

**SOUTHERN CALIFORNIA
LOGISTICS AIRPORT AUTHORITY
BASIC FINANCIAL STATEMENTS**

Year ended June 30, 2014

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Basic Financial Statements

Year ended June 30, 2014

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Board of Directors
Southern California Logistics Airport Authority
Victorville, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Southern California Logistics Airport Authority ("SCLAA"), a component unit of the City of Victorville, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SCLAA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southern California Logistics Authority, as of June 30, 2014, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The accompanying financial statements have been prepared assuming that the SCLAA will continue as a going concern. As discussed in note 7 to the financial statements, the SCLAA has suffered recurring losses in recent years and the SCLAA has defaulted on a number of its recent debt payments. The statewide dissolution of all redevelopment agencies in the State of California creates additional uncertainty with respect to the SCLAA due to its dependency upon tax increment funding from the Victor Valley Economic Development Authority. These circumstances raise substantial doubt about the SCLAA's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the SCLAA be unable to continue as a going concern. Our opinion is not modified with respect to this matter.

As described further in note 6, on April 29, 2013, the United States Securities and Exchange Commission filed a complaint alleging that a number of defendants, including the City of Victorville, the Southern California Logistics Airport Authority, and certain City officials, committed certain fraudulent acts associated with the issuance in 2008 of \$13,334,925 of Subordinate Tax Allocation Revenue Bonds, Series 2008A. As of the date of issuance of the financial statements, there was a possibility that this matter might result in a loss to the SCLAA. However, the amount of the loss, if any, that might result from this matter could not be reasonably estimated. Our opinion is not modified with respect to this matter.

The financial statements for the year ended June 30, 2014 reflect certain prior period adjustments as described further in note 10 to the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the SCLAA's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SCLAA's basic financial statements. The *Statement of Revenues, Expenses and Changes in Net Position – by subfund* is presented for purposes of additional analysis and are not a required part of the basic financial statements. The *Statement of Revenues, Expenses and Changes in Net Position – by subfund* are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 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 *Statement of Revenues, Expenses and Changes in Net Position – by subfund* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2015 on our consideration of SCLAA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCLAA's internal control over financial reporting and compliance.

Major Hoffman, CPA

Irvine, California
February 12, 2015

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Statement of Net Position

June 30, 2014

(with comparative data for June 30, 2013)

<u>Assets:</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and investments (note 2)	\$ 18,118,774	\$ 18,596,746
Cash and investments with fiscal agent (note 2)	15,359,889	16,747,678
Receivables:		
Accounts	785,082	376,528
Inventory	7,148	7,304
Total current assets	<u>34,270,893</u>	<u>35,728,256</u>
Noncurrent assets:		
Capital assets, net (note 3)	162,594,611	168,136,025
Advances to City of Victorville (note 5)	1,942,248	1,955,255
Advances to other governments (note 5)	6,915,669	6,998,744
Prepaid items	2,075	2,055
Total noncurrent assets	<u>171,454,603</u>	<u>177,092,079</u>
Total assets	<u>205,725,496</u>	<u>212,820,335</u>
 <u>Deferred Outflow of Resources:</u>		
Deferred charge on refunding	<u>2,608,536</u>	<u>2,743,052</u>
Total deferred outflow of resources	<u>2,608,536</u>	<u>2,743,052</u>
 <u>Liabilities:</u>		
Current liabilities:		
Accounts payable	1,520,387	565,059
Interest payable	1,434,637	1,452,261
Bonds subject to call (note 4)	57,412,536	117,400,317
Long-term liabilities, due within one year (note 4)	<u>3,715,751</u>	<u>2,783,699</u>
Total current liabilities	<u>64,083,311</u>	<u>122,201,336</u>
Noncurrent liabilities:		
Accrued rent credit payable	1,300,678	1,439,123
Advances from other governments (note 5)	11,939,597	11,910,687
Long-term liabilities, due in more than one year (note 4)	<u>257,676,878</u>	<u>201,334,634</u>
Total noncurrent liabilities	<u>270,917,153</u>	<u>214,684,444</u>
Total liabilities	<u>335,000,464</u>	<u>336,885,780</u>
 <u>Net position (deficiency):</u>		
Net position (deficiency):		
Net investment in capital assets	(52,148,920)	(47,856,964)
Unrestricted	<u>(74,517,512)</u>	<u>(73,465,429)</u>
Total net position (deficiency)	<u>\$ (126,666,432)</u>	<u>\$ (121,322,393)</u>

