0.454%.

The annual debt service requirements by year for Revenue Bonds are as follows:

Governmental				Business			
Fiscal Year				Fiscal Year			
Ending	Principal	Interest	Total	Ending	Principal	Interest	Total
2012	\$ 3,980,000	\$ 8,346,542	\$ 12,326,542	2012	\$ 730,000	\$ 601,702	\$ 1,331,702
2013	4,160,000	8,186,181	12,346,181	2013	760,000	600,387	1,360,387
2014	4,345,000	8,014,544	12,359,544	2014	790,000	599,015	1,389,015
2015	4,540,000	7,822,176	12,362,176	2015	820,000	597,590	1,417,590
2016	4,755,000	7,639,608	12,394,608	2016	855,000	572,455	1,427,455
2017-2021	27,685,000	34,498,231	62,183,231	2017-2021	4,790,000	2,153,930	6,943,930
2022-2026	28,515,000	27,522,237	56,037,237	2022-2026	4,755,000	791,333	5,546,333
2027-2031	36,105,000	19,219,540	55,324,540	2027-2031	-	-	-
2032-2036	39,710,000	9,528,025	49,238,025	2032-2036	-	-	-
2037-2038	17,345,000	883,800	18,228,800	2037-2038	-	-	-
	<u>\$ 171,140,000</u>	<u>\$ 131,660,884</u>	<u>\$ 302,800,884</u>		<u>\$ 13,500,000</u>	<u>\$ 5,916,412</u>	<u>\$ 19,416,412</u>

Variable interest rate used for the 2004 Refunding Variable Rate Lease Revenue bonds was 0.11%.

Variable interest rate used for the 1998A Variable Rate Lease Revenue Refunding Bonds above the \$10,000,000 fixed amount was 0.19%.

Variable interest rate used for the 1998B Variable Rate Lease Revenue Refunding Bonds was 0.11%.

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

The annual debt service requirements by year for the Certificates of Participation are as follows:

Governmental				Business			
Fiscal Year Ending	Principal	Interest	Total	Fiscal Year Ending	Principal	Interest	Total
2012	\$ 500,000	\$ 15,070	\$ 515,070	2012	\$ 55,000	\$ 84,600	\$ 139,600
2013	500,000	14,520	514,520	2013	60,000	79,650	139,650
2014	500,000	13,970	513,970	2014	65,000	74,250	139,250
2015	500,000	13,420	513,420	2015	70,000	68,400	138,400
2016	500,000	12,870	512,870	2016	75,000	62,100	137,100
2017-2021	3,000,000	55,000	3,055,000	2017-2021	490,000	196,200	686,200
2022-2026	3,400,000	37,840	3,437,840	2022-2026	125,000	11,250	136,250
2027-2031	3,900,000	18,040	3,918,040	2027-2031	-	-	-
2032	900,000	990	900,990	2032	-	-	-
	<u>\$ 13,700,000</u>	<u>\$ 181,720</u>	<u>\$ 13,881,720</u>		<u>\$ 940,000</u>	<u>\$ 576,450</u>	<u>\$ 1,516,450</u>

Variable interest rate used for the 2005 Variable Rate Certificates of Participation was 0.11%.

The annual debt service requirements by year for the Notes Payable are as follows:

Governmental			
Fiscal Year Ending	Principal	Interest	Total
2012	\$ 770,160	\$ 94,277	\$ 864,437
2013	768,486	48,967	817,453
2014	282,559	18,060	300,619
	<u>\$ 1,821,205</u>	<u>\$ 161,304</u>	<u>\$ 1,982,509</u>

6. INTERFUND TRANSACTIONS:

A. Due From/Due To:

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of current interfund balances as of June 30, 2011. The interfund balances listed below represent the advancement of cash to cover operating expenses.

Receivable Fund	Amount	Payable Fund	Amount
General Fund	\$ 62,496	Other Governmental Funds	\$ 62,496
Redevelopment Agency Low/Moderate	797,991	Redevelopment Agency Capital Projects	797,991
Redevelopment Agency Capital Projects	492,873	Redevelopment Agency Debt Service	492,873
Total due from other funds	<u>\$ 1,353,360</u>	Total due to other funds	<u>\$ 1,353,360</u>

The receivable of \$62,496 from the General Fund to Other Governmental Funds is temporary cash advances for grant funds having to spend prior to submitting for reimbursement from other government agencies. These will be repaid to the General Fund from grant reimbursements in the next fiscal period.

The receivable of \$492,873 from Redevelopment Agency Capital Projects to Redevelopment Agency Debt Service is temporary cash advances for debt service that will be reimbursed from future tax increment.

See accompanying independent auditors' report.

6. INTERFUND TRANSACTIONS (Continued):

A. Due From/Due To (Continued):

The receivable of \$797,991 from Redevelopment Agency Low/Moderate and Redevelopment Agency Capital Projects is temporary cash advances for capital projects that will be reimbursed from revenue.

B. Advances to other funds:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Redevelopment Agency Low/Moderate Fund	\$8,197,875	Redevelopment Agency Debt Service Fund	\$8,197,875
Redevelopment Agency Low/Moderate Fund	1,681,990	Redevelopment Agency Debt Service Fund	1,681,990
Redevelopment Agency Low/Moderate Fund	14,506,099	Redevelopment Agency Capital Project Fund	14,506,099
	<u>24,385,964</u>		<u>24,385,964</u>

A loan of \$8,161,869 for the year ended June 30, 2010 from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Number 1 Debt Service Fund and Project Area Number 2 Debt Service Fund provided the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is authorized by Health & Safety Code §33690.5(c). This loan was evidenced by a Promissory Note and must be repaid on or before June 30, 2015 pursuant to California Redevelopment Law. This loan was approved by the Agency Board on May 18, 2010 and initially did not bear interest.

On June 21, 2011, the Agency Board authorized the modification of terms of this Note specifically the interest rate, increasing it at a rate equivalent to the Local Agency Investment Fund (LAIF) Quarterly Apportionment Rate, and pledging security for the Note. All Agency Non-Housing real property was pledged as security. Accrued interest on the loan through June 30, 2011 is \$36,006. The loan balance at June 30, 2011 is \$8,197,875. This loan is classified as advances from/to other funds as repayment is not expected within one year.

A loan of \$1,680,385 for the year ended June 30, 2011 from Low and Moderate Income Housing Special Revenue Fund to the Project Area Number 1 Debt Service Fund and Project Area Number 2 Debt Service Fund provided the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) remittance. The loan is authorized by Health & Safety Code §33690.5(c). This loan was evidenced by a Promissory Note and secured by a Deed of Trust and must be paid off within five years pursuant to California Redevelopment Law. All Agency Non-Housing real property was pledged as security for this loan and was approved by the Agency Board on April 19, 2011. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%. The loan must be repaid on or before June 30, 2016. Accrued interest on the loan through June 30, 2011 is \$1,605. The loan balance at June 30, 2011 is \$1,681,990. This loan is classified as advances from/to other funds as repayment is not expected within one year.

See accompanying independent auditors' report.

6. INTERFUND TRANSACTIONS (Continued):

B. Advances to other funds (Continued):

On March 9, 2011 a 5-year loan of \$31,680,000 was authorized between the Low and Moderate Income Housing Special Revenue Fund and the Project Area Number 1 2005 debt Service Fund for matching costs for the Rancho Road Undercrossing, Industrial Lead Track, and Township Revitalization projects. As of June 30, 2011 \$14,486,524 has been loaned to the Project Area Debt Service Fund for these projects. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%. The loan must be repaid on or before June 30, 2016. Accrued interest on the loan through June 30, 2011 is \$19,575. The loan balance at June 30, 2011 is \$14,506,099. This loan is classified as an advance from/to other funds as repayment is not expected within one year.

C. Current Interfund Transfers:

Transfers out	Amount	Transfers in	Amount
General Fund	\$ 1,920,941	Fire District	\$ 1,920,941
General Fund	65,560	City Debt Service	514,200
Development Impact Fees Police	448,640		
Redevelopment Agency Administration	1,244,514	General Fund	1,244,514
Measure I Renewal	880,000	Street Maintenance	2,760,000
Gas Tax	1,168,538		
Gas Tax Swap	711,462		
AB 3229 State COPS Program	107,000	General Fund	107,000
Neighborhood Stabilization Program	21,990	General Fund	20,870
		Street Maintenance	1,120
Redevelopment Agency Debt Service	2,506,505	Redevelopment Agency Administration	2,506,505
Redevelopment Agency Debt Service	14,486,524	Redevelopment Agency Capital Projects	14,486,524
Redevelopment Agency Administration	22,492	Redevelopment Agency Debt Service	22,492
Redevelopment Agency Capital Projects	75,320	General Fund	75,320
Redevelopment Agency Capital Projects	14,508,468	Industrial Park Lead Track	5,840,201
		Rancho Road Undercrossing	21,944
		Rancho Undercrossing Local	8,268,146
		Township	378,177
Redevelopment Agency Capital Projects	7,776,189	Redevelopment Agency Debt Service	7,776,189
Total transfers out	<u>\$45,944,143</u>	Total transfers in	<u>\$45,944,143</u>

See accompanying independent auditors' report.

6. INTERFUND TRANSACTIONS (Continued):

C. Current Interfund Transfers (Continued):

Of the \$1,920,941 transfer between the General Fund and the Fire District, \$1,000,000 was the a revenue shortfall experienced in the Fire District and \$920,941 was for the recalculation of the Victor Valley Economic Development Authority (VVEDA) pass through obligations.

The transfer of \$514,200 between the General Fund (\$65,560) and Development Impact Fees fund (\$448,640) to the City Debt Service fund was for the debt service of the 2005 Variable Rate Certificates of Participation.

The transfer of \$2,760,000 between the Measure I Renewal fund (\$880,000), Gas Tax fund (\$1,168,538), and Gas Tax Swap fund (\$711,462) to the Street Maintenance fund was for local street maintenance costs.

The transfer of \$107,000 between the AB 3229 State COPS Program fund and the General fund was to offset some of the cost for 1.5 Deputy Sheriffs.

The transfer of \$21,990 between the General Fund (\$20,870), Street Maintenance (\$1,120), and the Neighborhood Stabilization Program fund is allocation of staffing costs associated with the program.

The transfer of \$2,506,505 between the Redevelopment Agency (RDA) Administration fund and the Redevelopment Agency Debt Service fund is the operating expenditures of the Redevelopment Agency. This transfer is necessary to comply with the 1990 agreement between the City and RDA, whereby the City will provide for all operating costs and the RDA will reimburse the City.

The transfer of \$22,492 between the Redevelopment Agency Debt Service fund and the Redevelopment Agency Administration was to transfer the excess fund balance from a former RDA fund.

The transfer of \$14,486,524 between the Redevelopment Agency Debt Service fund and the Redevelopment Agency Capital Projects was to transfer borrowed funds for the local funding portion of capital projects.

The transfer of \$75,320 between the Redevelopment Agency Capital Projects fund and General Fund is the allocation of staff costs associated with RDA funded capital improvement projects.

The transfer of \$14,508,468 between the Industrial Park Lead Track fund (\$5,840,201), the Rancho Road Undercrossing fund (\$21,944), Rancho Road Undercrossing Local fund (\$8,268,146), the Township fund (\$378,177), and the Redevelopment Agency Capital Projects fund was for funding of the listed capital projects.

The transfer of \$7,776,189 for the year ended June 30, 2011 between Redevelopment Agency Capital Projects and Redevelopment Agency Debt Service fund was the transfer of interest revenue from having \$25,110,000 of 2007 Series A bonds unescrowed.

D. Advance to Hesperia Water District:

The Hesperia Water District was issued a 5-year loan by the Hesperia Community Redevelopment Agency on June 30, 2010, for \$6,000,000 for various water capital projects. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate which at June 30, 2011 had a rate of 0.48%. The loan matures June 30, 2015 with annual principal payments of \$1,200,000. The loan will be financed by revenues generated by the District through set rates and charges for water and sewer services. This is reflected on the Statement of Net Assets as an internal balance. The loan balance at June 30, 2011 is \$4,800,000.

See accompanying independent auditors' report.

7. FUND DISCLOSURES:

The Debt Service Fund established for the Redevelopment Agency reported a deficit in fund balance of \$8,396,735 at June 30, 2011. The fund balance deficit will be rectified by future tax increment revenue.

8. PENSION PLAN OBLIGATIONS:

Plan Description:

The City's employees participate in the Miscellaneous 2.7% at 55 Risk Pool (Plan) of the California Public Employees' Retirement System (PERS). This plan is cost-sharing, multiple-employer defined benefit pension plan administered by PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. Copies of PERS' annual financial report may be obtained from the PERS Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 8% of their annual covered salary. The employees of the City contribute 5% of the 8% contribution required of the City employees while the remaining 3% is contributed by the City on behalf of the employees. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution for this year into the plan for the fiscal year ended June 30, 2011 is shown in the following table:

City non-safety employees	14.876%
Water District non-safety employees	9.846%
Fire District non-safety employees	0.000% *
Fire District safety employees	0.000% *

* - There are no longer any employees of the Fire Protection District (See Note 2)

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. The City's employer contribution for the last three fiscal years, which were equal to the required contribution each year is shown in the following trend information. PERS does not provide individual plan trend information for risk pools.

8. PENSION PLAN OBLIGATIONS (Continued):

Trend Information:

Three-Year Trend Information for PERS:

THREE-YEAR TREND INFORMATION FOR PERS			
Fiscal Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
6/30/2011	2,345,276	100%	\$ -
6/30/2010	2,587,596	100%	-
6/30/2009	2,531,911	100%	-

In October 2007 the City changed their PERS defined benefit plan from a 2.0% at 55 retirement plan to a 2.7% at 55 retirement plan for the City and Water District employees. They are combined into a new risk pool with agencies of fewer than 100 employees. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the City.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2008
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	17 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increase	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

See accompanying independent auditors' report.

9. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The City pays \$108 a month in post employment health care benefits for each retiree until age 65. The City's defined benefit postemployment healthcare plan, (DHP), provides medical benefits to eligible retired City employees and beneficiaries. The Hesperia Water District and the Hesperia Fire Protection District are included in the City of Hesperia's DHP as all one plan. DHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy:

The contribution requirements of plan members and the City are established and may be amended by the City Council. DHP members receiving benefits contribute based on their selected plan options. The City makes all contributions of the plan members.

Annual OPEB Cost and Net OPEB Obligation/Asset:

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 3.4% of the annual covered payroll.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation/asset:

Annual Required Contribution (ARC)	\$ 407,000
Interest on net OPEB asset	26,000
Adjustment to Annual Required Contribution (ARC)	<u>(26,000)</u>
Annual OPEB cost (expense)	407,000
Contributions made	<u>(21,000)</u>
Increase in net OPEB obligation	386,000
Net OPEB obligation - beginning of year	608,052
Net OPEB obligation - end of year	<u><u>\$ 994,052</u></u>

See accompanying independent auditors' report.

9. OTHER POST EMPLOYMENT BENEFITS (Continued):

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2011, 2010, and 2009 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 407,000	5.2%	\$ 994,052
6/30/2010	334,000	5.4%	608,052
6/30/2009	311,000	6.1%	292,000

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,350,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	2,350,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Members)	12,033,000
UAAL as a Percentage of Covered Payroll	19.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

9. OTHER POST EMPLOYMENT BENEFITS (Continued):

Actuarial Methods and Assumptions (Continued):

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years as of the Valuation Date
Asset Valuation method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	4.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
PEMHCA Minimum Growth	4.25%
Individual Salary Growth	CalPERS 1997-2007 Experience Study

10. SELF-INSURANCE RISK POOL:

The City and Fire District are members of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 28 California cities and districts, for the purpose of pooling the City's risk for worker's compensation insurance with those of other member cities and districts. The Governing Board of PERMA is comprised of directors nominated and selected by each member city and district. Each governing board member has one vote regarding all financial and management issues coming before the Board.

Each member is billed annually and premiums are paid quarterly. Estimated premiums for claims to be paid and a reserve are advanced upon joining PERMA. Each Year PERMA adjusts its premiums based on City payroll figures, claims paid, and claims incurred but not reported. PERMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. The City receives audited financial statements of PERMA each year which have been audited by other auditors.

Workers' Compensation and Employers' Liability:

The City is self-insured for the first \$250,000 of each Workers' Compensation and Employers Liability claim and PERMA will assume each claim's liability between \$250,000 and \$5,000,000.

General Liability:

The City is self-insured for General Liability including errors and omissions and auto liability up to the first \$50,000 for each occurrence and the difference between the City's \$50,000 self-insurance retention and \$50,000,000 is covered by PERMA. Excess liability insurance coverage is obtained from other insurance companies, by PERMA on behalf of the City.

Employment Practices:

The City is self-insured for Employment Practices up to the first \$50,000 for each occurrence and the difference between the City's \$50,000 self-insurance retention and \$1,000,000 is covered by ERMA.

See accompanying independent auditors' report.

10. SELF-INSURANCE RISK POOL (Continued):

Property:

The City is self-insured for the first \$5,000 for each occurrence (with the exceptions of \$25,000 flood; \$25,000 earthquake sprinkler leakage; and \$2,500 electronic data processing) and the difference between the City's self-insurance retention and the lesser of \$40,000,000 (\$2,500,000 Flood) or the insurable value is covered by Lexington Insurance Co.

Auto Physical Damage:

The City is self-insured for the first \$2,500 for each occurrence for all vehicles and \$10,000 on all fire trucks valued over \$200,000 and the difference between the City's \$5,000 (\$10,000 for fire trucks) self-insurance retention and the lesser of \$5,000,000 or the insurable value is covered by PERMA.

Special Events:

The City is insured up to \$1,000,000 for each occurrence covered by Alliant Insurance Services.

Other:

The City is self-insured for Employee Dishonesty, Forgery & Fraud, Theft, Disappearance, Destruction, Robbery & Safe Burglary, Computer and Funds Transfer Fraud, Money Orders and Counterfeit Paper Currency up to the first \$2,500 employee theft; \$5,000 forgery and Fraud; and \$1,000 inside theft for each occurrence and the difference between the City's self-insurance retention and \$1,000,000 for employee theft, forgery, computer and funds transfer fraud and \$150,000 for inside theft covered by National Union Fire Insurance Company.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. There have been no significant reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2011	Year Ended June 30, 2010
Unpaid Claims, Beginning of Fiscal Year	\$ 488,124	\$ 679,433
Incurred Claims	621,419	541,012
Claim Payments	(496,533)	(732,321)
Unpaid Claims, End of Fiscal Year	<u>\$ 613,010</u>	<u>\$ 488,124</u>

The Unpaid claims of \$613,010 above are a component of long term debt (Note 5). Due to the uncertainty of when the claims will be paid none are considered due within one year.

See accompanying independent auditors' report.

11. PARTICIPATION IN JOINT VENTURES:

Victor Valley Wastewater Reclamation Authority:

The City is a member of the Victor Valley Wastewater Reclamation Authority (VWRA), a joint powers agreement between local governments and special districts for the purpose of construction, operation and maintenance of sewer collection, transmission and treatment facilities within the high desert region. The governing body of VWRA is made up of representatives from each significant participant in VWRA. Budgeting and financing are the responsibility of VWRA.

The District made advances to VWRA totaling \$1,904,017 during the years ended June 30, 2009, June 30, 2010, and June 30, 2011. The advance and interest was repaid in full during the year ended June 30, 2011.

The audited financial statements of VWRA can be obtained by request from P.O. Box 1481, Victorville, California 92393.

Victor Valley Transit Service Authority:

The City is a member of the Victor Valley Transit Service Authority (VVTSA), a joint powers agreement between local governments and the County of San Bernardino for the purpose of implementing a public transit system to serve the Victor Valley and to provide connecting services to all other areas. The governing body of VVTSA is made up of representatives from each significant participant in VVTSA. Budgeting and financing are the responsibility of VVTSA. The City has agreed to sell monthly bus passes issued by VVTSA and to remit between the first and tenth day of each month the previous month's sales receipts and proceeds.

The audited financial statements of VVTSA can be obtained by request from P.O. Box 5001, Victorville, California 92393.

Victor Valley Economic Development Authority:

The City is a member of the Victor Valley Economic Development Authority (VVEDA), a joint powers authority along with the City of Victorville, Town of Apple Valley and the County of San Bernardino. Its purpose is to coordinate the transition of George Air Force Base from military to civilian use. The City's activity regarding its membership in VVEDA is recorded in the General Fund and Economic Development fund.

The audited financial statements of VVEDA can be obtained by request from 18374 Phantom Street, Victorville, California 92394.

12. SPECIAL ASSESSMENT BONDS WITHOUT GOVERNMENT COMMITMENT:

Assessment District (AD No. 91-1):

In June 1992, Assessment District No. 91-1 issued Limited Obligation Improvement Bonds for \$20,643,335. These bonds were issued under the provisions of the Improvement Bond Act of 1915 and were used to finance public infrastructure improvement projects within Assessment District No. 91-1. These bonds and the interest payable are secured by unpaid assessment liens fixed on properties within the District. At the date of issue, a reserve of \$1,522,016 was set up to provide funds for payment of bond principal and interest if necessitated by delinquencies in the payment of annual assessment installments. The City has no obligation to replenish the Reserve Fund except to the extent that delinquent assessments are paid or proceeds from foreclosure sales are realized. At June 30, 2011 the reserve fund was \$1,479,233. The total outstanding principal for the bonds at June 30, 2011 was \$6,040,000.

See accompanying independent auditors' report.

12. SPECIAL ASSESSMENT BONDS WITHOUT GOVERNMENT COMMITMENT (Continued):

Community Facilities District (CFD 2005-1):

On April 1, 2005, the Community Facilities District No. 2005-1 (Belgate Development Restructuring) issued the Special Tax Bond 2005 Series A for \$18,554,508 (\$20,200,000 fully accreted value). The bonds were issued for the purpose of refinancing and restructuring debt of the Community Facilities District No. 91-3. The bonds are secured by and payable solely from the proceeds of special taxes levied annually on the taxable property in the District. The bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any of the property or revenues of the City, and the payment of the interest on or principal of or redemption premiums, if any, on the District Bonds is not a general debt, liability or obligation of the City. The bonds carry an interest rate of 6.250% with maturities through 2035 ranging from \$15,000 to \$2,025,000. The bonds require a reserve fund be established equal to the least of i) 10% of the principal amount of the original bonds; ii) 125% of average annual debt service of the bonds, or iii) maximum annual debt service of the bonds. At June 30, 2011 the reserve funds equal \$1,855,451. At June 30, 2011 principal amounts due on the bonds is \$20,140,000.

For the bond issuances noted above, the City is not obligated in any manner for the payment of debt service in the event of default by the property owners but is only acting as agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. Accordingly, no liability for these bonds has been recorded in the financial statements.

13. CONTINGENCIES:

Litigation:

The City is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from these actions will not result in a material adverse effect on the City's financial position.

Grant Audit Contingencies:

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Construction Commitments:

The City has entered into contracts for the engineering and construction of additions to capital assets as follows:

Total Open Contracts	\$ 55,260,255
Less: costs incurred in 2010-11	(22,954,973)
Remaining Contractual Obligations	<u>\$ 32,305,282</u>

See accompanying independent auditors' report.

13. CONTINGENCIES (Continued):

ERAF and SERAF Contingency:

During the fiscal year 2008-09, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the Hesperia Community Redevelopment Agency.

SERAF Contributions for the Fiscal Years 2009-10 and 2010-11:

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-10 and \$350 million for the fiscal year 2010-11. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. The Agency's SERAF payment for the fiscal year 2009-10 was \$8,161,869 and for fiscal year 2010-11 the payment was \$1,680,385.

For the first installment of SERAF, the Agency exercised the option to borrow the \$8,161,869 from the Low/Moderate Income housing Fund with a repayment by June 30, 2015 at a quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%.

Similarly, the Agency exercised the option to borrow the \$1,680,385 from the Low/Moderate Income housing Fund with a repayment by June 30, 2016 at a quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%.

14. LEASE AGREEMENT:

During the fiscal year ended June 30, 2010 the City entered into an agreement with the County of San Bernardino for the joint use of fire station 305. The lease agreement is for a term of twenty-five (25) years with a total County contribution of the fire station and related improvements of \$3,500,000. During the year ended June 30, 2008 the County paid the City the entire \$3,500,000 which is being reported as deferred revenue on the Statement of Net Assets. Revenue is being recognized for the amount paid by the County to the City on a straight line basis over the life of the lease of twenty-five (25) years. The construction of the fire station was completed on June 30, 2010. The City is responsible for major structural repairs and seventy percent (70%) of the maintenance and utilities, and the County is responsible for thirty percent (30%) of the maintenance and utilities. In the event that the lease is terminated there are provisions in the agreement that dictate the fiscal impact upon each party. Through June 30, 2011, the remaining balance of the deferred revenue is \$3,360,000.

15. NOTES RECEIVABLE:

Notes receivable, totaling \$28,468,950 at June 30, 2011 consists of loans provided for low and moderate income housing, with interest of one percent (1%) and three percent (3%) and maturity of fifty-five (55) years; and a non-housing note with interest of six and seven tenths percent (6.7%) and maturity of seven (7) years. Due to the terms of the notes, offsetting deferred revenues in the amount of \$28,468,950 has been established.

Notes receivable at June 30, 2011 include the following:

	Outstanding June 30, 2010	Additions	Deductions	Outstanding June 30, 2011
A. KDF VAH I, L.P.	\$ 6,474,465	\$ 72,020	\$ -	\$ 6,546,485
B. KDF Hesperia, L.P.	4,763,071	269,037	-	5,032,108
C. KDF Hesperia II, L.P.	5,995,208	262,869	-	6,258,077
D. PDDC San Remo Hesperia, L.P.	4,005,292	39,557	-	4,044,849
E. Kid's Planet Investments, Inc.	241,988	15,173	(24,476)	232,685
Allowance for Kid's Planet	-	(235,685)	-	(232,685)
F. PDDC San Remo II Hesperia, L.P.	-	6,659,912	(72,481)	6,587,431
Totals	<u>\$ 21,480,024</u>	<u>\$ 7,082,883</u>	<u>\$ (96,957)</u>	<u>\$ 28,468,950</u>

A. KDF VAH I, L.P.:

In July, 2006, the Agency entered into an Owner Participation Agreement (OPA) with KDF VAH I, L.P., (a California limited partnership) for the development, construction and operation of a 68-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the City and Agency loaned \$6,334,000 of its HOME grant and low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. There are three loans for terms of not more than fifty-five years: (1) a \$2.9 million loan bearing an interest rate of one percent (1%); (2) a \$3.0 million bearing an interest rate of one percent (1%); and a \$0.4 million loan bearing an interest rate of three percent (3%). The agreements are secured by a deed of trust on the property. Interest on the notes through June 30, 2011 is \$212,485. The balance of the loans outstanding at June 30, 2011 was \$6,546,485.

B. KDF Hesperia, L.P.:

In December, 2005, the Agency entered into an Owner Participation Agreement (OPA) with KDF Hesperia, L.P. (a California limited partnership) for the development, construction and operation of a 110-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the City and Agency loaned \$4,662,500 of its HOME grant and low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. There are two loans for terms of not more than fifty-five years: (1) a \$1.3 million loan bearing an interest rate of one percent (1%) and (2) a \$3.4 million bearing an interest rate of three percent (3%). The agreements are secured by a deed of trust on the property. Accrued interest on the notes through June 30, 2011 is \$369,609. The balance of the loans outstanding at June 30, 2011 was \$5,032,108.

15. NOTES RECEIVABLE (Continued):

C. KDF Hesperia II, L.P.:

In March, 2006, the Agency entered into an Owner Participation Agreement (OPA) with KDF Hesperia II, L.P., (a California limited partnership) for the development, construction and operation of a 72-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the City and Agency loaned \$5,900,000 of its HOME grant and low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. There are two loans for terms of not more than fifty-five years: (1) a \$2.0 million loan bearing an interest rate of one percent (1%) and (2) a \$3.9 million bearing an interest rate of three percent (3%). The agreements are secured by a deed of trust on the property. Accrued interest on the notes through June 30, 2011 is \$358,077. The balance of the loans outstanding at June 30, 2011 was \$6,258,077.

D. PDDC San Remo Hesperia, L.P.:

In November, 2007, the Agency entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, a California limited partnership) for the development, construction and operation of a 65-unit apartment complex of which certain units shall be available to very low income tenants and low income tenants. Under the terms of the OPA, the Agency loaned \$3,955,711 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2011 is \$89,138. The balance of the loan outstanding at June 30, 2011 was \$4,044,849.

E. Kid's Planet Investments, Inc.:

In November, 2008, the City entered into an Owner Participation Agreement (OPA) with Kid's Planet Investments, Inc., (a California corporation) for the development, construction, and operation of a restaurant. Under the terms of the OPA, the City loaned \$270,000 of its economic development funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than seven years and shall bear interest at a rate of six and seven tenths percent (6.7%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2011 is \$10,522 and payments received on the note through June 30, 2011 is \$73,428. The balance of the loan outstanding at June 30, 2011 was \$232,685. The entire balance of this loan was added to an allowance for doubtful accounts during June 30, 2011.

F. PDDC San Remo II Hesperia, L.P.:

In October 5, 2010, the Agency entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, a California limited partnership) for the development, construction and operation of a 58-unit apartment complex of which certain units shall be available to very low income tenants and low income tenants. Under the terms of the OPA, the Agency loaned \$6,613,620 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2011 is \$27,670 and payments received on the note through June 30, 2011 is \$72,481. The balance of the loan outstanding at June 30, 2011 was \$6,587,431.

16. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENT:

Objective:

The Hesperia Water District executed an interest rate swap agreement on June 1, 2005 with swap provider Bank of America, N.A (counterparty) in connection with the issuance of the \$18,040,000 Variable Rate Lease Revenue Refunding Bonds, Taxable Series 1998A (Federally Taxable). The Swap Agreement is a 15 year swap agreement scheduled to terminate on June 1, 2020. The swap establishes a fixed interest rate of 5.96%.

Details on the swap agreement are as follows:

<u>Notional Amount</u>	<u>Interest Rate</u>	<u>Issue</u>	<u>Termination Date</u>	<u>Initial Effective Date</u>
\$ 10,000,000	5.96%	Bank of America	6/1/2020	6/1/2005

Terms:

Under the swap agreement, the Water District will make a monthly interest payment at the fixed rate of 5.96%. The Water District will receive a variable rate interest payment for those variable interest rates in excess of the 5.96% cap and makes a payment if the variable rate is less than 5.96%. The rate is adjusted weekly every Wednesday at the 1-Month USD-LIBOR-BBA rate. The swap is for a total notional amount of \$10,000,000 and will terminate on June 1, 2020.

Summary of Activities in Cash Flow Hedging Derivative Instrument:

<u>Notional Amount</u>	<u>Fair Value At June 30, 2010</u>	<u>Change In Fair Value</u>	<u>Fair Value At June 30, 2011</u>
\$ 10,000,000	\$ (2,641,195)	\$ 284,001	\$ (2,357,194)

As of June 30, 2011, the negative fair value of \$2,357,194 is reported as a deferred asset from derivative instruments and a liability from derivative instruments in the Statements of Net Assets. GASB 53, Accounting and Financial Reporting for Derivative Instruments, was implemented for the year ending June 30, 2010.

Credit Risk:

As of June 30, 2011, the Water District was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Water District would not be exposed to credit risk in the amount of the derivative's fair value.

The swaps counterparty, Bank of America N.A., have the following credit ratings:

	<u>Standards & Poor</u>	<u>Moody's</u>
Bank of America N.A.	A	A2

Basis Risk:

The swaps do expose the Water District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payments to be made on the debt. The Water District pays the counterparty a fixed interest rate of 5.96% and receives a variable rate in excess of the 5.96% cap, based on the 1-month UDS-LIBOR-BBA. The Water District is at risk that the variable interest rate calculated on the debt is less than the 5.96%.

See accompanying independent auditors' report.

16. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENT (Continued):

Termination Risk:

The swaps may be terminated by the Water District or the counterparty if the other party fails to perform under the terms of the swap agreements. In addition, the Water District has the option to terminate the swaps upon proper notification to the counterparty. If the swaps are terminated, the Water District would prospectively pay the variable rates on the portion of the outstanding bonds related to the swap agreements. The termination of the swap agreements could therefore increase the Water District's total debt service. Also, if at the time of the termination, the swaps have a negative fair value, the Water District would be liable to the counterparty for a payment equal to such negative fair value. As of June 30, 2011 the swap had a negative fair value of \$2,357,194.

Swap Payments and Associated Debt:

Using a fixed rate of 5.96% related to a swap agreement for \$10,000,000 of the \$18,040,000 Variable Rate Lease Revenue Refunding Bonds, Taxable Series 1998A, as of June 30, 2011, debt service requirements of the Bonds and the swap payments through the swap termination date of June 1, 2020, assuming a current variable interest rate of 0.19% are as follows. As rates vary, the variable rate interest payments and net swap payments will vary.

Year Ending June 30,	Variable Rate Debt			Interest Rate Swap, Net	Fixed Debt Service
	Principal	Interest	Total		
2012	\$ -	\$ 19,000	\$ 19,000	\$ 577,000	\$ 577,000
2013	-	19,000	19,000	577,000	577,000
2014	-	19,000	19,000	577,000	577,000
2015	-	19,000	19,000	577,000	577,000
2016	-	19,000	19,000	577,000	577,000
2017-2020	-	61,864	61,864	1,878,712	1,878,712

17. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 28, 2011, the Governor of the State of California signed ABx1 26 and ABx1 27 into law. ABx1 26, the Dissolution Act, calls for the dissolution of all redevelopment agencies by October 1, 2011 and the transfer of the management of outstanding obligations to a successor agency determined by the State. ABx1 27, the Voluntary Alternative Redevelopment Program, allows the Agency to continue operations if the City and Agency adopts a resolution by October 1, 2011, committing the Agency to make annual payments into a Special District Allocation Fund (SDAF) and an Educational Revenue Augmentation Fund (ERAF). On August 2, 2011, the City of Hesperia adopted Urgency Ordinance No. 2011-011, and 2011-012 determining it would comply with the provisions of ABx1 27, the Voluntary Alternative Redevelopment Program, and committed to make the required remittances. The City of Hesperia intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

See accompanying independent auditors' report.

17. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (Continued):

The 2011-12 fiscal year SDAF and ERAF obligation is \$7,161,943 with one half due on January 15, 2012 and the other half due May 15, 2012 and the subsequent annual payments for the duration that the Agency participates in the Voluntary Alternative Redevelopment Program is \$1,685,163. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State legislation. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill 1x 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill 1x26.

On July 18, 2011, the California Redevelopment Association (CRA) filed a petition against the State of California (California Redevelopment Association v. Matosantos) arguing the validity of ABx1 26 and ABx1 27. The State Supreme Court is expected to render a decision during January 2012.

Assembly Bill 1x 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill 1x 26.

In the event that Assembly Bill 1x 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills 1x 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill 1x 27 and most of Assembly Bill 1x 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012".

A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills 1x 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (EOPS) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (ROPS) by September 30, 2011.

17. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (Continued):

Because the stay provided by Assembly Bill 1x 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlement; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill 1x 26.

On December 29, 2011, the Supreme Court of the State of California upheld AB1 X 26 and invalidated AB1 X 27. The impact of this decision is not known at this time and any effects this decision may have are not included in these basic financial statements.

18. PRIOR PERIOD ADJUSTMENT:

The City determined that \$1,245,427 from a 2006 developer deposit held by the City for future public safety needs should have been recognized as revenue in 2006 and \$239,635 from a 2006 developer donation held by the City for future unspecified public facilities should have been recognized as revenue in 2006. As a result, on the Statement of Revenues, Expenditures, and Changes in Fund Balance the beginning fund balance of the General Fund (\$684,985), the Fire District fund (\$560,442), and Other Governmental Funds (\$239,635) are being restated for this prior period adjustment. Also, the Statement of Activities beginning net assets are being restated.

19. TRANSFERS OF ASSETS:

During the fiscal year ended June 30, 2011 the Hesperia Community Redevelopment Agency transferred \$17,106,594 from the Hesperia Community Redevelopment Agency to the City for various capital projects related to Project Area Number 1 and Project Area Number 2. The Hesperia Community Redevelopment Agency also transferred completed construction in progress of \$23,208,933 during fiscal year ended June 30, 2011. The Agency also transferred completed construction in progress of \$15,501,395 during fiscal year ended June 30, 2010.

20. SUBSEQUENT EVENT:

In August 2011, Standard & Poor's downgraded the AAA rating of the United States government and all federally backed agencies to AA+. Moody's Investor Service continues to hold its rating of AAA. All such securities held by the City are affected by the downgrade, however the underlying value of the securities has not been affected and interest payments continue to be received as scheduled.

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	\$ 16,860,093	\$ 16,860,093	\$ 16,860,093	\$ -
Prior Period Adjustment (Note 18)	684,985	684,985	684,985	-
Fund Balance, July 1 as re-stated	<u>17,545,078</u>	<u>17,545,078</u>	<u>17,545,078</u>	<u>-</u>
Resources (Inflows):				
Taxes	10,462,342	10,462,342	11,009,903	547,561
Licenses and permits	240,500	240,500	255,836	15,336
Fines and forfeitures	796,800	796,800	783,589	(13,211)
Use of money and property	67,542	67,542	72,449	4,907
Intergovernmental	8,113,880	8,113,880	8,399,041	285,161
Charges for services	1,154,252	1,154,252	1,169,422	15,170
Grants	162,180	162,180	128,325	(33,855)
Other revenues	220,062	220,062	282,592	62,530
Transfers from other funds	1,426,834	1,426,834	1,447,704	20,870
Amount Available for Appropriations	<u>22,644,392</u>	<u>22,644,392</u>	<u>23,548,861</u>	<u>904,469</u>
Charges to Appropriations (Outflows):				
Current:				
General government:				
City council	679,572	679,572	664,005	15,567
City manager	1,176,970	1,140,077	1,039,273	100,804
Management services	3,950,050	4,026,140	3,990,751	35,389
Public safety - police	11,881,560	11,885,652	11,332,518	553,134
Development services	5,108,432	5,179,549	5,089,533	90,016
Transfers to other funds	1,003,898	1,986,501	1,986,501	-
Capital Outlay:				
Equipment and vehicles	10,000	49,318	67,554	(18,236)
Total Charges to Appropriations	<u>23,810,482</u>	<u>24,946,809</u>	<u>24,170,135</u>	<u>776,674</u>
Excess of Resources over (Under) Charges To Appropriations	<u>(1,166,090)</u>	<u>(2,302,417)</u>	<u>(621,274)</u>	<u>1,681,143</u>
Fund Balance, June 30	<u><u>\$ 16,378,988</u></u>	<u><u>\$ 15,242,661</u></u>	<u><u>\$ 16,923,804</u></u>	<u><u>\$ 1,681,143</u></u>

See accompanying independent auditors' report.

BUDGETARY COMPARISON SCHEDULE
FIRE DISTRICT SPECIAL REVENUE FUND
For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	\$ 758,836	\$ 758,836	\$ 758,836	\$ -
Prior Period Adjustment (Note 18)	560,442	560,442	560,442	-
Fund Balance, July 1 as re-stated	<u>1,319,278</u>	<u>1,319,278</u>	<u>1,319,278</u>	<u>-</u>
Resources (Inflows):				
Taxes	5,791,320	5,791,320	5,888,860	97,540
Use of money and property	39,477	39,477	57,234	17,757
Charges for services	2,245,958	2,245,958	2,219,748	(26,210)
Transfers from other funds	1,000,000	1,000,000	1,920,941	920,941
Amount Available for Appropriations	<u>9,076,755</u>	<u>9,076,755</u>	<u>10,086,783</u>	<u>1,010,028</u>
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	9,690,890	9,712,890	9,698,466	14,424
Total Charges to Appropriations	<u>9,690,890</u>	<u>9,712,890</u>	<u>9,698,466</u>	<u>14,424</u>
Excess of Resources over (Under) Charges To Appropriations	<u>(614,135)</u>	<u>(636,135)</u>	<u>388,317</u>	<u>1,024,452</u>
Fund Balance, June 30	<u>\$ 705,143</u>	<u>\$ 683,143</u>	<u>\$ 1,707,595</u>	<u>\$ 1,024,452</u>

See accompanying independent auditors' report.