See accompanying notes to the basic financial statements.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2014
(with comparative data for June 30, 2013)

	2014	2013
Operating revenues:		
Charges for services:		
Landing fees	\$ 1,865,567	\$ 2,022,782
Fuel flowage fees	362,148	268,647
Concession sales	6,458	5,743
Rent and lease revenue	5,930,010	5,917,090
Total charges for services	8,164,183	8,214,262
Fines and forfeitures	4,832	71,667
Other	336,772	280,209
Total operating revenues	8,505,787	8,566,138
 Operating expenses:		
Personnel services	1,915,422	1,689,215
Maintenance and operations	7,736,304	5,786,397
Depreciation	6,944,620	4,616,648
Total operating expenses	16,596,346	12,092,260
 Operating income (loss)	(8,090,559)	(3,526,122)
 Nonoperating revenues (expenses):		
Taxes	17,717,042	9,602,694
Investment income	43,949	55,726
Interest expense	(16,051,707)	(17,357,563)
Gain (loss) on sale of fixed assets	5,382	-
Other	(223,613)	(1,394,841)
Total nonoperating revenues (expenses)	1,491,053	(9,093,984)
 Income (loss) before transfers and capital contributions	(6,599,506)	(12,620,106)
 Capital contribution	144,104	443,837
Capital related revenue	12,271	-
Transfers from the City of Victorville (note 5)	-	10,911,814
Transfers out (note 5)	-	(91,200)
Total contributions and transfers	156,375	11,264,451
 Change in net position	(6,443,131)	(1,355,655)
 Net position (deficiency) at beginning of year, as restated (note 10)	(120,223,301)	(119,966,738)
Net position (deficiency) at end of year	\$(126,666,432)	\$(121,322,393)

See accompanying notes to the basic financial statements.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Statement of Cash Flows

Year ended June 30, 2014

(with comparative data for June 30, 2013)

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 7,958,786	8,814,596
Cash payments to employees for services	(1,915,422)	(1,689,215)
Cash payments to suppliers for goods and services	(6,780,840)	(5,841,685)
Net cash provided by (used for) operating activities	(737,476)	1,283,696
Cash flows from noncapital financing activities:		
Cash received from other governments	17,829,029	10,234,376
Cash paid to other governments	-	(7,524,465)
Cash received from City of Victorville	247,260	35,053,152
Cash paid to City of Victorville	-	(91,200)
Net cash provided by (used for) noncapital financing activities	18,076,289	37,671,863
Cash flows from capital and related financing activities:		
Cash payments to acquire capital assets	(612,494)	(483,881)
Cash received for capital grants	12,271	-
Principal paid on capital-related debt	(2,578,969)	(2,479,308)
Interest paid on capital-related debt	(16,069,331)	(17,373,820)
Net cash provided by (used for) capital and related financing activities	(19,248,523)	(20,337,009)
Cash flows from investing activities:		
Interest received on investments	43,949	55,726
Net cash provided by investing activities	43,949	55,726
Net increase in cash and cash equivalents	(1,865,761)	18,674,276
Cash and cash equivalents at beginning of year	35,344,424	16,670,148
Cash and cash equivalents at end of year	\$ 33,478,663	35,344,424
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (8,090,559)	(3,526,122)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	6,944,620	4,616,648
(Increase) decrease in accounts receivable	(408,556)	302,192
(Increase) decrease in inventory	156	(3,620)
(Increase) decrease in prepaid items	(20)	(2,055)
Increase (decrease) in accounts payable	955,328	(49,613)
Increase (decrease) in deferred revenue	-	(12,548)
Increase (decrease) in accrued rent credits payable	(138,445)	-
Increase (decrease) in deposits payable	-	(41,186)
Total adjustments	7,353,083	4,809,818
Net cash provided by (used for) operating activities	\$ (737,476)	1,283,696
<u>Noncash capital, financing and investing activities</u>		
Capital assets contributed to the City of Victorville	\$ 144,104	443,837
Total noncash capital, financing and investing activities	\$ 144,104	443,837