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES - STREETS SPECIAL REVENUE FUND
For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	\$ 17,877,206	\$ 17,877,206	\$ 17,877,206	\$ -
Resources (Inflows):				
Use of money and property	65,216	65,216	31,803	(33,413)
Charges for services	698,620	698,620	413,703	(284,917)
Amount Available for Appropriations	763,836	763,836	445,506	(318,330)
Charges to Appropriations (Outflows):				
Current:				
Development services	30,000	30,000	26,964	3,036
Capital Outlay:				
Land	-	68,310	68,292	18
Infrastructure	2,321,025	2,311,966	1,239,404	1,072,562
Total Charges to Appropriations	2,351,025	2,410,276	1,334,660	1,075,616
Excess of Resources over (Under) Charges To Appropriations	(1,587,189)	(1,646,440)	(889,154)	757,286
Fund Balance, June 30	\$ 16,290,017	\$ 16,230,766	\$ 16,988,052	\$ 757,286

See accompanying independent auditors' report.

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT AGENCY LOW/MODERATE SPECIAL REVENUE FUND
For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	\$ 78,057,087	\$ 78,057,087	\$ 78,057,087	\$ -
Resources (Inflows):				
Taxes	3,759,222	3,759,222	4,078,484	319,262
Use of money and property	272,816	272,816	456,393	183,577
Other	92,602	92,602	63,009	(29,593)
Amount Available for Appropriations	4,124,640	4,124,640	4,597,886	473,246
Charges to Appropriations (Outflows):				
Current:				
Development services	19,610,325	21,381,428	9,132,072	12,249,356
Debt Service:				
Interest	3,079,447	3,079,447	2,893,815	185,632
Principal	1,070,000	21,300,000	21,300,000	-
Bond administration expense	6,953	6,953	4,250	2,703
Capital Outlay:				
Land	680,000	2,182,915	2,304	2,180,611
Buildings and improvements	1,000,000	1,000,000	-	1,000,000
Total Charges to Appropriations	25,446,725	48,950,743	33,332,441	15,618,302
Excess of Resources Over (Under) Charges to Appropriations	(21,322,085)	(44,826,103)	(28,734,555)	16,091,548
Fund Balance, June 30	\$ 56,735,002	\$ 33,230,984	\$ 49,322,532	\$ 16,091,548

See accompanying independent auditors' report.

BUDGETARY COMPARISON SCHEDULE
HOME GRANT FUND
For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Fund Balance, July 1	\$ 411	\$ 411	\$ 411	\$ -
Resources (Inflows):				
Use of money and property	734	734	6	(728)
Grants	60,000	60,000	4,355	(55,645)
Amount Available for Appropriations	60,734	60,734	4,361	(56,373)
Charges to Appropriations (Outflows):				
Current:				
Development services	-	-	-	-
Total Charges to Appropriations	-	-	-	-
Excess of Resources Over (Under) Charges to Appropriations	60,734	60,734	4,361	(56,373)
Fund Balance, June 30	\$ 61,145	\$ 61,145	\$ 4,772	\$ (56,373)

See accompanying independent auditors' report.

June 30, 2011

1. The City adopts budgets for the general, special revenue, debt service and capital projects funds on a basis consistent with generally accepted accounting principles each year. The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, when required during the period, are also approved by the Council. Increases in annual expenditures require approval by the Council. Interdepartmental budget changes are approved by the City Manager and intradepartmental budget changes require department head approval. In most cases, expenditures may not exceed appropriations at the departmental level for the General Fund and at the fund level for the other funds. At fiscal year-end, all operating budget appropriations lapse. Budgeted amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year.

See accompanying independent auditors' report

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	Unfunded (Over Funded) AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B - A / C)
6/30/2010:						
City	\$ -	\$ 1,610,000	\$ 1,610,000	0.0%	\$ 8,954,000	18.0%
Water	-	631,000	631,000	0.0%	3,079,000	20.5%
Fire:						
Misc./Safety	-	109,000	109,000	0.0%	-	0.0%
Total	\$ -	\$ 2,350,000	\$ 2,350,000	0.0%	\$ 12,033,000	19.5%
6/30/2009:						
City	n/a	n/a	n/a	n/a	n/a	n/a
Water						
Fire:	n/a	n/a	n/a	n/a	n/a	n/a
Misc./Safety	n/a	n/a	n/a	n/a	n/a	n/a
Total	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2008:						
City	\$ -	\$ 1,025,000	\$ 1,025,000	0.0%	\$ 8,598,500	11.9%
Water	-	383,000	383,000	0.0%	2,861,500	13.4%
Fire:						
Misc./Safety	-	99,000	99,000	0.0%	-	0.0%
Total	\$ -	\$ 1,507,000	\$ 1,507,000	0.0%	\$ 11,460,000	13.2%

n/a – The City is only required to perform actuarial valuations biennially. An actuarial valuation was not performed for the year ending June 30, 2009.





CITY OF HESPERIA

SCHEDULE OF COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

Special Revenue Funds

	Measure I Arterial	Measure I Transit	Measure I Renewal	Gas Tax	Gas Tax Swap
Assets					
Cash and cash equivalents	\$ 237,680	\$ -	\$ 174,839	\$ 112,970	\$ -
Restricted investments	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Accrued interest	294	-	196	15	-
Due from other governmental agencies	-	-	582,226	132,448	133,525
Land held for resale	-	-	-	-	-
Total Assets	\$ 237,974	\$ -	\$ 757,261	\$ 245,433	\$ 133,525
Liabilities and Fund Balances					
Liabilities					
Accounts payable and other current liabilities	\$ 2,517	\$ -	\$ 2,363	\$ 8,000	\$ -
Deferred revenues	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	2,517	-	2,363	8,000	-
Fund Balances:					
Nonspendable:					
Land held for resale	-	-	-	-	-
Restricted:					
Debt service	-	-	-	-	-
Transportation	235,457	-	754,898	237,433	133,525
Air quality	-	-	-	-	-
Public safety	-	-	-	-	-
Grants	-	-	-	-	-
Other purposes	-	-	-	-	-
Committed:					
Transportation	-	-	-	-	-
Other purposes	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	235,457	-	754,898	237,433	133,525
Total Liabilities and Fund Balances	\$ 237,974	\$ -	\$ 757,261	\$ 245,433	\$ 133,525

CITY OF HESPERIA

Special Revenue Funds

Article 8	Community Development Block Grant	AB 3229 State COPS Program	Air Quality Management District	Street Maintenance	Disaster Prepared Grant	Environmental Programs
\$ 295,702	\$ 964,774	\$ 5,173	\$ 188,918	\$ 498,258	\$ -	\$ 1,250
-	-	-	-	-	-	-
-	-	-	-	88	1,000	2,002
77	1,279	17	224	624	5	5
-	134,493	15,814	-	135,274	23,736	23,380
-	-	-	-	-	-	-
<u>\$ 295,779</u>	<u>\$ 1,100,546</u>	<u>\$ 21,004</u>	<u>\$ 189,142</u>	<u>\$ 634,244</u>	<u>\$ 24,741</u>	<u>\$ 26,637</u>
\$ -	\$ 27,532	\$ -	\$ -	\$ 196,816	\$ 2,322	\$ 18,002
-	-	-	-	-	-	-
-	-	-	-	-	4,341	-
-	<u>27,532</u>	-	-	<u>196,816</u>	<u>6,663</u>	<u>18,002</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
295,779	-	-	-	-	-	-
-	-	-	189,142	-	-	-
-	-	21,004	-	-	-	-
-	1,073,014	-	-	-	18,078	8,635
-	-	-	-	-	-	-
-	-	-	-	437,428	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>295,779</u>	<u>1,073,014</u>	<u>21,004</u>	<u>189,142</u>	<u>437,428</u>	<u>18,078</u>	<u>8,635</u>
<u>\$ 295,779</u>	<u>\$ 1,100,546</u>	<u>\$ 21,004</u>	<u>\$ 189,142</u>	<u>\$ 634,244</u>	<u>\$ 24,741</u>	<u>\$ 26,637</u>

CITY OF HESPERIA

SCHEDULE OF COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Funds				
	Neighborhood Stabilization Program	Reimbursable Grants	Development Impact Fees- Storm Drain	Development Impact Fees- Fire	Development Impact Fees- Police
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 2,008,307	\$ 1,063,646	\$ 191,740
Restricted investments	-	-	-	-	-
Accounts receivable	-	-	-	-	8,090
Accrued interest	-	-	2,382	1,259	219
Due from other governmental agencies	1,228	-	-	-	-
Land held for resale	4,146,429	-	-	-	-
Total Assets	\$ 4,147,657	\$ -	\$ 2,010,689	\$ 1,064,905	\$ 200,049
Liabilities and Fund Balances					
Liabilities					
Accounts payable and other current liabilities	\$ 300	\$ -	\$ 7,007	\$ -	\$ 1,814
Deferred revenues	-	-	-	-	-
Due to other funds	58,155	-	-	-	-
Total Liabilities	58,455	-	7,007	-	1,814
Fund Balances:					
Nonspendable:					
Land held for resale	4,146,429	-	-	-	-
Restricted:					
Debt service	-	-	-	-	-
Transportation	-	-	2,003,682	-	-
Air quality	-	-	-	-	-
Public safety	-	-	-	1,064,905	198,235
Grants	-	-	-	-	-
Other purposes	-	-	-	-	-
Committed:					
Transportation	-	-	-	-	-
Other purposes	-	-	-	-	-
Unassigned	(57,227)	-	-	-	-
Total Fund Balances	4,089,202	-	2,003,682	1,064,905	198,235
Total Liabilities and Fund Balances	\$ 4,147,657	\$ -	\$ 2,010,689	\$ 1,064,905	\$ 200,049

Special Revenue Funds		Debt Service		Capital Projects		
Development Impact Fees-Public Services	Redevelopment Agency Administration	Mark Roos Revenue Bonds	City Debt Service	City Projects	Industrial Park Lead Track	Township
\$ 1,049,880	\$ 96,813	\$ 1,245,765	\$ 1,724,906	\$ 1,347,814	\$5,842,404	\$ 378,319
-	-	1,024,725	1,291,352	-	-	-
-	930	-	-	-	-	-
1,288	9,957	1,491	2,019	1,683	6,946	450
-	-	-	-	308,439	-	-
-	-	-	-	-	-	-
<u>\$ 1,051,168</u>	<u>\$ 107,700</u>	<u>\$ 2,271,981</u>	<u>\$ 3,018,277</u>	<u>\$ 1,657,936</u>	<u>\$5,849,350</u>	<u>\$ 378,769</u>
\$ -	\$ 85,208	\$ 79,897	\$ 124,357	\$ 49,311	\$ -	\$ -
-	-	-	-	1,276,662	-	-
-	-	-	-	-	-	-
-	85,208	79,897	124,357	1,325,973	-	-
-	-	-	-	-	-	-
-	-	2,192,084	2,893,920	-	-	-
-	-	-	-	331,963	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,051,168	-	-	-	-	-	-
-	-	-	-	-	5,849,350	378,769
-	22,492	-	-	-	-	-
-	-	-	-	-	-	-
<u>1,051,168</u>	<u>22,492</u>	<u>2,192,084</u>	<u>2,893,920</u>	<u>331,963</u>	<u>5,849,350</u>	<u>378,769</u>
<u>\$ 1,051,168</u>	<u>\$ 107,700</u>	<u>\$ 2,271,981</u>	<u>\$ 3,018,277</u>	<u>\$ 1,657,936</u>	<u>\$5,849,350</u>	<u>\$ 378,769</u>

CITY OF HESPERIA

SCHEDULE OF COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>Capital Projects</u>			
	Ranchero Undercrossing Local	Ranchero Road Undercrossing	Ranchero Interchange	Total Other Governmental Funds
Assets				
Cash and cash equivalents	\$ 8,268,146	\$ -	\$ 9,331	\$ 25,706,635
Restricted investments	-	-	-	2,316,077
Accounts receivable	-	-	-	12,110
Accrued interest	6,553	-	-	36,983
Due from other governmental agencies	-	-	-	1,490,563
Land held for resale	-	-	-	4,146,429
Total Assets	<u>\$ 8,274,699</u>	<u>\$ -</u>	<u>\$ 9,331</u>	<u>\$ 33,708,797</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ -	\$ -	\$ -	\$ 605,446
Deferred revenues	-	-	-	1,276,662
Due to other funds	-	-	-	62,496
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,944,604</u>
Fund Balances:				
Nonspendable:				
Land held for resale	-	-	-	4,146,429
Restricted:				
Debt service	-	-	-	5,086,004
Transportation	-	-	-	3,992,737
Air quality	-	-	-	189,142
Public safety	-	-	-	1,284,144
Grants	-	-	-	1,099,727
Other purposes	-	-	-	1,051,168
Committed:				
Transportation	8,274,699	-	9,331	14,949,577
Other purposes	-	-	-	22,492
Unassigned	-	-	-	(57,227)
Total Fund Balances	<u>8,274,699</u>	<u>-</u>	<u>9,331</u>	<u>31,764,193</u>
Total Liabilities and Fund Balances	<u>\$ 8,274,699</u>	<u>\$ -</u>	<u>\$ 9,331</u>	<u>\$ 33,708,797</u>



CITY OF HESPERIA

SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue Funds				
	Measure I Arterial	Measure I Transit	Measure I Renewal	Gas Tax	Gas Tax Swap
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ 1,429,046	\$ 844,987
Use of money and property	1,539	44	659	15	-
Intergovernmental	-	-	1,988,706	-	-
Charges for services	-	-	-	-	-
Grants	-	-	-	-	-
Other revenues	-	-	-	-	-
Total Revenues	1,539	44	1,989,365	1,429,061	844,987
Expenditures:					
Current:					
General government:					
City manager	-	-	-	-	-
Development services	-	29,942	-	8,000	-
Debt Service:					
Interest	-	-	-	-	-
Principal	-	-	-	-	-
Bond administration expense	-	-	-	-	-
Capital Outlay:					
Land	-	-	-	-	-
Buildings and improvements	-	-	-	-	-
Equipment and vehicles	-	-	-	-	-
Infrastructure	466,573	-	516,370	-	-
Total Expenditures	466,573	29,942	516,370	8,000	-
Excess (Deficiencies) of Revenues Over (Under) Expenditures	(465,034)	(29,898)	1,472,995	1,421,061	844,987
Other Financing Sources (Uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	(880,000)	(1,168,538)	(711,462)
Total Other Financing Sources (Uses)	-	-	(880,000)	(1,168,538)	(711,462)
Net Change in Fund Balances	(465,034)	(29,898)	592,995	252,523	133,525
Fund balances at beginning of year	700,491	29,898	161,903	(15,090)	-
Prior period adjustment (Note 18)	-	-	-	-	-
Fund balances at beginning of year, as restated	700,491	29,898	161,903	(15,090)	-
Fund balances at end of year	\$ 235,457	\$ -	\$ 754,898	\$ 237,433	\$ 133,525

CITY OF HESPERIA

Special Revenue Funds

Article 8	Community Development Block Grant	AB 3229 State COPS Program	Air Quality Management District	Street Maintenance	Disaster Prepared Grant	Environmental Programs
\$ 691,974	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
77	4,046	36	694	1,905	29	26
-	-	-	-	-	-	-
-	459,750	99,573	58,967	534,969	24,736	35,959
-	24,476	-	-	3,485	-	9,190
<u>692,051</u>	<u>488,272</u>	<u>99,609</u>	<u>59,661</u>	<u>540,359</u>	<u>24,765</u>	<u>45,175</u>
-	-	-	-	-	24,867	44,717
-	507,802	-	50,000	3,078,447	-	-
-	4,495	-	-	-	-	-
-	300,000	-	-	-	-	-
-	400	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	12,468	-	-
-	-	-	-	-	-	-
-	812,697	-	50,000	3,090,915	24,867	44,717
<u>692,051</u>	<u>(324,425)</u>	<u>99,609</u>	<u>9,661</u>	<u>(2,550,556)</u>	<u>(102)</u>	<u>458</u>
-	-	-	-	2,761,120	-	-
-	-	(107,000)	-	-	-	-
-	-	(107,000)	-	2,761,120	-	-
<u>692,051</u>	<u>(324,425)</u>	<u>(7,391)</u>	<u>9,661</u>	<u>210,564</u>	<u>(102)</u>	<u>458</u>
(396,272)	1,397,439	28,395	179,481	226,864	18,180	8,177
-	-	-	-	-	-	-
(396,272)	1,397,439	28,395	179,481	226,864	18,180	8,177
<u>\$ 295,779</u>	<u>\$ 1,073,014</u>	<u>\$ 21,004</u>	<u>\$ 189,142</u>	<u>\$ 437,428</u>	<u>\$ 18,078</u>	<u>\$ 8,635</u>

CITY OF HESPERIA

SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue Funds				
	Neighborhood Stabilization Program	Development Impact Fees- Storm Drain	Development Impact Fees- Fire	Development Impact Fees- Police	Development Impact Fees- Public Services
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	7,527	3,963	1,782	4,590
Intergovernmental	-	-	-	-	-
Charges for services	-	56,979	58,235	17,208	48,890
Grants	63,268	-	-	37,111	-
Other revenues	-	-	-	-	-
Total Revenues	63,268	64,506	62,198	56,101	53,480
Expenditures:					
Current:					
General government:					
City manager	-	-	-	-	-
Development services	36,869	-	-	-	-
Debt Service:					
Interest	-	-	-	-	-
Principal	-	-	-	-	-
Bond administration expense	-	-	-	-	-
Capital Outlay:					
Land	-	10,180	-	-	-
Buildings and improvements	-	-	-	1,431,106	-
Equipment and vehicles	-	-	-	-	-
Infrastructure	-	7,622	-	-	-
Total Expenditures	36,869	17,802	-	1,431,106	-
Excess (Deficiencies) of Revenues Over (Under) Expenditures	26,399	46,704	62,198	(1,375,005)	53,480
Other Financing Sources (Uses):					
Transfers in	-	-	-	-	-
Transfers out	(21,990)	-	-	-	(448,640)
Total Other Financing Sources (Uses)	(21,990)	-	-	-	(448,640)
Net Change in Fund Balances	4,409	46,704	62,198	(1,375,005)	(395,160)
Fund balances at beginning of year	4,084,793	1,956,978	1,002,707	1,573,240	1,446,328
Prior period adjustment (Note 18)	-	-	-	-	-
Fund balances at beginning of year, as restated	4,084,793	1,956,978	1,002,707	1,573,240	1,446,328
Fund balances at end of year	\$ 4,089,202	\$ 2,003,682	\$ 1,064,905	\$ 198,235	\$ 1,051,168

CITY OF HESPERIA

Special Revenue		Debt Service		Capital Projects		
Redevelopment Agency Administration	Reimbursable Grants	Mark Roos Revenue Bonds	City Debt Service	City Projects	Industrial Park Lead Track	Township
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9,957	-	5,201	6,502	2,846	9,149	592
-	-	-	-	37	-	-
-	775,100	-	-	400,001	-	-
22,000	-	-	-	372,580	-	-
<u>31,957</u>	<u>775,100</u>	<u>5,201</u>	<u>6,502</u>	<u>775,464</u>	<u>9,149</u>	<u>592</u>
-	-	-	-	-	-	-
1,248,964	-	-	-	-	-	-
-	-	29,391	40,366	-	-	-
-	-	560,000	200,000	-	-	-
-	-	180,952	425,308	-	-	-
-	-	-	-	-	-	-
-	775,100	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	465,161	-	-
<u>1,248,964</u>	<u>775,100</u>	<u>770,343</u>	<u>665,674</u>	<u>465,161</u>	<u>-</u>	<u>-</u>
<u>(1,217,007)</u>	<u>-</u>	<u>(765,142)</u>	<u>(659,172)</u>	<u>310,303</u>	<u>9,149</u>	<u>592</u>
2,506,505	-	-	514,200	-	5,840,201	378,177
<u>(1,267,006)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,239,499</u>	<u>-</u>	<u>-</u>	<u>514,200</u>	<u>-</u>	<u>5,840,201</u>	<u>378,177</u>
<u>22,492</u>	<u>-</u>	<u>(765,142)</u>	<u>(144,972)</u>	<u>310,303</u>	<u>5,849,350</u>	<u>378,769</u>
-	-	2,957,226	3,038,892	21,660	-	-
-	-	-	-	-	-	-
-	-	2,957,226	3,038,892	21,660	-	-
<u>\$ 22,492</u>	<u>\$ -</u>	<u>\$ 2,192,084</u>	<u>\$ 2,893,920</u>	<u>\$ 331,963</u>	<u>\$ 5,849,350</u>	<u>\$ 378,769</u>

CITY OF HESPERIA

SCHEDULE OF COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Capital Projects			Total Other Governmental Funds
	Ranchero Undercrossing Local	Ranchero Road Undercrossing	Ranchero Interchange	
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ 2,966,007
Use of money and property	6,553	-	950	68,682
Intergovernmental	-	-	-	1,988,743
Charges for services	-	-	-	181,312
Grants	-	-	-	2,489,434
Other revenues	-	-	-	431,731
Total Revenues	6,553	-	950	8,125,909
Expenditures:				
Current:				
General government:				
City manager	-	-	-	69,584
Development services	-	-	-	4,960,024
Debt Service:				
Interest	-	-	-	74,252
Principal	-	-	-	1,060,000
Bond administration expense	-	-	-	606,660
Capital Outlay:				
Land	-	-	231,254	241,434
Buildings and improvements	-	-	-	2,206,206
Equipment and vehicles	-	-	-	12,468
Infrastructure	-	-	-	1,455,726
Total Expenditures	-	-	231,254	10,686,354
Excess (Deficiencies) of Revenues Over (Under) Expenditures	6,553	-	(230,304)	(2,560,445)
Other Financing Sources (Uses):				
Transfers in	8,268,146	21,944	-	20,290,293
Transfers out	-	-	-	(4,604,636)
Total Other Financing Sources (Uses)	8,268,146	21,944	-	15,685,657
Net Change in Fund Balances	8,274,699	21,944	(230,304)	13,125,212
Fund balances at beginning of year	-	(21,944)	-	18,399,346
Prior period adjustment (Note 18)	-	-	239,635	239,635
Fund balances at beginning of year, as restated	-	(21,944)	239,635	18,638,981
Fund balances at end of year	\$ 8,274,699	\$ -	\$ 9,331	\$ 31,764,193



SCHEDULE OF COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 June 30, 2011

	Agency Funds			
	Special Deposits Fund	Assessment District 91-1 Fund	Community Facilities District 2005-1 Fund	Branch Library Fund
Assets				
Cash and investments	\$ 506,195	\$ 3,261,401	\$ 2,530,481	\$ 300
Cash and investments with fiscal agent	-	1,479,233	1,900,625	-
Accrued interest	1,464	4,086	2,934	-
Total Assets	\$ 507,659	\$ 4,744,720	\$ 4,434,040	\$ 300
Liabilities				
Accounts payable	\$ 23,721	\$ 1,765	\$ 915,441	\$ -
Due to bondholders	-	4,742,955	3,518,599	-
Deposits payable	483,938	-	-	300
Total Liabilities	\$ 507,659	\$ 4,744,720	\$ 4,434,040	\$ 300

Agency Funds		
Summit Valley HCP Fund	County High Desert Government Center	Total Agency Funds
\$ 284	\$ -	\$ 6,298,661
-	-	3,379,858
-	-	8,484
<u>\$ 284</u>	<u>\$ -</u>	<u>\$ 9,687,003</u>
\$ -	\$ -	\$ 940,927
-	-	8,261,554
284	-	484,522
<u>\$ 284</u>	<u>\$ -</u>	<u>\$ 9,687,003</u>

SCHEDULE OF STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 SPECIAL DEPOSITS FUND
 For The Year Ended June 30, 2011

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Assets				
Cash and investments	\$ 2,023,148	\$ 314,564	\$ (1,831,517)	\$ 506,195
Accrued interest	1,308	1,464	(1,308)	1,464
Total Assets	\$ 2,024,456	\$ 316,028	\$ (1,832,825)	\$ 507,659
Liabilities				
Accounts payable	\$ 16,411	\$ 355,042	\$ (347,732)	\$ 23,721
Deposits payable	2,008,045	293,770	(1,817,877)	483,938
Total Liabilities	\$ 2,024,456	\$ 648,812	\$ (2,165,609)	\$ 507,659

SCHEDULE OF STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
ASSESSMENT DISTRICT 91-1 FUND
For The Year Ended June 30, 2011

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Assets				
Cash and investments	\$ 3,246,657	\$ 2,209,958	\$ (2,195,214)	\$ 3,261,401
Cash and investments with fiscal agent	1,479,233	1,844,062	(1,844,062)	1,479,233
Accrued interest	2,786	4,086	(2,786)	4,086
Total Assets	\$ 4,728,676	\$ 4,058,106	\$ (4,042,062)	\$ 4,744,720
Liabilities				
Accounts payable	\$ 676	\$ 1,861,075	\$ (1,859,986)	\$ 1,765
Due to bondholders	4,728,000	2,233,608	(2,218,653)	4,742,955
Total Liabilities	\$ 4,728,676	\$ 4,094,683	\$ (4,078,639)	\$ 4,744,720

CITY OF HESPERIA

SCHEDULE OF STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
COMMUNITY FACILITIES DISTRICT 2005-1 FUND
For The Year Ended June 30, 2011

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Assets				
Cash and investments	\$ 2,769,969	\$ 1,945,116	\$ (2,184,604)	\$ 2,530,481
Cash and investments with fiscal agent	1,900,625	1,305,156	(1,305,156)	1,900,625
Accrued interest	2,349	2,934	(2,349)	2,934
Total Assets	<u>\$ 4,672,943</u>	<u>\$ 3,253,206</u>	<u>\$ (3,492,109)</u>	<u>\$ 4,434,040</u>
Liabilities				
Accounts payable	\$ 1,304,023	\$ 1,792,165	\$ (2,180,747)	\$ 915,441
Due to bondholders	3,368,920	1,945,701	(1,796,022)	3,518,599
Total Liabilities	<u>\$ 4,672,943</u>	<u>\$ 3,737,866</u>	<u>\$ (3,976,769)</u>	<u>\$ 4,434,040</u>

SCHEDULE OF STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
BRANCH LIBRARY FUND
For The Year Ended June 30, 2011

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Assets				
Cash and investments	\$ 299	\$ 1	\$ -	\$ 300
Total Assets	<u>\$ 299</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 300</u>
Liabilities				
Deposits payable	\$ 299	\$ 1	\$ -	\$ 300
Total Liabilities	<u>\$ 299</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 300</u>

SCHEDULE OF STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
SUMMIT VALLEY HCP FUND
For The Year Ended June 30, 2011

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Assets				
Cash and investments	\$ 283	\$ 1	\$ -	\$ 284
Total Assets	<u>\$ 283</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 284</u>
Liabilities				
Deposits payable	\$ 283	\$ 1	\$ -	\$ 284
Total Liabilities	<u>\$ 283</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 284</u>

CITY OF HESPERIA

SCHEDULE OF STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
COUNTY HIGH DESERT GOVERNMENT CENTER FUND
For The Year Ended June 30, 2011

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>
Assets				
Cash and investments	\$ 5,621,610	\$ 5,024,259	\$ (10,645,869)	\$ -
Accrued interest	4,387	-	(4,387)	-
Total Assets	<u>\$ 5,625,997</u>	<u>\$ 5,024,259</u>	<u>\$ (10,650,256)</u>	<u>\$ -</u>
Liabilities				
Accounts payable	\$ 5,625,997	\$ 12,760,768	\$ (18,386,765)	\$ -
Total Liabilities	<u>\$ 5,625,997</u>	<u>\$ 12,760,768</u>	<u>\$ (18,386,765)</u>	<u>\$ -</u>

CITY OF HESPERIA**SCHEDULE OF COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS**

For The Year Ended June 30, 2011

	Total Agency Funds			Balance at June 30, 2011
	Balance at June 30, 2010	Additions	Deletions	
Assets				
Cash and investments	\$ 13,661,966	\$ 9,493,899	\$ (16,857,204)	\$ 6,298,661
Cash and investments with fiscal agent	3,379,858	3,149,218	(3,149,218)	3,379,858
Accrued interest	10,830	8,484	(10,830)	8,484
Total Assets	<u>\$ 17,052,654</u>	<u>\$ 12,651,601</u>	<u>\$ (20,017,252)</u>	<u>\$ 9,687,003</u>
Liabilities				
Accounts payable	\$ 6,947,107	\$ 16,769,050	\$ (22,775,230)	\$ 940,927
Due to bondholders	8,096,920	4,179,309	(4,014,675)	8,261,554
Deposits payable	2,008,627	293,772	(1,817,877)	484,522
Total Liabilities	<u>\$ 17,052,654</u>	<u>\$ 21,242,131</u>	<u>\$ (28,607,782)</u>	<u>\$ 9,687,003</u>

General Fund

To account for all financial resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

CITY OF HESPERIA

BALANCE SHEET SCHEDULE
GENERAL FUND
June 30, 2011

Assets

Cash and cash equivalents	\$ 15,394,966
Accounts receivable	1,048,539
Accrued interest	17,123
Due from other governmental agencies	2,110,645
Due from other funds	62,496
Total Assets	\$ 18,633,769

Liabilities and Fund Balances

Liabilities

Accounts payable and other current liabilities	\$ 552,737
Deferred revenue	1,152,228
Deposits	5,000
Total Liabilities	1,709,965

Fund Balances

Committed:	
Self Insurance	150,000
Unassigned	16,773,804
Total Fund Balances	16,923,804
Total Liabilities and Fund Balances	\$ 18,633,769

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2011

	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 10,462,342	\$ 11,009,903	\$ 547,561
Licenses and permits	240,500	255,836	15,336
Fines and forfeitures	796,800	783,589	(13,211)
Use of money and property	67,542	72,449	4,907
Intergovernmental	8,113,880	8,399,041	285,161
Charges for services	1,154,252	1,169,422	15,170
Grants	162,180	128,325	(33,855)
Other revenues	220,062	282,592	62,530
Amount Available for Appropriations	<u>21,217,558</u>	<u>22,101,157</u>	<u>883,599</u>
Expenditures:			
Current:			
General government:			
City council	679,572	664,005	15,567
City manager	1,140,077	1,039,273	100,804
Management services	4,026,140	3,990,751	35,389
Development services	5,179,549	5,089,533	90,016
Public safety - police	11,885,652	11,332,518	553,134
Capital Outlay:			
Equipment and vehicles	49,318	67,554	(18,236)
Total Expenditures	<u>22,960,308</u>	<u>22,183,634</u>	<u>776,674</u>
Excess (Deficiencies) of Revenues Over (Under) Expenditures	<u>(1,742,750)</u>	<u>(82,477)</u>	<u>1,660,273</u>
Other Financing Sources (Uses):			
Transfers in	1,426,834	1,447,704	20,870
Transfers out	(1,986,501)	(1,986,501)	-
Total Other Financing Sources (Uses)	<u>(559,667)</u>	<u>(538,797)</u>	<u>20,870</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	<u>(2,302,417)</u>	<u>(621,274)</u>	<u>1,681,143</u>
Fund balance at beginning of year	16,860,093	16,860,093	-
Prior period adjustment (Note 18)	684,985	684,985	-
Fund Balance at beginning of year, as restated	<u>17,545,078</u>	<u>17,545,078</u>	<u>-</u>
Fund balance at end of year	<u>\$ 15,242,661</u>	<u>\$ 16,923,804</u>	<u>\$ 1,681,143</u>

Special Revenue Funds

The Special Revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Individual Special revenue funds are as follows

Measure I Arterial – To account for 65% of the receipt of voter-approved (Measure I) tax revenue relating to the relief of arterial and regional traffic congestion through maintenance and upkeep of streets and highways.

Measure I Transit – To account for 5% of the receipt of voter-approved (Measure I) tax revenue relating to aid the elderly and disabled with transportation services and fare reductions.

Measure I Renewal – To account for the voter approved extension of the Measure I 0.5% sales tax revenue.

Gas Tax – To account for receipts and expenditures of money apportioned by the State and Highway Code §'s 2105, 2106, 2107 and 2107.5. Gas Tax monies can only be used to construct and maintain streets and highways.

Gas Tax Swap – To account for receipts and expenditures of money apportioned by the State and Highway Code § 2103. Gas Tax Swap monies can only be used to construct and maintain streets and highways.

Article 8 – To account for the ¼ cent of the 7¾ cent sales tax which, in turn, are expended for the City's participation in the Victor Valley Transit Authority and maintenance of streets and roads in accordance with AB 325.

Community Development Block Grant – To account for the receipts and expenditures of the City's entitlements under Federal Community Development Block Grant (CDBG) programs of the US Department of Housing and Urban Development (HUD).

AB 3229 State COPS Program – To account for State grant funds used to enhance policing services.

Air Quality Management District – To account for receipts from the Mojave Desert Air Quality Management District used for the purpose of reducing air pollution from motor vehicles.

Fire District – To account for revenues from special tax assessments and for expenditures relating to the City's fire prevention and protection.

Street Maintenance – To account for funds expended to repair and maintain the City's streets.

Disaster Preparedness Grant – To account for State grant funds used to prepare City staff for quick and correct techniques for proper response and assistance to the citizens in times of emergencies.

Environmental Programs – Formerly called the Beverage Recycling Grant fund, this is to account for State grant funds used to enhance beverage container recycling as well as other recycling programs within the City.

Neighborhood Stabilization Program – To account for Federal grant funds used to purchase, rehabilitate, and resell foreclosed homes within the City in order to avoid any increased blighting conditions caused by vacant homes.

Reimbursable Grants – To account for the receipts and expenditures of the City's Federal, State, or County Grants for the purpose of funding various small capital projects where use of a separate fund is not warranted.

Development Impact Fees – Streets - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's streets.

Development Impact Fees – Storm Drainage - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's storm drain system.

Development Impact Fees – Fire - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's Fire Department with expanded facilities and equipment.

Development Impact Fees – Police - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's Police Department with expanded facilities and equipment.

Development Impact Fees – Public Services - To account for fees paid during the building permit process for the expansion and improvement of the capacity of the City's facilities to better serve the growing populace.

Redevelopment Agency Administration – In accordance with the 1990 City of Hesperia/Hesperia Community Redevelopment Agency (HCRA) Cooperation Agreement this fund tracks the costs of providing staff and City facilities to further the economic/redevelopment function of the HCRA on a reimbursement basis from the HCRA.

HOME Grant – To account for the Department of Housing and Urban Development HOME Investment Partnership Act (HOME) grants requiring segregated fund accounting.

Redevelopment Agency Low/Moderate – To account for the Agency's 20% tax increment set-aside monies to be used to increase and improve the community's supply of low and moderate income housing in the Redevelopment project areas.

CITY OF HESPERIA

SCHEDULE OF COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS
June 30, 2011

	Measure I Arterial	Measure I Transit	Measure I Renewal	Gas Tax	Gas Tax Swap
Assets					
Cash and cash equivalents	\$ 237,680	\$ -	\$ 174,839	\$ 112,970	\$ -
Restricted investments	-	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Accrued interest	294	-	196	15	-
Notes receivable, net of allowance	-	-	-	-	-
Due from other governmental agencies	-	-	582,226	132,448	133,525
Land held for resale	-	-	-	-	-
Due from other funds	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Advance to Hesperia Water District	-	-	-	-	-
Total Assets	\$ 237,974	\$ -	\$ 757,261	\$ 245,433	\$ 133,525
Liabilities and Fund Balances					
Liabilities					
Accounts payable and other current liabilities	\$ 2,517	\$ -	\$ 2,363	\$ 8,000	\$ -
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	2,517	-	2,363	8,000	-
Fund Balances					
Nonspendable:					
Advances	-	-	-	-	-
Land held for resale	-	-	-	-	-
Restricted:					
Debt service	-	-	-	-	-
Transportation	235,457	-	754,898	237,433	133,525
Air quality	-	-	-	-	-
Public safety	-	-	-	-	-
Grants	-	-	-	-	-
Other purposes	-	-	-	-	-
Committed:					
Public safety	-	-	-	-	-
Transportation	-	-	-	-	-
Other purposes	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	235,457	-	754,898	237,433	133,525
Total Liabilities and Fund Balances	\$ 237,974	\$ -	\$ 757,261	\$ 245,433	\$ 133,525

CITY OF HESPERIA

<u>Article 8</u>	<u>Community Development Block Grant</u>	<u>AB 3229 State COPS Program</u>	<u>Air Quality Management District</u>	<u>Fire District</u>	<u>Street Maintenance</u>	<u>Disaster Preparedness Grant</u>
\$ 295,702	\$ 964,774	\$ 5,173	\$ 188,918	\$ 1,202,725	\$ 498,258	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	725,180	88	1,000
77	1,279	17	224	443	624	5
-	-	-	-	-	-	-
-	134,493	15,814	-	194,771	135,274	23,736
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 295,779</u>	<u>\$ 1,100,546</u>	<u>\$ 21,004</u>	<u>\$ 189,142</u>	<u>\$ 2,123,119</u>	<u>\$ 634,244</u>	<u>\$ 24,741</u>
\$ -	\$ 27,532	\$ -	\$ -	\$ 2,481	\$ 196,816	\$ 2,322
-	-	-	-	413,043	-	-
-	-	-	-	-	-	4,341
-	27,532	-	-	415,524	196,816	6,663
-	-	-	-	-	-	-
-	-	-	-	-	-	-
295,779	-	-	-	-	-	-
-	-	-	189,142	-	-	-
-	-	21,004	-	1,707,595	-	-
-	1,073,014	-	-	-	-	18,078
-	-	-	-	-	-	-
-	-	-	-	-	437,428	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>295,779</u>	<u>1,073,014</u>	<u>21,004</u>	<u>189,142</u>	<u>1,707,595</u>	<u>437,428</u>	<u>18,078</u>
<u>\$ 295,779</u>	<u>\$ 1,100,546</u>	<u>\$ 21,004</u>	<u>\$ 189,142</u>	<u>\$ 2,123,119</u>	<u>\$ 634,244</u>	<u>\$ 24,741</u>

SCHEDULE OF COMBINING BALANCE SHEET
 ALL SPECIAL REVENUE FUNDS
 June 30, 2011

	Environmental Programs	Neighborhood Stabilization Program	Reimbursable Grants	Development Impact Fees- Streets
Assets				
Cash and cash equivalents	\$ 1,250	\$ -	\$ -	\$ 8,057,337
Restricted investments	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Accounts receivable	2,002	-	-	-
Accrued interest	5	-	-	9,606
Notes receivable, net of allowance	-	-	-	-
Due from other governmental agencies	23,380	1,228	-	-
Land held for resale	-	4,146,429	-	9,002,541
Due from other funds	-	-	-	-
Advances to other funds	-	-	-	-
Advance to Hesperia Water District	-	-	-	-
Total Assets	\$ 26,637	\$ 4,147,657	\$ -	\$ 17,069,484
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 18,002	\$ 300	\$ -	\$ 81,432
Deferred revenue	-	-	-	-
Due to other funds	-	58,155	-	-
Total Liabilities	18,002	58,455	-	81,432
Fund Balances				
Nonspendable:				
Advances	-	-	-	-
Land held for resale	-	4,146,429	-	9,002,541
Restricted:				
Debt service	-	-	-	-
Transportation	-	-	-	7,985,511
Air quality	-	-	-	-
Public safety	-	-	-	-
Grants	8,635	-	-	-
Other purposes	-	-	-	-
Committed:				
Public safety	-	-	-	-
Transportation	-	-	-	-
Other purposes	-	-	-	-
Unassigned	-	(57,227)	-	-
Total Fund Balances	8,635	4,089,202	-	16,988,052
Total Liabilities and Fund Balances	\$ 26,637	\$ 4,147,657	\$ -	\$ 17,069,484