See accompanying notes to the basic financial statements.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

Year ended June 30, 2014

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Southern California Logistics Airport Authority (“SCLAA”), a component unit of the City of Victorville, was formed in June of 1997 by the City of Victorville and the Victorville Redevelopment Agency. The purpose of SCLAA is to provide for the coordination of long range planning of the territory of George Air Force Base (now Southern California Logistics Airport, or the Airport). The Victor Valley Economic Development Authority (“VVEDA”), a Joint Powers Authority of the City of Victorville and other entities, was authorized to exclusively exercise the powers of a redevelopment agency in the area including and surrounding the Airport. VVEDA subsequently delegated to the SCLAA all of its redevelopment authority over the portion of the VVEDA project area comprised of the Airport.

(b) Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the basic financial statements.

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

The SCLAA is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The SCLAA utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Internal activity has been eliminated in the accompanying financial statements.

The SCLAA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with airport and rental operations. The principal operating revenues of the SCLAA are federal grants and charges to customers for services. Operating expenses include general and administrative costs, cost of purchased water and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Relationship to the City of Victorville

The SCLAA is an integral part of the reporting entity of the City of Victorville (“City”) and is reflected as a blended component unit within the City of Victorville. The SCLAA fund has been included within the scope of the basic financial statements of the City because the City Council is the governing board and has financial accountability over the operations of the SCLAA. Only the SCLAA fund is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Victorville, California.

(e) Cash and 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 *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(f) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include the cash and investments held by a fiscal agent.

(g) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. SCLAA capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life are not capitalized.

Depreciation is computed utilizing the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Furniture and equipment	3-7 years
Computer and communications	5 years
Vehicles	8-15 years
Sewer	50-60 years
Storm drains	20-100 years
Water lines	70-80 years
Runways and roads	20-40 years

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(h) Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness), which is outside the control of the City and the employee.

Compensated absences (unpaid vacation and sick leave) are recorded as expenditures in the year they are paid. The balance of unpaid vacation and vested sick leave at year end is recorded as a long-term liability in the government-wide financial statements, as these amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

(i) Deferred Charges on Refunding

Unamortized losses on refunding are amortized over the shorter of the term of the new debt or the refunded debt. Unamortized losses on refunding are recorded as deferred charge on refunding, under Deferred Outflow of Resources.

(j) Bond Premiums/Discounts and Issuance Costs

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Debt issuance costs other than prepaid insurance are expensed when incurred.

(k) Estimates

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

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(l) Net Position

Net position is classified in the following categories:

Net Investment in Capital Assets

This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position

This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position

This amount is all of the net position that does not meet the definition of “invested in capital assets” or “restricted net position.”

(m) Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position will report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time.

When applicable, the statement of net position will report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time.

(n) Prior Year Data

Selected information regarding the prior year had been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority’s prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 18,118,774
Cash and investments with fiscal agent	<u>15,359,889</u>
Total cash and investments	<u>\$ 33,478,663</u>

Cash and investments as of June 30, 2014 consist of the following:

Equity in City of Victorville pool	\$ 18,118,774
Investments with fiscal agent	<u>15,359,889</u>
Total cash and investments	<u>\$ 33,478,663</u>

Equity in the Cash and Investments Pool of the City of Victorville

The SCLAA has no separate bank accounts or investments other than investments held by bond trustee. The SCLAA's equity in the cash and investment pool is managed by the City of Victorville. The SCLAA is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Victorville. The SCLAA has not adopted an investment policy separate from that of the City of Victorville. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the SCLAA's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the SCLAA's investment policy.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	180 days	None	None
Money Market Mutual Funds	None	None	None
Repurchase Agreements	None	None	None
Investment Contracts	None	None	None
Certificate of Deposit	None	None	None
Local Agency Investment Fund	None	None	None
California Common Law Trust Shares	None	None	None