CITY OF HESPERIA

<u>Development Impact Fees- Storm Drainage</u>	<u>Development Impact Fees- Fire</u>	<u>Development Impact Fees- Police</u>	<u>Development Impact Fees- Public Services</u>	<u>Redevelopment Agency Administration</u>	<u>HOME Grant</u>
\$ 2,008,307	\$ 1,063,646	\$ 191,740	\$ 1,049,880	\$ 96,813	\$ 4,766
-	-	-	-	-	-
-	-	-	-	-	-
-	-	8,090	-	930	-
2,382	1,259	219	1,288	9,957	6
-	-	-	-	-	11,496,906
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 2,010,689</u>	<u>\$ 1,064,905</u>	<u>\$ 200,049</u>	<u>\$ 1,051,168</u>	<u>\$ 107,700</u>	<u>\$ 11,501,678</u>
\$ 7,007	\$ -	\$ 1,814	\$ -	\$ 85,208	\$ -
-	-	-	-	-	11,496,906
-	-	-	-	-	-
<u>7,007</u>	<u>-</u>	<u>1,814</u>	<u>-</u>	<u>85,208</u>	<u>11,496,906</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,003,682	-	-	-	-	-
-	-	-	-	-	-
-	1,064,905	198,235	-	-	-
-	-	-	-	-	4,772
-	-	-	1,051,168	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	22,492	-
-	-	-	-	-	-
<u>2,003,682</u>	<u>1,064,905</u>	<u>198,235</u>	<u>1,051,168</u>	<u>22,492</u>	<u>4,772</u>
<u>\$ 2,010,689</u>	<u>\$ 1,064,905</u>	<u>\$ 200,049</u>	<u>\$ 1,051,168</u>	<u>\$ 107,700</u>	<u>\$ 11,501,678</u>

CITY OF HESPERIA

SCHEDULE OF COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS
June 30, 2011

	Redevelopment Agency Low/Moderate	Totals
Assets		
Cash and cash equivalents	\$ -	\$ 16,154,778
Restricted investments	4,044,813	4,044,813
Restricted cash and cash equivalents	14,464,876	14,464,876
Accounts receivable	4,500	741,790
Accrued interest	17,670	45,566
Notes receivable, net of allowance	16,972,044	28,468,950
Due from other governmental agencies	120,608	1,497,503
Land held for resale	818,555	13,967,525
Due from other funds	797,991	797,991
Advances to other funds	24,385,964	24,385,964
Advance to Hesperia Water District	4,800,000	4,800,000
Total Assets	\$ 66,427,021	\$ 109,369,756
Liabilities and Fund Balances		
Liabilities		
Accounts payable and other current liabilities	\$ 75,259	\$ 511,053
Deferred revenue	17,029,230	28,939,179
Due to other funds	-	62,496
Total Liabilities	17,104,489	29,512,728
Fund Balances		
Nonspendable:		
Advances	29,185,964	29,185,964
Land held for resale	818,555	13,967,525
Restricted:		
Debt service	4,044,813	4,044,813
Transportation	-	11,646,285
Air quality	-	189,142
Public safety	-	2,991,739
Grants	-	1,104,499
Other purposes	15,273,200	16,324,368
Committed:		
Public safety	-	-
Transportation	-	437,428
Other purposes	-	22,492
Unassigned	-	(57,227)
Total Fund Balances	49,322,532	79,857,028
Total Liabilities and Fund Balances	\$ 66,427,021	\$ 109,369,756



CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Measure I Arterial		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	-	1,539	1,539
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	-	-	-
Other revenues	-	-	-
Total Revenues	-	1,539	1,539
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	480,561	466,573	13,988
Total Expenditures	480,561	466,573	13,988
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(480,561)</u>	<u>(465,034)</u>	<u>15,527</u>
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(480,561)	(465,034)	15,527
Fund balances at beginning of year	700,491	700,491	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	700,491	700,491	-
Fund balances at end of year	\$ 219,930	\$ 235,457	\$ 15,527

CITY OF HESPERIA

Measure I Transit			Measure I Renewal		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	44	44	3,000	659	(2,341)
-	-	-	1,839,681	1,988,706	149,025
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	44	44	1,842,681	1,989,365	146,684
-	-	-	-	-	-
-	-	-	-	-	-
29,942	29,942	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	544,246	516,370	27,876
29,942	29,942	-	544,246	516,370	27,876
(29,942)	(29,898)	44	1,298,435	1,472,995	174,560
-	-	-	-	-	-
-	-	-	(880,000)	(880,000)	-
-	-	-	(880,000)	(880,000)	-
(29,942)	(29,898)	44	418,435	592,995	174,560
29,898	29,898	-	161,903	161,903	-
-	-	-	-	-	-
29,898	29,898	-	161,903	161,903	-
\$ (44)	\$ -	\$ 44	\$ 580,338	\$ 754,898	\$ 174,560

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Gas Tax		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 1,385,288	\$ 1,429,046	\$ 43,758
Use of money and property	-	15	15
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	-	-	-
Other revenues	-	-	-
Total Revenues	1,385,288	1,429,061	43,773
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	8,000	8,000	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	8,000	8,000	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,377,288	1,421,061	43,773
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(1,168,538)	(1,168,538)	-
Total Other Financing Sources (Uses)	(1,168,538)	(1,168,538)	-
Net Change in Fund Balances	208,750	252,523	43,773
Fund balances at beginning of year	(15,090)	(15,090)	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	(15,090)	(15,090)	-
Fund balances at end of year	\$ 193,660	\$ 237,433	\$ 43,773

CITY OF HESPERIA

Gas Tax Swap			Article 8		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ 874,543	\$ 844,987	\$ (29,556)	\$ 500,064	\$ 691,974	\$ 191,910
-	-	-	-	77	77
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>874,543</u>	<u>844,987</u>	<u>(29,556)</u>	<u>500,064</u>	<u>692,051</u>	<u>191,987</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>874,543</u>	<u>844,987</u>	<u>(29,556)</u>	<u>500,064</u>	<u>692,051</u>	<u>191,987</u>
-	-	-	-	-	-
(850,000)	(711,462)	138,538	-	-	-
(850,000)	(711,462)	138,538	-	-	-
<u>24,543</u>	<u>133,525</u>	<u>108,982</u>	<u>500,064</u>	<u>692,051</u>	<u>191,987</u>
-	-	-	(396,272)	(396,272)	-
-	-	-	-	-	-
-	-	-	(396,272)	(396,272)	-
<u>\$ 24,543</u>	<u>\$ 133,525</u>	<u>\$ 108,982</u>	<u>\$ 103,792</u>	<u>\$ 295,779</u>	<u>\$ 191,987</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Community Development Block Grant		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	6,040	4,046	(1,994)
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	1,620,112	459,750	(1,160,362)
Other revenues	48,952	24,476	(24,476)
Total Revenues	1,675,104	488,272	(1,186,832)
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	2,812,726	507,802	2,304,924
Debt Service:			
Interest	35,000	4,495	30,505
Principal	300,000	300,000	-
Bond administration expense	400	400	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	3,148,126	812,697	2,335,429
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,473,022)	(324,425)	1,148,597
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(1,473,022)	(324,425)	1,148,597
Fund balances at beginning of year	1,397,439	1,397,439	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	1,397,439	1,397,439	-
Fund balances at end of year	\$ (75,583)	\$ 1,073,014	\$ 1,148,597

CITY OF HESPERIA

AB 3229 State COPS Program			Air Quality Management District		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	36	36	912	694	(218)
-	-	-	-	-	-
-	-	-	-	-	-
107,315	99,573	(7,742)	42,500	58,967	16,467
-	-	-	-	-	-
107,315	99,609	(7,706)	43,412	59,661	16,249
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	50,000	50,000	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	50,000	50,000	-
107,315	99,609	(7,706)	(6,588)	9,661	16,249
-	-	-	-	-	-
(107,000)	(107,000)	-	-	-	-
(107,000)	(107,000)	-	-	-	-
315	(7,391)	(7,706)	(6,588)	9,661	16,249
28,395	28,395	-	179,481	179,481	-
-	-	-	-	-	-
28,395	28,395	-	179,481	179,481	-
\$ 28,710	\$ 21,004	\$ (7,706)	\$ 172,893	\$ 189,142	\$ 16,249

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Fire District		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 5,791,320	\$ 5,888,860	\$ 97,540
Use of money and property	39,477	57,234	17,757
Intergovernmental	-	-	-
Charges for services	2,245,958	2,219,748	(26,210)
Grants	-	-	-
Other revenues	-	-	-
Total Revenues	8,076,755	8,165,842	89,087
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	9,712,890	9,698,466	14,424
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	9,712,890	9,698,466	14,424
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,636,135)	(1,532,624)	103,511
Other Financing Sources (Uses):			
Transfers in	1,000,000	1,920,941	920,941
Transfers out	-	-	-
Total Other Financing Sources (Uses)	1,000,000	1,920,941	920,941
Net Change in Fund Balances	(636,135)	388,317	1,024,452
Fund balances at beginning of year	758,836	758,836	-
Prior period adjustment (Note 18)	560,442	560,442	-
Fund balances at beginning of year, as restated	1,319,278	1,319,278	-
Fund balances at end of year	\$ 683,143	\$ 1,707,595	\$ 1,024,452

Street Maintenance			Disaster Preparedness Grant		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,294	1,905	(389)	40	29	(11)
-	-	-	-	-	-
-	-	-	-	-	-
30,000	534,969	504,969	28,381	24,736	(3,645)
-	3,485	3,485	-	-	-
<u>32,294</u>	<u>540,359</u>	<u>508,065</u>	<u>28,421</u>	<u>24,765</u>	<u>(3,656)</u>
-	-	-	28,381	24,867	3,514
-	-	-	-	-	-
3,117,750	3,078,447	39,303	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
12,508	12,468	40	-	-	-
-	-	-	-	-	-
<u>3,130,258</u>	<u>3,090,915</u>	<u>39,343</u>	<u>28,381</u>	<u>24,867</u>	<u>3,514</u>
<u>(3,097,964)</u>	<u>(2,550,556)</u>	<u>547,408</u>	<u>40</u>	<u>(102)</u>	<u>(142)</u>
2,760,000	2,761,120	1,120	-	-	-
-	-	-	-	-	-
<u>2,760,000</u>	<u>2,761,120</u>	<u>1,120</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(337,964)</u>	<u>210,564</u>	<u>548,528</u>	<u>40</u>	<u>(102)</u>	<u>(142)</u>
226,864	226,864	-	18,180	18,180	-
-	-	-	-	-	-
<u>226,864</u>	<u>226,864</u>	<u>-</u>	<u>18,180</u>	<u>18,180</u>	<u>-</u>
<u>\$ (111,100)</u>	<u>\$ 437,428</u>	<u>\$ 548,528</u>	<u>\$ 18,220</u>	<u>\$ 18,078</u>	<u>\$ (142)</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Environmental Programs		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	48	26	(22)
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	63,568	35,959	(27,609)
Other revenues	5,000	9,190	4,190
Total Revenues	68,616	45,175	(23,441)
Expenditures:			
Current:			
General government:			
City Manager	69,296	44,717	24,579
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	69,296	44,717	24,579
Excess (Deficiency) of Revenues Over (Under) Expenditures	(680)	458	1,138
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(680)	458	1,138
Fund balances at beginning of year	8,177	8,177	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	8,177	8,177	-
Fund balances at end of year	\$ 7,497	\$ 8,635	\$ 1,138

Neighborhood Stabilization Program			Reimbursable Grants		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
78,519	-	(78,519)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
781,083	63,268	(717,815)	845,100	775,100	(70,000)
1,739,573	-	(1,739,573)	-	-	-
<u>2,599,175</u>	<u>63,268</u>	<u>(2,535,907)</u>	<u>845,100</u>	<u>775,100</u>	<u>(70,000)</u>
-	-	-	-	-	-
-	-	-	-	-	-
424,051	36,869	387,182	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,859,947	-	1,859,947	-	-	-
-	-	-	1,455,100	775,100	680,000
-	-	-	-	-	-
-	-	-	-	-	-
<u>2,283,998</u>	<u>36,869</u>	<u>2,247,129</u>	<u>1,455,100</u>	<u>775,100</u>	<u>680,000</u>
315,177	26,399	(288,778)	(610,000)	-	610,000
-	-	-	-	-	-
-	(21,990)	(21,990)	-	-	-
-	(21,990)	(21,990)	-	-	-
<u>315,177</u>	<u>4,409</u>	<u>(310,768)</u>	<u>(610,000)</u>	<u>-</u>	<u>610,000</u>
4,084,793	4,084,793	-	-	-	-
-	-	-	-	-	-
<u>4,084,793</u>	<u>4,084,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 4,399,970</u>	<u>\$ 4,089,202</u>	<u>\$ (310,768)</u>	<u>\$ (610,000)</u>	<u>\$ -</u>	<u>\$ 610,000</u>

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Development Impact Fees Streets		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	65,216	31,803	(33,413)
Intergovernmental	-	-	-
Charges for services	698,620	413,703	(284,917)
Grants	-	-	-
Other revenues	-	-	-
Total Revenues	763,836	445,506	(318,330)
Expenditures:			
Current:			
General government:			
City Manager	-	-	-
Public safety-fire	-	-	-
Development services	30,000	26,964	3,036
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	68,310	68,292	18
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	2,311,966	1,239,404	1,072,562
Total Expenditures	2,410,276	1,334,660	1,075,616
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,646,440)	(889,154)	757,286
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(1,646,440)	(889,154)	757,286
Fund balances at beginning of year	17,877,206	17,877,206	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	17,877,206	17,877,206	-
Fund balances at end of year	\$ 16,230,766	\$ 16,988,052	\$ 757,286

CITY OF HESPERIA

Development Impact Fees Storm Drain			Development Impact Fees Fire		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11,452	7,527	(3,925)	8,212	3,963	(4,249)
-	-	-	-	-	-
91,680	56,979	(34,701)	101,800	58,235	(43,565)
-	-	-	-	-	-
-	-	-	-	-	-
<u>103,132</u>	<u>64,506</u>	<u>(38,626)</u>	<u>110,012</u>	<u>62,198</u>	<u>(47,814)</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,280	10,180	100	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
25,000	7,622	17,378	-	-	-
<u>35,280</u>	<u>17,802</u>	<u>17,478</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
<u>67,852</u>	<u>46,704</u>	<u>(21,148)</u>	<u>110,012</u>	<u>62,198</u>	<u>(47,814)</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>67,852</u>	<u>46,704</u>	<u>(21,148)</u>	<u>110,012</u>	<u>62,198</u>	<u>(47,814)</u>
1,956,978	1,956,978	-	1,002,707	1,002,707	-
-	-	-	-	-	-
<u>1,956,978</u>	<u>1,956,978</u>	<u>-</u>	<u>1,002,707</u>	<u>1,002,707</u>	<u>-</u>
<u>\$ 2,024,830</u>	<u>\$ 2,003,682</u>	<u>\$ (21,148)</u>	<u>\$ 1,112,719</u>	<u>\$ 1,064,905</u>	<u>\$ (47,814)</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	Development Impact Fees Police		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	9,332	1,782	(7,550)
Intergovernmental	-	-	-
Charges for services	25,860	17,208	(8,652)
Grants	-	37,111	37,111
Other revenues	-	-	-
Total Revenues	35,192	56,101	20,909
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	1,500,000	1,431,106	68,894
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	1,500,000	1,431,106	68,894
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,464,808)	(1,375,005)	89,803
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(1,464,808)	(1,375,005)	89,803
Fund balances at beginning of year	1,573,240	1,573,240	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	1,573,240	1,573,240	-
Fund balances at end of year	\$ 108,432	\$ 198,235	\$ 89,803

CITY OF HESPERIA

Development Impact Fees Public Service			Redevelopment Agency Administration		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10,426	4,590	(5,836)	-	9,957	9,957
-	-	-	-	-	-
79,180	48,890	(30,290)	-	-	-
-	-	-	-	-	-
-	-	-	-	22,000	22,000
<u>89,606</u>	<u>53,480</u>	<u>(36,126)</u>	<u>-</u>	<u>31,957</u>	<u>31,957</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,287,758	1,248,964	38,794
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,287,758</u>	<u>1,248,964</u>	<u>38,794</u>
<u>89,606</u>	<u>53,480</u>	<u>(36,126)</u>	<u>(1,287,758)</u>	<u>(1,217,007)</u>	<u>70,751</u>
-	-	-	-	2,506,505	2,506,505
(448,640)	(448,640)	-	(1,267,006)	(1,267,006)	-
(448,640)	(448,640)	-	(1,267,006)	1,239,499	2,506,505
(359,034)	(395,160)	(36,126)	(2,554,764)	22,492	2,577,256
1,446,328	1,446,328	-	-	-	-
-	-	-	-	-	-
<u>1,446,328</u>	<u>1,446,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,087,294</u>	<u>\$ 1,051,168</u>	<u>\$ (36,126)</u>	<u>\$ (2,554,764)</u>	<u>\$ 22,492</u>	<u>\$ 2,577,256</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2011

	HOME Grant		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	734	6	(728)
Intergovernmental	-	-	-
Charges for services	-	-	-
Grants	60,000	4,355	(55,645)
Other revenues	-	-	-
Total Revenues	60,734	4,361	(56,373)
Expenditures:			
Current:			
General government:			
City manager	-	-	-
Public safety-fire	-	-	-
Development services	-	-	-
Debt Service:			
Interest	-	-	-
Principal	-	-	-
Bond administration expense	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Equipment and vehicles	-	-	-
Infrastructure	-	-	-
Total Expenditures	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	60,734	4,361	(56,373)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	60,734	4,361	(56,373)
Fund balances at beginning of year	411	411	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	411	411	-
Fund balances at end of year	\$ 61,145	\$ 4,772	\$ (56,373)

CITY OF HESPERIA

Redevelopment Agency Low/Moderate			Totals		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ 3,759,222	\$ 4,078,484	\$ 319,262	\$ 12,310,437	\$ 12,933,351	\$ 622,914
272,816	456,393	183,577	508,518	582,325	73,807
-	-	-	1,839,681	1,988,706	149,025
-	-	-	3,243,098	2,814,763	(428,335)
-	-	-	3,578,059	2,093,788	(1,484,271)
92,602	63,009	(29,593)	1,886,127	122,160	(1,763,967)
<u>4,124,640</u>	<u>4,597,886</u>	<u>473,246</u>	<u>23,365,920</u>	<u>20,535,093</u>	<u>(2,830,827)</u>
-	-	-	97,677	69,584	28,093
-	-	-	9,712,890	9,698,466	14,424
21,381,428	9,132,072	12,249,356	29,141,655	14,119,060	15,022,595
3,079,447	2,893,815	185,632	3,114,447	2,898,310	216,137
21,300,000	21,300,000	-	21,600,000	21,600,000	-
6,953	4,250	2,703	7,353	4,650	2,703
2,182,915	2,304	2,180,611	4,121,452	80,776	4,040,676
1,000,000	-	1,000,000	3,955,100	2,206,206	1,748,894
-	-	-	12,508	12,468	40
-	-	-	3,361,773	2,229,969	1,131,804
<u>48,950,743</u>	<u>33,332,441</u>	<u>15,618,302</u>	<u>75,124,855</u>	<u>52,919,489</u>	<u>22,205,366</u>
<u>(44,826,103)</u>	<u>(28,734,555)</u>	<u>16,091,548</u>	<u>(51,758,935)</u>	<u>(32,384,396)</u>	<u>19,374,539</u>
-	-	-	3,760,000	7,188,566	3,428,566
-	-	-	(4,721,184)	(4,604,636)	116,548
-	-	-	(961,184)	2,583,930	3,545,114
<u>(44,826,103)</u>	<u>(28,734,555)</u>	<u>16,091,548</u>	<u>(52,720,119)</u>	<u>(29,800,466)</u>	<u>22,919,653</u>
78,057,087	78,057,087	-	109,097,052	109,097,052	-
-	-	-	560,442	560,442	-
<u>78,057,087</u>	<u>78,057,087</u>	<u>-</u>	<u>109,657,494</u>	<u>109,657,494</u>	<u>-</u>
<u>\$ 33,230,984</u>	<u>\$ 49,322,532</u>	<u>\$ 16,091,548</u>	<u>\$ 56,937,375</u>	<u>\$ 79,857,028</u>	<u>\$ 22,919,653</u>



Debt Service Funds

The Debt Service funds are used to account for the accumulation of resources and the payment of general obligation bond principal and interest from governmental resources, and special assessment bond principal and interest from special assessment levies, when the government is obligated in some manner for the payment.

Individual Debt Service funds are as follows

Marks-Roos Revenue Bonds - To account for debt service payments on the Marks-Roos Measure I Revenue bonds.

Redevelopment Agency Debt Service- To account for the tax increment receipts and payment of the Redevelopment Agency bonded indebtedness.

City Debt Service – To account for debt service payments on the City's general debt.

SCHEDULE OF COMBINING BALANCE SHEET
ALL DEBT SERVICE FUNDS
June 30, 2011

	Marks-Roos Revenue Bonds	Redevelopment Agency Debt Service	City Debt Service	Totals
Assets				
Cash and cash equivalents	\$ 1,245,765	\$ 10,649,574	\$ 1,724,906	\$ 13,620,245
Restricted investments	1,024,725	10,052,390	1,291,352	12,368,467
Accrued interest	1,491	14,162	2,019	17,672
Due from other governmental agencies	-	215,364	-	215,364
Due from other funds	-	-	-	-
Total Assets	<u>\$ 2,271,981</u>	<u>\$ 20,931,490</u>	<u>\$ 3,018,277</u>	<u>\$ 26,221,748</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 79,897	\$ -	\$ 124,357	\$ 204,254
Due to other governmental agencies	-	4,449,388	-	4,449,388
Due to other funds	-	492,873	-	492,873
Advances from other funds	-	24,385,964	-	24,385,964
Total Liabilities	<u>79,897</u>	<u>29,328,225</u>	<u>124,357</u>	<u>29,532,479</u>
Fund Balances				
Restricted:				
Debt Service	2,192,084	8,171,813	2,893,920	13,257,817
Committed:				
Other purposes				
Unassigned	-	(16,568,548)	-	(16,568,548)
Total Fund Balances	<u>2,192,084</u>	<u>(8,396,735)</u>	<u>2,893,920</u>	<u>(3,310,731)</u>
Total Liabilities and Fund Balances	<u>\$ 2,271,981</u>	<u>\$ 20,931,490</u>	<u>\$ 3,018,277</u>	<u>\$ 26,221,748</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL

ALL DEBT SERVICE FUNDS

For the Year Ended June 30, 2011

	Marks-Roos Revenue Bonds		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ -	\$ -	\$ -
Use of money and property	7,862	5,201	(2,661)
Total Revenues	7,862	5,201	(2,661)
Expenditures:			
Current:			
Development services	-	-	-
Debt Service:			
Interest	36,100	29,391	6,709
Principal	560,000	560,000	-
Pass through payments	-	-	-
SERAF payment	-	-	-
Bond administration expense	174,243	180,952	(6,709)
Capital Outlay:			
Land	-	-	-
Equipment and vehicles	-	-	-
Total Expenditures	770,343	770,343	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(762,481)	(765,142)	(2,661)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(762,481)	(765,142)	(2,661)
Fund balances at beginning of year	2,957,226	2,957,226	-
Fund balances at end of year	\$ 2,194,745	\$ 2,192,084	\$ (2,661)

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL DEBT SERVICE FUNDS
 For the Year Ended June 30, 2011

	Redevelopment Agency Debt Service		
	Budget	Actual	Variance With Budget
Revenues:			
Taxes	\$ 14,363,844	\$ 15,716,750	\$ 1,352,906
Use of money and property	91,902	104,660	12,758
Total Revenues	14,455,746	15,821,410	1,365,664
Expenditures:			
Current:			
Development services	-	22,494	(22,494)
Debt Service:			
Interest	6,891,495	6,506,565	384,930
Principal	9,184,872	9,184,872	-
Pass through payments	8,893,179	8,893,177	2
SERAF payment	1,680,385	1,680,385	-
Bond administration expense	11,047	6,412	4,635
Capital Outlay:			
Land	31,875	7,500	24,375
Equipment and vehicles	8,900	8,801	99
Total Expenditures	26,701,753	26,310,206	391,547
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,246,007)	(10,488,796)	1,757,211
Other Financing Sources (Uses):			
Transfers in	-	7,798,681	7,798,681
Transfers out	(2,522,807)	(16,993,029)	(14,470,222)
Total Other Financing Sources (Uses)	(2,522,807)	(9,194,348)	(6,671,541)
Net Change in Fund Balances	(14,768,814)	(19,683,144)	(4,914,330)
Fund balances at beginning of year	11,286,409	11,286,409	-
Fund balances at end of year	\$ (3,482,405)	\$ (8,396,735)	\$ (4,914,330)

City Debt Service			Totals		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ 14,363,844	\$ 15,716,750	\$ 1,352,906
9,940	6,502	(3,438)	109,704	116,363	6,659
9,940	6,502	(3,438)	14,473,548	15,833,113	1,359,565
-	-	-	-	22,494	(22,494)
40,366	40,366	-	6,967,961	6,576,322	391,639
200,000	200,000	-	9,944,872	9,944,872	-
-	-	-	8,893,179	8,893,177	2
-	-	-	1,680,385	1,680,385	-
425,309	425,308	1	610,599	612,672	(2,073)
-	-	-	31,875	7,500	24,375
-	-	-	8,900	8,801	99
665,675	665,674	1	28,137,771	27,746,223	391,548
(655,735)	(659,172)	(3,437)	(13,664,223)	(11,913,110)	1,751,113
514,200	514,200	-	514,200	8,312,881	7,798,681
-	-	-	(2,522,807)	(16,993,029)	(14,470,222)
514,200	514,200	-	(2,008,607)	(8,680,148)	(6,671,541)
(141,535)	(144,972)	(3,437)	(15,672,830)	(20,593,258)	(4,920,428)
3,038,892	3,038,892	-	17,282,527	17,282,527	-
\$ 2,897,357	\$ 2,893,920	\$ (3,437)	\$ 1,609,697	\$ (3,310,731)	\$ (4,920,428)



Capital Project Funds

The Capital Project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Individual Capital Project funds are as follows

City Projects - To account for funds designated for various capital projects throughout the City.

Industrial Park Lead Track - To account for funds designated for the construction of a spur line off the Cushenberry branch line to provide rail access to the City's industrial park development..

Township - To account for funds designated for the restoration of the City's township area.

Ranchero Road Undercrossing Local - To account for local funds designated for the construction of the under pass under the Burlington Northern Santa Fe rail lines at Ranchero Road.

Ranchero Road Undercrossing - To account for monies expended to build an under pass under the Burlington Northern Santa Fe rail lines at Ranchero Road.

Ranchero Interchange - To account for funds designated for the design and construction of an interchange at Ranchero Road and Interstate 15.

Redevelopment Agency Capital Projects – To account for the capital projects in the individual Redevelopment Agency project areas. Bond proceeds provide the principal financing.

CITY OF HESPERIA

COMBINING BALANCE SHEET
ALL CAPITAL PROJECTS FUNDS
June 30, 2011

	City Projects	Industrial Park Lead Track	Township	Ranchero Road Undercrossing Local
Assets				
Cash and cash equivalents	\$ 1,347,814	\$ 5,842,404	\$ 378,319	\$ 8,268,146
Restricted investments	-	-	-	-
Accounts receivable	-	-	-	-
Accrued interest	1,683	6,946	450	6,553
Due from other governmental agencies	308,439	-	-	-
Land held for resale	-	-	-	-
Deposits	-	-	-	-
Due from other funds	-	-	-	-
Total Assets	\$ 1,657,936	\$ 5,849,350	\$ 378,769	\$ 8,274,699
Liabilities and Fund Balances				
Liabilities				
Accounts payable and other current liabilities	\$ 49,311	\$ -	\$ -	\$ -
Due to other funds	1,276,662	-	-	-
Deposits	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	1,325,973	-	-	-
Fund Balances				
Restricted:				
Debt service	-	-	-	-
Land held for resale	-	-	-	-
Transportation	331,963	-	-	-
Public safety	-	-	-	-
Deposits	-	-	-	-
Committed:				
Transportation	-	5,849,350	378,769	8,274,699
Other purposes	-	-	-	-
Total Fund Balances (Deficits)	331,963	5,849,350	378,769	8,274,699
Total Liabilities and Fund Balances	\$ 1,657,936	\$ 5,849,350	\$ 378,769	\$ 8,274,699

CITY OF HESPERIA

<u>Ranchero Road Undercrossing</u>	<u>Ranchero Interchange</u>	<u>Redevelopment Agency Capital Projects</u>	<u>Totals</u>
\$ -	\$ 9,331	\$ 8,874,704	\$ 24,720,718
-	-	361,318	361,318
-	-	7,500	7,500
-	-	-	15,632
-	-	126,510	434,949
-	-	11,351,637	11,351,637
-	-	37,480	37,480
-	-	492,873	492,873
<u>\$ -</u>	<u>\$ 9,331</u>	<u>\$ 21,252,022</u>	<u>\$ 37,422,107</u>
\$ -	\$ -	\$ 1,062,298	\$ 1,111,609
-	-	-	1,276,662
-	-	10,000	10,000
-	-	797,991	797,991
<u>-</u>	<u>-</u>	<u>1,870,289</u>	<u>3,196,262</u>
-	-	361,318	361,318
-	-	11,351,637	11,351,637
-	-	-	331,963
-	-	3,450,730	3,450,730
-	-	37,480	37,480
-	9,331	-	14,512,149
-	-	4,180,568	4,180,568
<u>-</u>	<u>9,331</u>	<u>19,381,733</u>	<u>34,225,845</u>
<u>\$ -</u>	<u>\$ 9,331</u>	<u>\$ 21,252,022</u>	<u>\$ 37,422,107</u>

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL CAPITAL PROJECTS FUNDS
 For the Year Ended June 30, 2011

	City Projects		
	Budget	Actual	Variance With Budget
Revenues:			
Use of money and property	\$ 128	\$ 2,846	\$ 2,718
Intergovernmental	-	37	37
Grants	1,784,741	400,001	(1,384,740)
Other revenues	-	372,580	372,580
Total Revenues	<u>1,784,869</u>	<u>775,464</u>	<u>(1,009,405)</u>
Expenditures:			
Current:			
Development services	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Infrastructure	1,848,919	465,161	1,383,758
Total Expenditures	<u>1,848,919</u>	<u>465,161</u>	<u>1,383,758</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(64,050)</u>	<u>310,303</u>	<u>374,353</u>
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(64,050)</u>	<u>310,303</u>	<u>374,353</u>
Fund balances at beginning of year	21,660	21,660	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	<u>21,660</u>	<u>21,660</u>	<u>-</u>
Fund balances at end of year	<u>\$ (42,390)</u>	<u>\$ 331,963</u>	<u>\$ 374,353</u>

CITY OF HESPERIA

Industrial Park Lead Track			Township		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ 9,149	\$ 9,149	\$ -	\$ 592	\$ 592
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	9,149	9,149	-	592	592
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	9,149	9,149.00	-	592	592
-	5,840,201	5,840,201	-	378,177	378,177
-	-	-	-	-	-
-	5,840,201	5,840,201	-	378,177	378,177
-	5,849,350	5,849,350	-	378,769	378,769
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ 5,849,350	\$ 5,849,350	\$ -	\$ 378,769	\$ 378,769

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL CAPITAL PROJECTS FUNDS
 For the Year Ended June 30, 2011

	Ranchero Road Undercrossing Local		
	Budget	Actual	Variance With Budget
Revenues:			
Use of money and property	\$ -	\$ 6,553	\$ 6,553
Intergovernmental	-	-	-
Grants	-	-	-
Other revenues	-	-	-
Total Revenues	-	6,553	6,553
Expenditures:			
Current:			
Development services	-	-	-
Capital Outlay:			
Land	-	-	-
Buildings and improvements	-	-	-
Infrastructure	-	-	-
Total Expenditures	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	6,553	6,553
Other Financing Sources (Uses):			
Transfers in	-	8,268,146	8,268,146
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	8,268,146	8,268,146
Net Change in Fund Balances	-	8,274,699	8,274,699
Fund balances at beginning of year	-	-	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	-	-	-
Fund balances at end of year	\$ -	\$ 8,274,699	\$ 8,274,699

CITY OF HESPERIA

Ranchero Road Undercrossing			Ranchero Interchange		
Budget	Actual	Variance With Budget	Budget	Actual	Variance With Budget
\$ -	\$ -	\$ -	\$ -	\$ 950	\$ 950
-	-	-	-	-	-
11,650,000	-	(11,650,000)	7,034,000	-	(7,034,000)
-	-	-	-	-	-
11,650,000	-	(11,650,000)	7,034,000	950	(7,033,050)
-	-	-	-	-	-
191,940	-	191,940	7,034,000	231,254	6,802,746
-	-	-	-	-	-
11,458,060	-	11,458,060	-	-	-
11,650,000	-	11,650,000	7,034,000	231,254	6,802,746
-	-	-	-	(230,304)	(230,304)
-	21,944	21,944	-	-	-
-	-	-	-	-	-
-	21,944	21,944	-	-	-
-	21,944	21,944	-	(230,304)	(230,304)
(21,944)	(21,944)	-	-	-	-
-	-	-	239,635	239,635	-
(21,944)	(21,944)	-	239,635	239,635	-
\$ (21,944)	\$ -	\$ 21,944	\$ 239,635	\$ 9,331	\$ (230,304)

CITY OF HESPERIA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
 BUDGET AND ACTUAL
 ALL CAPITAL PROJECTS FUNDS
 For the Year Ended June 30, 2011

	Redevelopment Agency Capital Projects		
	Budget	Actual	Variance With Budget
Revenues:			
Use of money and property	\$ 149,089	\$ 352,071	\$ 202,982
Intergovernmental	-	-	-
Grants	2,000,000	-	(2,000,000)
Other revenues	233,643	680,820	447,177
Total Revenues	<u>2,382,732</u>	<u>1,032,891</u>	<u>(1,349,841)</u>
Expenditures:			
Current:			
Development services	1,435,000	653,247	781,753
Capital Outlay:			
Land	625,450	727,746	(102,296)
Buildings and improvements	-	3,020,969	(3,020,969)
Infrastructure	18,857,048	8,069,411	10,787,637
Total Expenditures	<u>20,917,498</u>	<u>12,471,373</u>	<u>8,446,125</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(18,534,766)</u>	<u>(11,438,482)</u>	<u>7,096,284</u>
Other Financing Sources (Uses):			
Transfers in	-	14,486,524	14,486,524
Transfers out	(22,338,033)	(22,359,977)	(21,944)
Total Other Financing Sources (Uses)	<u>(22,338,033)</u>	<u>(7,873,453)</u>	<u>14,464,580</u>
Net Change in Fund Balances	<u>(40,872,799)</u>	<u>(19,311,935)</u>	<u>21,560,864</u>
Fund balances at beginning of year	38,693,668	38,693,668	-
Prior period adjustment (Note 18)	-	-	-
Fund balances at beginning of year, as restated	<u>38,693,668</u>	<u>38,693,668</u>	<u>-</u>
Fund balances at end of year	<u>\$ (2,179,131)</u>	<u>\$ 19,381,733</u>	<u>\$ 21,560,864</u>

Totals		
Budget	Actual	Variance With Budget
\$ 149,217	\$ 372,161	\$ 222,944
-	37	37
22,468,741	400,001	(22,068,740)
233,643	1,053,400	819,757
22,851,601	1,825,599	(21,026,002)
1,435,000	653,247	(781,753)
7,851,390	959,000	(6,892,390)
-	3,020,969	3,020,969
32,164,027	8,534,572	(23,629,455)
41,450,417	13,167,788	(28,282,629)
(18,598,816)	(11,342,189)	7,256,627
-	28,994,992	28,994,992
(22,338,033)	(22,359,977)	(21,944)
(22,338,033)	6,635,015	28,973,048
(40,936,849)	(4,707,174)	36,229,675
38,693,384	38,693,384	-
239,635	239,635	-
38,933,019	38,933,019	-
\$ (2,003,830)	\$ 34,225,845	\$ 36,229,675



CITY OF HESPERIA

Statistical Section Narrative

The schedules of this statistical section fall into one of five broad classifications of information which include:

Financial Trends Information is intended to assist users in understanding and assessing how a government's financial position has changed over time.

- Net Assets By Component
- Changes In Net Assets
- Fund Balances Of Governmental Funds
- Changes In Fund Balances Of Governmental Funds

Revenue Capacity Information is intended to assist users in understanding and assessing factors affecting a government's ability to generate its own revenue. As 59% of the revenues are tax related and of that 73% is property taxes, emphasis on the valuation of the taxable property is a significant item to monitor.

- Assessed Value And Estimated Actual Value Of Taxable Property

Debt Capacity Information is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

- Direct And Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies And Collections
- Ratios Of Outstanding Debt By Type
- Ratio Of General Bonded Debt Outstanding
- Direct And Overlapping Bonded Debt
- Computation Of Legal Debt Margin
- Pledged-Revenue Coverage

Demographic and Economic Information is intended to assist users in understanding the socioeconomic environment within which a government operates and provide information that facilitates comparison of financial statement information over time and among governments.

- Demographic And Economic Statistics
- Principal Employers
- Full-time And Part-time City Employees

Operating Information is intended to provide information about operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

- Operating Indicators
- Capital Asset Statistics
- Water Sold by Type of Customer
- Water Rates
- Water Customers

CITY OF HESPERIA
Net Assets By Component
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2003	2004	2005
Governmental activities:			
Invested in capital assets, net of related debt	\$ (22,151,775)	\$ (17,491,143)	\$ (8,320,832)
Restricted	5,503,651	5,519,543	-
Unrestricted	15,191,433	23,851,906	37,690,850
Total governmental activities net assets	<u>\$ (1,456,691)</u>	<u>\$ 11,880,306</u>	<u>\$ 29,370,018</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 33,700,474	\$ 37,734,956	\$ 40,719,556
Restricted	1,228,374	385,201	394,291
Unrestricted	13,484,881	20,268,387	26,095,340
Total business-type activities net assets	<u>\$ 48,413,729</u>	<u>\$ 58,388,544</u>	<u>\$ 67,209,187</u>
Primary government:			
Invested in capital assets, net of related debt	\$ 11,548,699	\$ 20,243,813	\$ 32,398,724
Restricted	6,732,025	5,904,744	394,291
Unrestricted	28,676,314	44,120,293	63,786,190
Total primary government net assets	<u>\$ 46,957,038</u>	<u>\$ 70,268,850</u>	<u>\$ 96,579,205</u>

The City of Hesperia implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 44,983,065	\$ 53,616,857	\$ 27,606,544	\$ 51,395,013	\$ 79,556,447	\$ 15,931,422
-	5,629,284	11,244,302	11,048,328	10,967,421	31,239,474
53,559,674	72,048,986	113,165,454	99,463,958	66,877,531	95,066,145
<u>\$ 98,542,739</u>	<u>\$ 131,295,127</u>	<u>\$ 152,016,300</u>	<u>\$ 161,907,299</u>	<u>\$ 157,401,399</u>	<u>\$ 142,237,041</u>
\$ 49,232,581	\$ 58,520,406	\$ 71,858,235	\$ 77,907,459	\$ 72,865,322	\$ 77,118,870
394,760	395,227	395,472	395,487	1,890,305	1,890,305
30,877,798	28,091,091	14,100,209	3,940,107	5,397,455	(1,343,492)
<u>\$ 80,505,139</u>	<u>\$ 87,006,724</u>	<u>\$ 86,353,916</u>	<u>\$ 82,243,053</u>	<u>\$ 80,153,082</u>	<u>\$ 77,665,683</u>
\$ 94,215,646	\$ 112,137,263	\$ 99,464,779	\$ 129,302,472	\$ 152,421,769	\$ 93,050,292
394,760	6,024,511	11,639,774	11,443,815	12,857,726	33,129,779
84,437,472	100,140,077	127,265,663	103,404,065	72,274,986	93,722,653
<u>\$ 179,047,878</u>	<u>\$ 218,301,851</u>	<u>\$ 238,370,216</u>	<u>\$ 244,150,352</u>	<u>\$ 237,554,481</u>	<u>\$ 219,902,724</u>