Custodial Credit Risk

The SCLAA does not have separate certificates of deposit or demand accounts held by bond trustee that are subject to custodial credit risk (as defined by GASB Statement No. 40). Furthermore, at June 30, 2014 all assets held by bond trustees were in the form of money market funds.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(3) Capital Assets

The following is a summary of changes in capital assets for SCLAA at June 30, 2014:

	Balance at July 1, 2013*	Additions	Deletions	Balance at June 30, 2014
Non-depreciable assets:				
Land	\$ 14,372,775	-	(223,612)	14,149,163
Intangibles - water rights	-	-	-	-
Construction in progress	1,099,179	905,971	(773,553)	1,231,597
Total non-depreciable assets	<u>15,471,954</u>	<u>905,971</u>	<u>(997,165)</u>	<u>15,380,760</u>
Depreciable assets:				
Buildings and improvements	177,279,251	97,601	-	177,376,852
Equipment and furniture	8,442,413	93,606	-	8,536,019
Computers and communications	236,462	-	-	236,462
Infrastructure	75,122,008	247,062	-	75,369,070
Land improvements	128,489	-	-	128,489
Vehicles	269,217	199,543	(61,369)	407,391
Total	<u>261,477,840</u>	<u>637,812</u>	<u>(61,369)</u>	<u>262,054,283</u>
Less accumulated depreciation :				
Buildings and improvements	(76,856,950)	(4,002,279)	19,069	(80,840,160)
Equipment and furniture	(3,277,910)	(527,865)	-	(3,805,775)
Computers and communications	(88,909)	(33,749)	-	(122,658)
Infrastructure	(27,205,073)	(2,430,251)	-	(29,635,324)
Land improvements	(22,486)	(12,848)	-	(35,334)
Vehicles	(263,349)	(199,201)	61,369	(401,181)
Total accumulated depreciation	<u>(107,714,677)</u>	<u>(7,206,193)</u>	<u>80,438</u>	<u>(114,840,432)</u>
Total depreciable assets, net	<u>153,763,163</u>	<u>(6,568,381)</u>	<u>19,069</u>	<u>147,213,851</u>
Total business-type activities	<u>\$ 169,235,117</u>	<u>(5,662,410)</u>	<u>(978,096)</u>	<u>162,594,611</u>

* - See footnote 10 for additional information regarding a prior period adjustment to adjust beginning balances

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is noted below:

	Balance at July 1, 2013	Additions	Retirements	Balance at June 30, 2014	Due Within One Year
Compensated Absences	\$ 107,339	53,078	(35,649)	124,768	24,954
Tax Allocation Bonds:					
2005 Tax Allocation Bonds	21,930,000	-	(820,000)	21,110,000	860,000
2006 Tax Allocation Bonds (Non-Housing)	55,885,000	-	(880,000)	55,005,000	905,000
2006 Tax Allocation Bonds (Housing)	15,015,000	-	(235,000)	14,780,000	245,000
2006 Tax Allocation Parity Bonds	42,505,000	-	(95,000)	42,410,000	105,000
2006 Tax Allocation Revenue Parity Bonds	33,400,000	-	(375,000)	33,025,000	400,000
2006 Tax Allocation Revenue Bonds	60,785,000	-	(710,000)	60,075,000	755,000
2007 Tax Allocation Bonds	38,195,000	-	(505,000)	37,690,000	530,000
2007 Tax Allocation Bonds (Non-Housing)*	40,185,000	-	-	40,185,000	40,185,000
2008 Tax Allocation Bonds*	<u>16,430,317</u>	<u>797,219</u>	<u>-</u>	<u>17,227,536</u>	<u>17,227,536</u>
Tax Allocation Bonds Subtotal	<u>324,330,317</u>	<u>797,219</u>	<u>(3,620,000)</u>	<u>321,507,536</u>	<u>61,212,536</u>
Unamortized Discounts/Premiums	<u>(2,919,006)</u>	<u>-</u>	<u>91,867</u>	<u>(2,827,139)</u>	<u>(109,203)</u>
Total	<u>\$ 321,518,650</u>	<u>850,297</u>	<u>(3,563,782)</u>	<u>318,805,165</u>	<u>61,128,287</u>

* Debt covenants required these bonds to be callable as a result of defaults. Callable bonds are required to be reported as current.