CITY OF HESPERIA
Changes In Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2003	2004	2005
Expenses:			
Governmental activities:			
General government	\$ 3,947,384	\$ 4,541,529	\$ 6,568,914
Public safety	11,862,373	12,150,761	12,564,797
Development services	7,469,243	9,457,263	12,418,250
Interest on long-term debt	2,305,828	2,231,452	1,818,660
Total governmental activities expenses	<u>25,584,828</u>	<u>28,381,005</u>	<u>33,370,621</u>
Business-type activities:			
Water	10,057,853	9,631,538	11,108,806
Wastewater	788,696	854,049	959,215
Total business-type activities expenses	<u>10,846,549</u>	<u>10,485,587</u>	<u>12,068,021</u>
Total primary government expenses	<u>36,431,377</u>	<u>38,866,592</u>	<u>45,438,642</u>
Program revenues:			
Governmental activities:			
Charges for services:			
General government	5,761,006	5,809,505	6,804,436
Public safety	2,463,334	2,343,945	1,967,136
Transportation	-	17,851	-
Development services	97,982	3,843,279	5,591,210
Operating grants and contributions	5,470,516	6,078,237	6,222,214
Capital grants and contributions	-	-	-
Total governmental activities program revenues	<u>13,792,838</u>	<u>18,092,817</u>	<u>20,584,996</u>
Business-type activities:			
Charges for services:			
Water	7,972,284	10,425,035	11,089,090
Wastewater	1,079,381	1,621,014	2,155,770
Operating grants and contributions	-	-	-
Capital grants and contributions	-	-	-
Total business-type activities program revenues	<u>9,051,665</u>	<u>12,046,049</u>	<u>13,244,860</u>
Total primary government program revenues	<u>22,844,503</u>	<u>30,138,866</u>	<u>33,829,856</u>
Net revenues (expenses):			
Governmental activities	(11,791,990)	(10,288,188)	(12,785,625)
Business-type activities	(1,794,884)	1,560,462	1,176,839
Total net revenues (expenses)	<u>(13,586,874)</u>	<u>(8,727,726)</u>	<u>(11,608,786)</u>

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 5,461,656	\$ 7,069,940	\$ 8,301,031	\$ 9,102,750	\$ 8,786,012	\$ 7,057,475
13,671,886	16,926,772	19,464,330	21,009,383	21,219,049	21,768,668
19,387,801	34,337,164	38,592,916	40,695,333	37,148,535	37,275,002
2,996,243	3,512,099	8,351,815	11,912,918	10,578,499	9,726,254
<u>41,517,586</u>	<u>61,845,975</u>	<u>74,710,092</u>	<u>82,720,384</u>	<u>77,732,095</u>	<u>75,827,399</u>
13,424,254	15,654,073	16,188,975	17,791,420	18,798,545	19,928,163
1,013,317	1,239,687	1,535,628	1,711,325	2,147,458	2,680,585
<u>14,437,571</u>	<u>16,893,760</u>	<u>17,724,603</u>	<u>19,502,745</u>	<u>20,946,003</u>	<u>22,608,748</u>
<u>55,955,157</u>	<u>78,739,735</u>	<u>92,434,695</u>	<u>102,223,129</u>	<u>98,678,098</u>	<u>98,436,147</u>
8,561,860	6,276,500	4,274,093	3,519,236	4,138,402	4,563,118
2,241,732	2,723,734	2,665,407	2,826,597	3,020,727	2,517,304
-	-	-	-	-	-
8,313,191	6,995,621	6,700,907	5,674,976	1,833,726	1,919,336
12,294,063	17,440,925	6,580,808	9,029,552	10,668,638	5,788,385
239,635	-	-	597,997	-	1,316,660
<u>31,650,481</u>	<u>33,436,780</u>	<u>20,221,215</u>	<u>21,648,358</u>	<u>19,661,493</u>	<u>16,104,803</u>
12,215,406	13,220,207	12,409,854	14,716,219	15,002,475	15,926,606
3,021,404	2,616,697	2,661,434	2,723,568	2,990,700	3,207,605
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>15,236,810</u>	<u>15,836,904</u>	<u>15,071,288</u>	<u>17,439,787</u>	<u>17,993,175</u>	<u>19,134,211</u>
<u>46,887,291</u>	<u>49,273,684</u>	<u>35,292,503</u>	<u>39,088,145</u>	<u>37,654,668</u>	<u>35,239,014</u>
(9,867,105)	(28,409,195)	(54,488,877)	(61,072,026)	(58,070,602)	(59,722,596)
799,239	(1,056,856)	(2,653,315)	(2,062,958)	(2,952,828)	(3,474,537)
<u>(9,067,866)</u>	<u>(29,466,051)</u>	<u>(57,142,192)</u>	<u>(63,134,984)</u>	<u>(61,023,430)</u>	<u>(63,197,133)</u>

(Continued)

(Continued)

CITY OF HESPERIA
Changes In Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year		
	2003	2004	2005
General revenues and other changes in net assets:			
Governmental activities:			
Taxes:			
Property taxes	7,537,050	10,115,146	13,956,618
Sales and use tax	5,350,392	6,308,789	7,039,638
Transient occupancy tax	175,069	354,109	428,309
Franchise tax	1,611,451	1,711,464	1,710,246
Document transfer tax	184,577	353,239	617,947
Vehicle license fees	3,764,534	3,110,897	4,208,873
Income from property and investments	93,250	437,453	749,628
Gain/(loss) on disposal of capital assets	-	142,216	-
Unrestricted capital contributions	-	-	813,692
Other general revenues and transfers	21,705	44,337	184,995
Total governmental activities	<u>18,738,028</u>	<u>22,577,650</u>	<u>29,709,946</u>
Business-type activities:			
Property taxes	479,375	364,028	139,612
Unrestricted investment earnings	305,447	377,551	418,898
Unrestricted system improvement and replacement	4,216,764	7,336,423	7,062,410
Other revenues and transfers	321,239	336,351	373,100
Total business-type revenues and transfers	<u>5,322,825</u>	<u>8,414,353</u>	<u>7,994,020</u>
Total primary government	<u>24,060,853</u>	<u>30,992,003</u>	<u>37,703,966</u>
Changes in net assets			
Governmental activities	6,946,038	12,289,462	16,924,321
Business-type activities	3,527,941	9,974,815	9,170,859
Total primary government	<u>\$ 10,473,979</u>	<u>\$ 22,264,277</u>	<u>\$ 26,095,180</u>

The City of Hesperia implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available.

Fiscal Year					
2006	2007	2008	2009	2010	2011
24,176,799	34,413,418	42,188,578	42,664,300	31,253,867	25,705,048
9,143,934	10,322,560	9,141,364	6,803,504	7,035,338	7,509,243
573,167	659,255	742,791	607,951	807,411	843,063
2,012,833	2,176,231	2,255,427	2,587,274	2,450,261	2,497,862
819,907	567,321	223,588	206,900	175,336	153,516
5,732,562	7,031,180	8,635,844	8,543,817	7,069,737	6,495,727
3,590,947	5,019,835	8,228,698	5,711,989	4,240,121	951,489
-	-	-	-	(4,015)	-
987,236	443,062	-	119,529	-	-
43,240	528,721	3,793,760	3,717,761	536,646	402,290
<u>47,080,625</u>	<u>61,161,583</u>	<u>75,210,050</u>	<u>70,963,025</u>	<u>53,564,702</u>	<u>44,558,238</u>
145,452	363,921	368,104	293,773	247,343	262,581
902,209	1,323,537	926,463	326,570	36,712	130,657
10,721,686	5,539,018	3,975,273	555,950	498,973	187,560
727,366	331,965	(3,269,333)	(3,224,198)	79,829	406,340
<u>12,496,713</u>	<u>7,558,441</u>	<u>2,000,507</u>	<u>(2,047,905)</u>	<u>862,857</u>	<u>987,138</u>
<u>59,577,338</u>	<u>68,720,024</u>	<u>77,210,557</u>	<u>68,915,120</u>	<u>54,427,559</u>	<u>45,545,376</u>
37,213,520	32,752,388	20,721,173	9,890,999	(4,505,900)	(15,164,358)
13,295,952	6,501,585	(652,808)	(4,110,863)	(2,089,971)	(2,487,399)
<u>\$ 50,509,472</u>	<u>\$ 39,253,973</u>	<u>\$ 20,068,365</u>	<u>\$ 5,780,136</u>	<u>\$ (6,595,871)</u>	<u>\$ (17,651,757)</u>

CITY OF HESPERIA
Fund Balances Of Governmental Funds
Last Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
General fund:					
Reserved	\$ 5,218,251	\$ 2,978,325	\$ 361,846	\$ 150,000	\$ 150,000
Unreserved	2,934,198	6,880,251	15,139,502	18,270,927	23,242,371
Total general fund	<u>\$ 8,152,449</u>	<u>\$ 9,858,576</u>	<u>\$ 15,501,348</u>	<u>\$ 18,420,927</u>	<u>\$ 23,392,371</u>
All other governmental funds:					
Reserved	\$ 2,890,828	\$ 3,157,330	\$ 29,004,708	\$ 42,787,688	\$ 45,862,243
Unreserved, reported in:					
Special revenue funds	9,658,085	14,123,256	30,447,098	29,877,856	36,417,573
Debt service funds	(3,825,980)	(2,642,579)	(490,229)	(22,443)	398,835
Capital projects funds	5,084,474	5,000,435	15,856,368	7,112,450	4,087,904
Total all other governmental funds	<u>\$ 13,807,407</u>	<u>\$ 19,638,442</u>	<u>\$ 74,817,945</u>	<u>\$ 79,755,551</u>	<u>\$ 86,766,555</u>

Notes:

(a) The City implemented GASB statement No. 54 in the fiscal year ended June 30, 2011.

Fiscal Year			
2008	2009	2010	2011 (a)
			General Fund:
\$ 150,000	\$ 150,000	\$ 150,000	Committed
23,013,889	21,101,356	17,395,078	Unassigned
<u>\$ 23,163,889</u>	<u>\$ 21,251,356</u>	<u>\$ 17,545,078</u>	Total General Fund
			Other Governmental Funds:
\$ 194,005,136	\$ 177,067,847	\$ 147,485,950	Nonspendable
27,861,161	20,568,534	18,147,737	Restricted
-	-	-	Committed
7,053,736	2,366,513	239,351	Unassigned
<u>\$ 228,920,033</u>	<u>\$ 200,002,894</u>	<u>\$ 165,873,038</u>	Total Other Governmental Funds

CITY OF HESPERIA
Changes In Fund Balances Of Governmental Funds
Last Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year		
	2003	2004	2005
Revenues:			
Taxes	\$ 16,365,107	\$ 20,547,826	\$ 24,919,776
Licenses and permits	262,615	257,601	256,194
Fines and forfeits	254,608	401,451	407,270
Use of money and property	450,204	436,362	3,105,920
Intergovernmental	8,262,121	8,219,246	9,046,885
Charges for services	6,341,430	9,578,056	12,421,713
Grants	-	1,035,019	960,610
Other revenues	381,302	1,625,250	788,022
Total revenues	<u>32,317,387</u>	<u>42,100,811</u>	<u>51,906,390</u>
Expenditures:			
Noncapital Expenditures:			
Current:			
General government	3,748,066	4,182,520	4,605,714
Public safety	11,630,806	12,093,487	12,455,222
Development services	7,181,703	9,355,122	7,873,573
Debt service:			
Interest	1,953,428	1,858,117	4,250,263
Principal	1,402,353	2,648,300	755,000
Debt issuance costs	-	-	2,254,564
Pass through payments	-	-	4,393,424
SERAF payment	-	-	-
Bond administration expense	20,286	19,822	28,208
Total noncapital expenditures	<u>25,936,642</u>	<u>30,157,368</u>	<u>36,615,968</u>
Capital outlay	4,709,271	4,993,010	6,383,711
Total Expenditures	<u>30,645,913</u>	<u>35,150,378</u>	<u>42,999,679</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,671,474</u>	<u>6,950,433</u>	<u>8,906,711</u>
Other financing sources (uses):			
Transfers in	5,155,981	5,935,918	5,155,981
Transfers out	(5,155,981)	(5,935,918)	(5,155,981)
Issuance of debt	-	-	51,915,561
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>51,915,561</u>
Net change in fund balances	<u>\$ 1,671,474</u>	<u>\$ 6,950,433</u>	<u>\$ 60,822,272</u>
Debt service as a percentage of noncapital expenditures	12.9%	14.9%	13.7%

Notes:

The City of Hesperia has elected to show only eight years of data for this schedule.

Debt Service as a Percentage of Noncapital Expenditures is calculated by dividing the sum of the debt service expenditures by the total noncapital expenditures.

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 37,881,600	\$ 49,407,703	\$ 55,405,322	\$ 53,503,130	\$ 42,821,733	\$ 39,660,004
275,507	230,972	236,382	229,900	251,204	255,836
250,772	1,118,631	794,088	835,690	859,690	783,589
3,619,467	5,050,964	8,261,151	5,760,927	4,379,612	1,143,298
12,072,506	12,490,614	14,407,875	14,884,925	12,344,269	10,387,784
16,883,103	12,383,951	8,862,460	6,422,964	4,600,020	3,984,185
3,160,876	11,609,745	1,524,833	4,724,661	5,788,214	2,622,114
4,426,027	2,099,331	2,025,167	1,974,849	1,187,413	1,458,152
<u>78,569,858</u>	<u>94,391,911</u>	<u>91,517,278</u>	<u>88,337,046</u>	<u>72,232,155</u>	<u>60,294,962</u>
4,888,487	5,792,539	6,410,608	6,689,322	6,464,233	5,763,613
13,581,887	16,824,494	19,227,144	20,670,110	20,884,512	21,030,984
10,658,293	20,082,275	19,311,962	21,551,931	13,149,584	19,884,334
2,465,662	3,184,265	6,693,786	10,369,890	10,230,950	9,474,632
3,160,000	3,050,000	6,910,000	4,590,000	5,822,924	31,544,872
26,201	-	3,060,015	-	-	-
8,394,018	12,326,351	15,541,970	15,709,763	11,141,960	8,893,177
-	-	-	-	8,161,869	1,680,385
50,723	288,989	203,355	154,547	285,992	617,322
<u>43,225,271</u>	<u>61,548,913</u>	<u>77,358,840</u>	<u>79,735,563</u>	<u>76,142,024</u>	<u>98,889,319</u>
<u>28,404,226</u>	<u>20,857,850</u>	<u>32,525,962</u>	<u>41,284,155</u>	<u>38,182,265</u>	<u>17,127,815</u>
<u>71,629,497</u>	<u>82,406,763</u>	<u>109,884,802</u>	<u>121,019,718</u>	<u>114,324,289</u>	<u>116,017,134</u>
6,940,361	11,985,148	(18,367,524)	(32,682,672)	(42,092,134)	(55,722,172)
13,321,361	10,312,687	25,062,588	23,554,164	17,043,360	45,960,444
(13,321,361)	(10,312,687)	(25,062,588)	(23,554,164)	(17,043,360)	(45,960,444)
-	-	160,289,820	1,853,000	4,256,000	-
-	-	160,289,820	1,853,000	4,256,000	-
<u>\$ 6,940,361</u>	<u>\$ 11,985,148</u>	<u>\$ 141,922,296</u>	<u>\$ (30,829,672)</u>	<u>\$ (37,836,134)</u>	<u>\$ (55,722,172)</u>
13.0%	10.1%	17.6%	18.8%	21.1%	41.5%

CITY OF HESPERIA
Assessed Value And Estimated Actual Value Of Taxable Property
Last Ten Fiscal Years
(in thousands of dollars)

	City			Taxable Assessed Value	Redevelopment Agency			Taxable Assessed Value	Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions		Secured	Unsecured	Less: Exemptions		
2002	2,119,035	83,737	(71,990)	2,130,782	1,759,840	78,532	(59,663)	1,778,709	0.179%
2003	2,228,581	87,760	(73,860)	2,242,481	1,857,322	83,428	(61,211)	1,879,539	0.179%
2004	2,443,865	88,055	(78,151)	2,453,769	2,028,750	84,115	(64,504)	2,048,361	0.180%
2005	2,790,876	90,286	(79,330)	2,801,832	2,300,393	86,730	(65,416)	2,321,707	0.179%
2006	3,520,949	104,268	(79,642)	3,545,575	2,873,815	99,706	(65,065)	2,908,456	0.179%
2007	4,615,619	110,298	(80,834)	4,645,083	3,726,273	104,620	(65,920)	3,764,973	0.179%
2008	5,813,485	128,913	(82,912)	5,859,486	4,701,132	122,542	(67,725)	4,755,949	0.179%
2009	5,802,745	146,469	(84,671)	5,864,543	4,692,402	138,930	(69,007)	4,762,325	0.179%
2010	4,750,711	162,847	(84,206)	4,829,352	3,884,266	156,308	(68,378)	3,972,196	0.179%
2011	4,220,587	148,355	(85,626)	4,283,316	1,882,185	83,764	(69,523)	1,896,426	0.179%

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Bernardino County Assessor's Office

CITY OF HESPERIA
Direct And Overlapping Property Tax Rates
(Rate per \$100 of assessed value)
Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
City Direct Rates:										
City basic rate	0.016	0.016	0.016	0.016	0.016	0.016	0.016	0.016	0.016	0.016
Hesperia Fire Protection District	0.153	0.153	0.154	0.153	0.153	0.153	0.153	0.153	0.153	0.153
Hesperia Water District	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010
Total City Direct Rate	<u>0.179</u>	<u>0.179</u>	<u>0.180</u>	<u>0.179</u>						
Overlapping Rates:										
County of San Bernardino	0.142	0.142	0.142	0.142	0.142	0.142	0.142	0.142	0.142	0.142
ERAF	0.215	0.215	0.214	0.216	0.216	0.215	0.215	0.215	0.215	0.215
Flood Control	0.023	0.023	0.023	0.023	0.023	0.023	0.023	0.023	0.022	0.022
County Free Library	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014
County Superintendent of Schools	0.009	0.009	0.009	0.009	0.010	0.010	0.010	0.010	0.010	0.010
Victor Valley Community College	0.064	0.064	0.064	0.064	0.064	0.064	0.064	0.064	0.064	0.064
Hesperia Unified School District	0.294	0.294	0.294	0.293	0.294	0.295	0.295	0.295	0.295	0.295
CSA 60 - Victorville	0.009	0.009	0.009	0.009	0.009	0.009	0.009	0.009	0.009	0.009
CSA 70 - County Wide	0.004	0.004	0.004	0.004	0.002	0.002	0.002	0.002	0.002	0.002
Hesperia Park District	0.042	0.042	0.042	0.042	0.042	0.042	0.042	0.042	0.043	0.043
Mojave Water Agency	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005
Total expenditures	<u>1.000</u>									

Note:

In 1978, California voters passed Proposition 13 which sets the property tax rate at 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within.

Source: County of San Bernardino Assessor's Office

CITY OF HESPERIA

Principal Property Tax Payers Current Year and 9 Years Ago

Taxpayer	2011		2002	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Carl E. Ross Trust	\$ 52,260,275	1.20%	\$ -	0.00%
Federal National Mortgage Association	24,797,936	0.57%	-	0.00%
Target Corporation	24,269,450	0.56%	-	0.00%
Hesperia Main Street LLC	19,831,757	0.45%	-	0.00%
Rancho Las Flores LLC	19,441,660	0.44%	-	0.00%
Arthur J. Mac Donald Trust	-	0.00%	18,601,104	0.84%
Moradi Family Trust 8-2-89	15,658,068	0.36%	-	0.00%
Rancho Las Flores Ltd Partnership	-	0.00%	15,537,023	0.71%
Hesperia Marketplace Cap Partners	13,101,844	0.30%	-	0.00%
WLPX Hesperia LLC	12,525,889	0.29%	-	0.00%
Sunshine Hotels, Inc.	11,655,095	0.27%	-	0.00%
Crossings at Hesperia LLC	11,172,739	0.26%	-	0.00%
Secretary of Housing & Urban Development	-	0.00%	6,566,481	0.30%
TEPCO Ltd	-	0.00%	5,899,618	0.27%
Charter Communications	-	0.00%	5,875,903	0.27%
State Street Bank and Trust	-	0.00%	5,858,154	0.27%
PTF For Operating Engineers	-	0.00%	5,377,029	0.24%
American Stores Properties	-	0.00%	5,136,504	0.23%
Dial Precision	-	0.00%	4,846,281	0.22%
Glen L. Ludwig Trust	-	0.00%	4,836,872	0.22%
	\$ 204,714,713	4.69%	\$ 78,534,969	3.56%

Notes:

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Source: County of San Bernardino Assessor's Office

CITY OF HESPERIA

Property Tax Levies And Collections Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2002	5,451,689	5,198,415	95%	250,742	5,449,157	100%
2003	6,802,802	6,298,814	93%	497,940	6,796,754	100%
2004	9,092,616	8,832,534	97%	256,459	9,088,993	100%
2005	12,777,222	12,347,889	97%	422,475	12,770,364	100%
2006	21,668,601	21,040,385	97%	627,111	21,667,495	100%
2007	30,548,690	27,524,986	90%	2,836,038	30,361,024	99%
2008	36,836,222	34,575,108	94%	1,940,130	36,515,237	99%
2009	36,477,907	31,821,734	87%	4,184,540	36,006,274	99%
2010	28,277,084	24,225,396	86%	1,836,196	26,061,592	92%
2011	23,860,596	21,339,554	89%	-	21,339,554	89%

Note:

The amounts presented include City property taxes and Redevelopment Agency tax increment. This schedule also includes amounts collected by the City and Redevelopment Agency that were passed-through to other agencies.