Tax Allocation Parity Bonds, Series 2005A

In June 2005, the Southern California Logistics Airport Authority issued \$42,185,000 principal amount of Tax Allocation Parity Bonds, Series 2005A. The proceeds were used to finance certain public capital improvements benefiting the Southern California Logistics Airport.

On February 8, 2006, \$1.8 million of bond proceeds was invested in land for the construction of a new City library. Prior to this purchase (on November 3, 2005), the Board of Directors of the SCLAA adopted a resolution with the intent of entering into a loan agreement between the SCLAA and the City with respect to this land purchase. On September 21, 2010 City Council approved this loan agreement. Legal counsel for the City has indicated that approval by the bond insurer is not required for the investment of proceeds not held by the bond trustee.

Bonds maturing on December 1, 2010, December 1, 2015, December 1, 2020, December 1, 2025, and December 1, 2030 in the amounts of \$2,765,000, \$3,365,000, \$5,140,000, \$6,335,000 and \$7,870,000 are term bonds. The outstanding bonds bear interest at 3.50% to 5.00% due June 1 and December 1 of each year.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on or after June 1, 2015 are subject to optional redemption in whole or in part by lot without premium.

The bonds maturing on December 1, 2010, December 1, 2015, December 1, 2020, December 1, 2025, and December 1, 2030 are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2007, December 1, 2012, December 1, 2016, December 1, 2021, and December 1, 2026, respectively, from sinking fund payments made by SCLAA.

In the fiscal year ended June 30, 2006 these bonds have been partially defeased by the issuance of the Tax Allocation Revenue Parity Bonds, Refunding Series 2006 (Non-Housing). The required reserve for the Bonds is \$1,797,890. As of June 30, 2014 the reserve amount was \$1,797,890. The Bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$21,110,000.

Tax Allocation Revenue Parity Bonds, Refunding Series 2006 (Non-Housing)

In June 2006, the Southern California Logistics Airport Authority issued \$62,780,000 principal amount of Tax Allocation Revenue Parity Bonds, Refunding Series 2006. The proceeds were used to refund the 2001 Tax Allocation Bonds, the 2003 Tax Allocation Bonds, and a portion of 2005 Tax Allocation Bonds. As a result, the 2001 and 2003 Tax Allocation Bonds are considered to be defeased, and the 2005 Tax Allocation Bonds are considered to be partially defeased. The respective liabilities have been removed from the statement of net position.

Bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 in the amounts of \$6,895,000, \$8,595,000, \$10,810,000 and \$20,335,000 are term bonds. The outstanding bonds bear interest at 4.50% to 5.00% due June 1 and December 1 of each year.

The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on or after June 1, 2016 are subject to optional redemption in whole or in part by lot without premium.

The bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2022, December 1, 2027, December 1, 2032 and December 1, 2037, respectively, from sinking fund payments made by SCLAA.

The required reserve for the bonds is \$3,519,300. As of June 30, 2014, the reserve amount was \$3,519,301. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$55,005,000.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Tax Allocation Revenue Parity Bonds, Refunding Series 2006 (Housing Set-Aside)

In June 2006, the Southern California Logistics Airport Authority issued \$16,855,000 principal amount of Housing Set-Aside Revenue Bonds, Refunding Series 2006. The proceeds were used to refund a all of the 2003 Tax Allocation Bonds and a portion of the 2005 Tax Allocation Parity Bonds. As a result the 2003 Tax Allocation Bond is considered to be defeased and the liability has been removed from the statement of net position.

Bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 in the amounts of \$1,855,000, \$2,305,000, \$2,905,000 and \$5,460,000 are term bonds. The outstanding bonds bear interest at 4.50% to 5.00% due June 1 and December 1 of each year.

The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds maturing on or after June 1, 2016 are subject to optional redemption in whole or in part by lot without premium.

The bonds maturing on December 1, 2026, December 1, 2031, December 1, 2036 and December 1, 2043 are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2022, December 1, 2027, December 1, 2032 and December 1, 2037, respectively, from sinking fund payments made by SCLAA.

The required reserve for the bonds is \$945,975. As of June 30, 2014, the reserve amount was \$946,001. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$14,780,000.

Tax Allocation Revenue Parity Bonds, Taxable Series 2006

In June 2006, the Southern California Logistics Airport Authority issued \$45,020,000 principal amount of Tax Allocation Revenue Parity Bonds, Taxable Series 2006. The proceeds were used to finance certain redevelopment activities benefiting the Southern California Airport.

Bonds maturing on December 1, 2036, and December 1, 2043 in the amounts of \$20,080,000, and \$24,940,000 are term bonds. The outstanding bonds bear interest at 6.10% due June 1 and December 1 of each year.

The bonds are subject to redemption prior to maturity as described in the bond covenants. The bonds are subject to optional redemption in whole or in part by lot, subject to a premium.

The bonds maturing on December 1, 2036, December 1, 2043 are subject to mandatory redemption in part by pro rata, without premium, commencing December 1, 2006, December 1, 2037, respectively, from sinking fund payments made by SCLAA.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

The required reserve for the bonds is \$4,334,090. As of June 30, 2014, the reserve amount was \$4,334,091. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$42,410,000.

Taxable Tax Allocation Revenue Parity Bonds, Forward Series 2006

In November 2006, Southern California Logistics Airport Authority issued \$34,980,000 principal amount of Taxable Tax Allocation Revenue Parity Bonds, Forward Series 2006. The proceeds were used to finance and refinance certain redevelopment activities benefiting the Southern California Logistics Airport.

The bonds mature from December 1, 2007 to December 1, 2043 in varying amounts. Principal is payable in annual installments ranging from \$50,000 to \$2,320,000, commencing December 1, 2007. The bonds accrue interest at rates between 6.25% and 6.30%. Interest on the bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2007.

The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by pledged tax revenues. The required reserve for the Bonds is \$2,476,455. As of June 30, 2014, the reserve amount was \$2,476,455. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$33,025,000.

Taxable Subordinate Tax Allocation Revenue Bonds, Series 2006

In November 2006, the Southern California Logistics Airport Authority issued \$64,165,000 principal amount of Taxable Subordinate Tax Allocation Revenue Bonds, Series 2006. The proceeds were used to finance certain redevelopment activities benefiting the Southern California Logistics Airport.

The bonds mature from December 1, 2007 to December 1, 2043 in varying amounts. Principal is payable in annual installments ranging from \$395,000 to \$4,135,000, commencing December 1, 2007. The bonds accrue interest at 6.05%. Interest on the bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2007.

The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by pledged tax revenues. The required reserve for the bonds is \$4,389,930. As of June 30, 2014, the reserve amount was \$0. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$60,075,000.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Taxable Housing Set-Aside Revenue Parity Bonds, Series 2007

In March 2007, the Southern California Logistics Airport Authority issued \$41,460,000 principal amount of Taxable Housing Set-Aside Revenue Parity Bonds, Series 2007. The proceeds were used to finance certain low and moderate income housing programs of the Authority. On July 7, 2009, \$20,000,000 of bond proceeds were invested in a loan to the Victorville Water District. Legal counsel for the City has indicated that approval by the bond insurer is not required for the investment of proceeds not held by the bond trustee.

Bonds maturing on December 1, 2012, December 1, 2017, December 1, 2022, December 1, 2027, and December 1, 2043 in the amounts of \$3,265,000, \$2,800,000, \$3,620,000, \$4,685,000 and \$27,090,000 are term bonds. The outstanding bonds bear interest at 5.00%, 5.20%, 5.25%, 5.40% and 5.55% due June 1 and December 1 of each year.

The bonds are subject to optional redemption in whole or in part by lot, without premium.

The required reserve for the Bonds is \$2,602,410. As of June 30, 2014, the reserve amount consisting of fiscal agent cash and an insurance policy was \$2,602,410. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$37,690,000.

Subordinate Tax Allocation Revenue Bonds, Series 2007

In December 2007, the Southern California Logistics Airport Authority issued \$42,000,000 principal amount Subordinate Tax Allocation Revenue Bonds, Series 2007. The proceeds were used to finance certain redevelopment activities benefiting the Southern California Logistics Airport.

Bonds maturing on December 1, 2008, December 1, 2009, December 1, 2012, December 1, 2017, December 1, 2022, December 1, 2027, December 1, 2032, December 1, 2032, December 1, 2037, December 1 2037, December 1, 2037, December 1, 2043 and December 1, 2043 in the amounts of \$480,000, \$425,000, \$1,395,000, \$2,805,000, \$3,640,000, \$4,745,000, \$3,000,000, \$3,275,000, \$3,325,000, \$3,800,000, \$1,250,000, \$9,210,000 and \$4,650,000 are term bonds. The outstanding bonds bear interest at 4.000%, 4.200%, 4.375%, 5.250%, 5.375%, 5.600%, 5.900%, 6.000%, 5.900%, 6.000%, 6.100%, 5.900% and 6.150% due June 1 and December 1 of each year.

The bonds are subject to redemption prior to maturity at the option of the Authority, on or after December 1, 2017, in whole or in part by lot, without premium.

The bonds maturing on the dates described above are subject to mandatory redemption in part by lot, without premium, commencing December 1, 2010, December 1, 2013, December 1, 2018, December 1, 2023, December 1, 2028, December 1, 2028, December 1, 2033, December 1, 2033, December 1, 2033, December 1, 2038, and December 1, 2038, respectively, from sinking fund payments made by SCLAA.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

The required reserve for the Bonds is \$2,824,473. As of June 30, 2014, the reserve amount was \$491,331. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$40,185,000.

Subordinate Tax Allocation Revenue Bonds, Series 2008

In May 2008, the Southern California Logistics Airport Authority issued \$13,334,925 principal amount of Subordinate Tax Allocation Revenue Bonds, Series 2008A. The proceeds were used to finance certain redevelopment activities benefiting the Southern California Logistics Airport and to partially refund the \$35,000,000 principal amount of Subordinate Tax Allocation Revenue Notes, Series 2008.

Bonds maturing on December 1, 2010, December 1, 2013, December 1, 2018, December 1, 2023, December 1, 2033, December 1, 2038, and December 1, 2043 in the amounts of \$130,000, \$215,000, \$340,000, \$530,000, \$1,675,000, \$1,285,000, and \$1,720,000 are Current Interest Bonds. The outstanding bonds bear interest at 4.25%, 4.50%, 5.00%, 5.25%, 6.00%, 6.00% and 6.00% due June 1 and December 1 of each year.

Bonds maturing on December 1 of each year beginning 2044 through 2050 in the initial principal amounts of \$1,316,266, \$1,216,397, \$1,123,621, \$1,037,536, \$957,600, \$883,633, and \$814,910 are Capital Appreciation Bonds. The outstanding bonds bear yields to maturity of 7.300%, 7.320%, 7.340%, 7.360%, 7.380%, 7.400% and 7.420%. All of the bonds have a maturity value of \$18,085,000.

The Current Interest Bonds are subject to redemption prior to maturity at the option of the Authority, on or after December 1, 2018, in whole or in part by lot, without premium. The Capital Appreciation Bonds are subject to optional redemption in whole or in part by lot, without premium.