Source: County of San Bernardino Auditor Controller's Office

CITY OF HESPERIA

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities						Total Governmental Activities
	Tax Revenue Bonds	Tax Allocation Bonds ¹	Certificates of Participation	Capital Lease	Loans	Notes Payable	
2002	16,130,000	13,711,714	-	158,757	3,735,287	-	33,735,758
2003	15,280,000	13,891,535	-	54,319	3,445,250	-	32,671,104
2004	14,355,000	14,085,666	-	-	1,950,000	-	30,390,666
2005	12,525,000	49,285,000	18,300,000	-	1,800,000	-	81,910,000
2006	11,440,000	47,360,000	18,300,000	-	1,650,000	-	78,750,000
2007	9,955,000	45,945,000	18,300,000	-	1,500,000	-	75,700,000
2008	8,655,000	198,805,000	14,300,000	-	1,350,000	-	223,110,000
2009	8,135,000	195,585,000	14,100,000	-	1,050,000	1,503,000	220,373,000
2010	7,595,000	192,470,000	13,900,000	-	900,000	3,941,077	218,806,077
2011	7,035,000	164,105,000	13,700,000	-	600,000	1,821,205	187,261,205

Notes:

Details regarding the City's outstanding debt can be found in the notes (Note 5) to the financial statements.

1 The RDA issued \$49.3 million of refunding bonds and new debt in 2005.

2 These ratios are calculated using personal income and population for the prior calendar year.

Business-type Activities

<u>Water Revenue Bonds</u>	<u>General Obligation Bonds</u>	<u>Certificates of Participation</u>	<u>Loans</u>	<u>Total Business-type Activities</u>	<u>Total Primary Governmental</u>	<u>Percentage of Personal Income ²</u>	<u>Debt Per Capita ²</u>
19,445,000	105,000	1,255,000	2,460,194	23,265,194	57,000,952	5.35%	871
18,930,000	-	1,230,000	2,174,336	22,334,336	55,005,440	4.96%	807
18,395,000	-	1,205,000	1,876,681	21,476,681	51,867,347	4.14%	733
17,340,000	-	1,175,000	1,566,234	20,081,234	101,991,234	7.29%	1,340
16,760,000	-	1,145,000	1,242,947	19,147,947	97,897,947	6.68%	1,220
16,155,000	-	1,110,000	905,826	18,170,826	93,870,826	5.81%	1,095
15,530,000	-	1,075,000	554,652	17,159,652	240,269,652	13.92%	2,736
14,880,000	-	1,035,000	188,671	16,103,671	236,476,671	13.57%	2,682
14,205,000	-	990,000	-	15,195,000	234,001,077	12.59%	2,645
13,500,000	-	940,000	-	14,440,000	201,701,205	11.10%	2,223

CITY OF HESPERIA
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years
(In Thousands, except Per Capita)

Fiscal Year Ended June 30	Outstanding General Bonded Debt			Percent of Assessed Value ¹	Per Capita
	Tax	Water	Total		
	Allocation	General	Governmental		
	Bonds	Obligation	Activities		
2002	13,712	105	13,817	0.65%	218
2003	13,892	-	13,892	0.62%	212
2004	14,086	-	14,086	0.57%	207
2005	49,285	-	49,285	1.76%	697
2006	47,360	-	47,360	1.34%	622
2007	45,945	-	45,945	0.99%	572
2008	198,805	-	198,805	3.39%	2,320
2009	195,585	-	195,585	3.34%	2,227
2010	192,470	-	192,470	3.99%	2,183
2011	164,105	-	164,105	3.83%	1,855

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which the City now has none).

1 - Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

CITY OF HESPERIA
Direct And Overlapping Bonded Debt
June 30, 2011

	<u>Total Debt</u> <u>6/30/11</u>	<u>Percentage</u> <u>Applicable ⁽¹⁾</u>	<u>Net Bonded</u> <u>Debt</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Victor Valley Joint Community College District	\$ 136,022,028	13.692%	\$ 18,624,136
City of Hesperia Community Facilities District No. 2005-1	18,554,508	100.000%	18,554,508
City of Hesperia Assessment District No. 91-1	6,040,000	100.000%	<u>6,040,000</u>
Total Overlapping Tax and Assessment Debt			<u>\$ 43,218,644</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</u>			
San Bernardino County General Fund Obligations	649,325,000	2.045%	13,278,696
San Bernardino County Pension Obligations	601,765,591	2.045%	12,306,106
San Bernardino County Flood Control District Certificates of Participation	111,555,000	2.045%	2,281,300
Mojave Water Agency Certificates of Participation	17,945,000	11.311%	2,029,759
Hesperia Unified School District Certificates of Participation	103,490,000	81.134%	83,965,577
Snowline Joint Union High School District Certificates of Participation	62,230,000	1.663%	1,034,885
City of Hesperia Certificates of Participation	13,900,000	100.000%	<u>13,900,000</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			<u>\$ 128,796,323</u>
COMBINED TOTAL DEBT			<u>\$ 172,014,967</u> (2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

2010-11 Assessed Valuation: \$2,329,760,598 (After deducting \$2,039,181,460 Redevelopment Increment).

Ratios to 2010-11 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 0.99%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$13,900,000) 0.60%

Combined Total Debt 7.38%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$ -

Source: California Municipal Statistics, Inc.

CITY OF HESPERIA
Computation Of Legal Debt Margin
Last Ten Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total assessed value of all real and personal property	\$ 2,130,782,000	\$ 2,242,481,000	\$ 2,453,769,000	\$ 2,801,832,000
Debt limit percentage (1)	<u>15.00%</u>	<u>15.00%</u>	<u>15.00%</u>	<u>15.00%</u>
Total debt limit	319,617,300	336,372,150	368,065,350	420,274,800
Amount of debt applicable to debt limit	<u>16,130,000</u>	<u>15,280,000</u>	<u>14,355,000</u>	<u>12,525,000</u>
Legal debt margin	\$ 303,487,300	\$ 321,092,150	\$ 353,710,350	\$ 407,749,800
Percent of Debt Limit Authorized	5.05%	4.54%	3.90%	2.98%

The Government Code of the State of California (§43605) provides for a debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in

Source: City of Hesperia, Management Services Depa
San Bernardino County Assessor's Office

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 3,545,575,000	\$ 4,645,083,000	\$ 5,859,486,000	\$ 5,864,543,000	\$ 4,829,352,000	\$ 4,283,316,000
15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
<u>531,836,250</u>	<u>696,762,450</u>	<u>878,922,900</u>	<u>879,681,450</u>	<u>724,402,800</u>	<u>642,497,400</u>
11,440,000	9,955,000	8,655,000	8,135,000	7,595,000	7,035,000
<u>\$ 520,396,250</u>	<u>\$ 686,807,450</u>	<u>\$ 870,267,900</u>	<u>\$ 871,546,450</u>	<u>\$ 716,807,800</u>	<u>\$ 635,462,400</u>
2.15%	1.43%	0.98%	0.92%	1.05%	1.09%

CITY OF HESPERIA

Pledged-Revenue Coverage

Last Ten Fiscal Years

Fiscal Year Ended June 30	Water Revenue Bonds					Coverage
	Water Revenue	Less Operating Expenses	Net Available Revenue	Debt Service		
				Principal	Interest	
2002	12,103,010	9,644,145	2,458,865	495,000	697,473	2.06
2003	14,374,490	10,146,191	4,228,299	515,000	489,214	4.21
2004	20,460,402	9,976,243	10,484,159	535,000	314,745	12.34
2005	21,238,880	11,455,807	9,783,073	1,055,000	389,202	6.77
2006	27,406,490	13,445,058	13,961,432	580,000	872,267	9.61
2007	23,395,345	15,818,866	7,576,479	605,000	930,004	4.94
2008	20,705,691	13,780,829	6,924,862	625,000	930,266	4.45
2009	19,005,437	15,046,874	3,958,563	650,000	895,435	2.56
2010	19,178,523	16,461,361	2,717,162	675,000	858,360	1.77
2011	20,004,967	17,984,711	2,020,256	705,000	827,967	1.32

Note:

Details regarding the City's outstanding debt can be found in the notes to the financial statements (Note 5). Operating expenses do not include interest or depreciation expenses.

Tax Allocation Bonds

Tax Increment	Debt Service		Coverage
	Principal	Interest	
2,198,144	80,000	752,938	2.64
3,230,218	165,000	743,506	3.56
5,795,305	180,000	730,288	6.37
9,404,059	195,000	608,903	11.70
18,107,617	1,925,000	1,536,258	5.23
27,001,236	1,415,000	2,073,461	7.74
34,255,092	1,460,000	5,813,807	4.71
34,641,768	3,220,000	9,851,781	2.65
24,620,757	3,115,000	10,173,800	1.85
19,315,568	28,365,000	9,400,380	0.51

CITY OF HESPERIA

Demographic And Economic Statistics

Last Ten Calendar Years

Calendar Year	Population ⁽¹⁾	Effective Buying Income (in thousands) ⁽²⁾	Per Capita Income ⁽²⁾	Unemployment Rate ⁽³⁾
2002	65,475	\$ 1,110,146	16,279	5.7%
2003	68,195	1,151,288	16,274	6.2%
2004	70,744	1,252,381	17,703	5.8%
2005	76,114	1,398,290	18,371	5.4%
2006	80,268	1,465,052	18,252	6.4%
2007	85,708	1,617,904	18,840	7.1%
2008	87,820	1,725,751	19,651	10.3%
2009	88,184	1,742,428	19,759	17.3%
2010	88,479	1,858,767	21,008	18.4%
2011	90,726	1,816,514	20,022	18.0%

Sources:

(1) State Department of Finance

(2) City of Hesperia Economic Development Department

(3) State of California Employment Development Department (data shown is for the County)

CITY OF HESPERIA

Principal Employers

Current Year and Nine Years Ago

	2011		2002	
	Number Of Employees	Percent of Total Employment	Number Of Employees	Percent of Total Employment
Hesperia Unified School District	1,956	7.86%	1,561	6.92%
County of San Bernardino	365	1.47%	100	0.44%
Stater Brothers Markets	361	1.45%	300	1.33%
Super Target	250	1.00%	-	0.00%
City of Hesperia	200	0.80%	301	1.33%
Arizona Pipeline Company	195	0.78%	75	0.33%
Hesperia Recreation & Park District	166	0.67%	-	0.00%
Robar Ent/Hi Grade Material	134	0.54%	200	0.89%
Double Eagle Transportation	124	0.50%	100	0.44%
In-N-Out	124	0.50%	100	0.44%
K-Mart	120	0.48%	90	0.40%
Wood Grill Buffett	105	0.42%	-	0.00%
Pilot Travel Center/Wendy's	85	0.34%	-	0.00%
Graco (Newell Rubbermaid)	81	0.33%	-	0.00%
Standard Abrasives	80	0.32%	35	0.16%
Del Taco	64	0.26%	-	0.00%
Orchard Supply Hardware	40	0.16%	-	0.00%
Mer-Mar	37	0.15%	-	0.00%
IHOP	31	0.12%	-	0.00%
Little Sister's Truck Wash	34	0.14%	81	0.36%
Dial Precision	27	0.11%	-	0.00%

Source: City of Hesperia Economic Development Department

CITY OF HESPERIA
Full-time And Part-time City Employees
By Function
Last Ten Fiscal Years

Function	Full-time and Part-time Employees as of June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	29.63	29.76	30.20	33.75	37.66	46.57	49.17	47.17	44.51	42.13
Public safety										
Police ¹	50.13	50.13	49.50	51.50	55.50	64.50	73.50	75.50	75.50	75.50
Fire ²	54.63	53.63	52.26	45.00	51.00	59.00	59.00	59.00	59.33	59.00
Development services										
Community Development	29.86	29.86	32.76	35.47	39.47	24.90	23.95	22.95	21.49	17.73
Code Compliance	0.00	0.00	0.00	0.00	0.00	25.23	30.64	28.78	26.78	23.78
Public works	22.63	22.13	23.43	26.91	30.33	33.91	37.91	37.68	35.90	35.40
Water	32.43	32.93	33.31	37.54	45.91	67.10	71.56	72.33	73.06	72.54
Wastewater	2.44	2.44	2.44	3.44	3.69	4.69	5.69	5.69	5.50	5.50
Total	<u>221.75</u>	<u>220.88</u>	<u>223.90</u>	<u>233.61</u>	<u>263.56</u>	<u>325.90</u>	<u>351.42</u>	<u>349.10</u>	<u>342.07</u>	<u>331.58</u>

1 - Police services are provided through a contract with the San Bernardino County Sheriff

2 - Fire services are provided through a contract with the San Bernardino County Fire since June 1, 2004

Source: City of Hesperia Management Services Department

CITY OF HESPERIA
Operating Indicators
By Function
Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police:										
Arrests	2,000	2,129	2,115	2,831	3,362	3,560	3,073	3,032	3,055	3,047
Citations issued	6,175	4,683	4,474	4,799	6,254	6,209	4,389	4,836	5,873	5,033
Calls for service	45,500	46,246	47,988	54,019	62,632	72,897	68,989	68,956	89,475	75,806
Fire:										
Number of emergency calls	7,344	7,917	7,285	7,196	7,340	9,521	9,830	10,238	11,416	12,145
Inspections	496	906	909	967	855	796	611	532	778	721
Public works:										
Street resurfacing (miles)	21.8	19.3	18.4	24.3	51.1	57.0	57.0	47.0	32.0	-
Potholes filled	80,000	51,000	46,000	89,000	60,000	61,000	27,000	18,884	12,000	7,200
Water:										
New connections	500	687	1,115	1,173	1,792	1,143	372	73	29	10
Average daily consumption (thousands of gallons)	13,837	15,622	13,658	14,729	15,176	15,622	15,176	15,622	13,726	11,687
Old steel waterlines replaced ¹ (miles of pipeline)	6.0	8.7	9.2	11.0	14.2	8.5	6.0	7.0	7.0	6.0
Sewer:²										
Wastewater lines cleaned (mi.)	69	70	29	29	57	74	22	31	39	38
Manholes maintained	1,425	1,500	852	433	1,000	1,500	845	645	712	639

1 - The Water District is replacing old steel water lines, put into service 50 years ago, with larger PVC water lines

2 - Sewer service to the City is provided by Victor Valley Wastewater Reclamation Authority. The City has no treatment facilities. Most of the City residents are on septic tanks.

Source: City of Hesperia Management Services Department

CITY OF HESPERIA
Capital Asset Statistics
By Function
Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Fire stations	3	3	3	3	3	3	3	3	3	4
Public works:										
Streets (miles)	520.2	520.2	520.2	520.2	545.0	545.0	545.0	545.0	545.0	545.0
Traffic Signals	25	25	25	25	25	25	25	25	25	25
Water:										
Water mains (miles)	572.2	572.2	572.2	572.2	574.0	574.0	574.0	574.0	574.0	574.0
Maximum daily capacity (thousands of gallons)	13,837	15,622	13,658	14,729	15,176	27,140	27,140	27,140	27,140	27,140
Old steel waterlines replaced ¹ (miles of pipeline)	6.0	8.7	9.2	11.0	14.2	8.5	6.0	7.0	7.0	6.0
Sewer: ²										
Sanitary sewers (miles)	69	70	74	85	103	115	115	115	115	115
Maximum daily treatment capacity (thousands of gallons)	1,125	1,170	1,215	1,250	1,325	1,894	1,894	1,894	1,894	1,894

1 - The Water District is replacing old steel water lines, put into service 50 years ago, with larger PVC wa

2 - Sewer service to the City is provided by Victor Valley Wastewater Reclamation Authority. The City has no treatment facilities. Most of the City residents are on septic tanks.

Source: City of Hesperia Departments

HESPERIA WATER DISTRICT

Water Sold by Type of Customer

Last Ten Fiscal Years

(in million of gallons)

Type of Customer:	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Residential	3,230.9	3,365.1	3,490.9	3,755.9	3,960.9	4,787.8	4,001.5	5,134.8	3,901.2	3,664.2
Industrial	3.7	3.8	4.0	4.3	4.5	6.3	5.6	4.1	3.2	2.9
Commercial	671.0	698.9	725.0	780.0	822.6	893.2	852.9	584.9	637.7	405.6
Government	197.3	205.5	213.2	229.4	241.9	302.3	282.6	150.9	467.9	193.2
Total	4,102.9	4,273.4	4,433.1	4,769.6	5,029.9	5,989.6	5,142.6	5,874.7	5,010.0	4,265.9

Note: Total direct rate is not applicable as the water district uses a tiered rate approach for billing consumed water.

Source: Hesperia Water District

HESPERIA WATER DISTRICT

Water Rates

Last Ten Fiscal Years

Fiscal Year Ended June 30	Bi-Monthly Meter Charge	Bi-Monthly Usage Tiers					
		Rate Per 0 - 10	Rate Per 11 - 18	Rate Per 19 - 32	Rate Per 33 - 58	Rate Per 59 - 114	Rate Per Over 114
		HCF	HCF	HCF	HCF	HCF	HCF
2002	\$ 24.20	\$ 0.53	\$ 0.58	\$ 0.66	\$ 0.71	\$ 0.77	\$ 0.83
2003	26.62	0.56	0.64	0.76	0.83	0.90	1.00
2004	29.28	0.59	0.70	0.87	0.97	1.09	1.21
2005	30.74	0.62	0.74	0.91	1.02	1.14	1.27
2006	32.28	0.65	0.78	0.96	1.07	1.20	1.33
2007	32.28	0.65	0.78	0.96	1.07	1.20	1.33

Fiscal Year Ended June 30	Bi-Monthly Meter Charge	Bi-Monthly Usage Tiers			
		Rate Per 0 - 10	Rate Per 11 - 40	Rate Per 41 - 80	Rate Per Over 80
		HCF	HCF	HCF	HCF
2008	\$ 33.57	\$ 0.71	\$ 1.20	\$ 1.47	\$ 1.74
2009	34.91	0.77	1.31	1.60	1.90
2010	36.31	0.84	1.43	1.74	2.07
2011	37.76	0.87	1.49	1.81	2.15

Notes:

Rates based on 5/8" and 3/4" meter, which are the standard household meter size.

HCF - Hundred Cubit Feet or approximately 748 gallons.

(1) - These rates became effective in 1993.

Source: Hesperia Water District

HESPERIA WATER DISTRICT

Water Customers

Current Year and 4 Years Ago

	2011		2007	
	Water Charges	Percent of Total Water Revenues	Water Charges	Percent of Total Water Revenues
Hesperia Unified School District	\$ 437,590	4.76%	\$ 331,388	3.45%
Hesperia Park & Recreation	164,720	1.79%	143,320	1.49%
RIM Properties	59,131	0.64%	-	0.00%
Spring Street Associates LP	53,503	0.58%	44,074	0.46%
Pacific Scene Homes	-	0.00%	39,494	0.41%
KDF	38,837	0.42%	-	0.00%
Hesperia Senior Campus	-	0.00%	28,644	0.30%
Prestige Homes LP	-	0.00%	24,726	0.26%
Three Palms Apartments, LP	12,058	0.13%	19,141	0.20%
CEMX	29,273	0.32%	18,673	0.19%
Foremost Health Care Center	28,827	0.31%	-	0.00%
City of Hesperia	27,093	0.29%	-	0.00%
Hesperia Community Church	20,834	0.23%	21,959	0.23%
Competitive Edge	-	0.00%	18,344	0.19%
Santa Fe Apartments	18,440	0.20%	-	0.00%
San Remo Hesperia Ltd.	17,362	0.19%	-	0.00%
Hesperia Garden Apts	13,731	0.15%	-	0.00%

Note:

Information prior to 2006-07 is not available.

Source: Hesperia Water District