The required reserve for the Bonds is \$1,333,492. As of June 30, 2014, the reserve amount was \$493,613. The bonds are a special obligation of the Southern California Logistics Airport Authority payable from tax increment revenues. The amount of bonds outstanding at June 30, 2014 is \$17,227,536, which includes an accretion balance of \$4,092,612.

SCLAA Defaults on Bonded Debt

As of June 30, 2013, the SCLAA had outstanding defaults on interest and principal payments for the following debt issues:

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Subordinate Tax Allocation Rev Bonds, 2007	\$ 485,000	\$ 1,155,961	\$ 1,640,961
Subordinate Tax Allocation Rev Bonds, 2008A	75,000	-	75,000

On December 1, 2013, the SCLAA defaulted on:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Taxable Subordinate Revenue Bonds, 2006	\$ 710,000	\$ 1,838,746	\$ 2,548,746
Subordinate Tax Allocation Rev Bonds, 2007	505,000	1,155,961	1,660,961
Subordinate Tax Allocation Rev Bonds, 2008A	70,000	-	70,000

On December 1, 2013 the following draws on reserves were made:

Tax Allocation Revenue Parity Bonds	2005A	\$ 17,506
Tax Allocation Revenue Parity Bonds	2006	29,353
Tax Allocation Revenue Parity Bonds, Ref.	2006	40,933
Tax Allocation Revenue Parity Bonds, For.	2006	22,807
Subordinate Tax Allocation Rev Bonds	2008A	166,638

The SCLAA had available from tax increment distribution on March 20, 2014, from VVEDA \$9,384,278. This amount plus an additional draw on reserves for the Taxable Subordinate Tax Allocation Bonds, 2006, of \$1,112,017 enabled SCLAA to cure the December 1, 2013, default on the Taxable Subordinate Tax Allocation Bonds, 2006, and fully fund the reserves on the Senior Bonds. The remaining amount of tax increment was set aside for the June 1, 2014 interest payment.

On June 1, 2014, the SCLAA defaulted on:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Subordinate Tax Allocation Rev Bonds, 2007	\$ -	\$ 1,142,702	\$ 1,142,702

Draws on Reserves with the Trustee for the June 1, 2014 interest payments were as follows:

SCLAA Taxable Subordinate Revenue Bonds	2008A	\$ 165,063
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On December 1, 2014, the SCLAA defaulted on the principal and interest payment of \$2,572,269 for SCLAA Taxable Subordinate Revenue bonds, 2006, the principal and interest payment of \$1,672,705 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the principal payment of \$80,000 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Taxable Subordinate Revenue Bonds, 2006	\$ 755,000	\$ 1,817,269	\$ 2,572,269
Subordinate Tax Allocation Rev Bonds, 2007	530,000	1,142,705	1,672,705
Subordinate Tax Allocation Rev Bonds, 2008A	80,000	-	80,000

Draws on Reserves with the Trustee for the December 1, 2014 interest payments were as follows:

SCLAA Subordinate Tax Allocation Rev Bonds	2008A	\$ 168,325
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Several material events have occurred that have resulted in SCLAA defaulting on the two bond issues and the use of reserves with the Trustee for interest payments:

- As part of adopting its 2009 budget bill, the State of California approved AB 26 4X, which included a provision that required redevelopment agencies to make remittance in the aggregate amount of \$1.7 billion for FY 09/10 and \$350 million for FY 10/11 to a county Supplemental Educational Revenue Augmentation Funds (SERAF), in order to assist the State in balancing its budget. Tax increment on hand from SCLAA was used to pay the SERAF obligation of \$9,352,308 in FY 09/10 and \$1,923,641 in FY 10/11. These state-mandated payments severely impacted the SCLAA's cash reserves.
- In fiscal year 08/09, the assessed value for the Victor Valley Redevelopment Project Area was approximately \$9.49 billion. Since that time, there has been a significant decrease in assessed value. For Fiscal Year 12/13, the assessed value for the Project Area was approximately \$6.62 billion. This represents a 30% decrease in assessed value over that time period. The decrease was largely the result of the recent economic downturn and the housing market crisis.
- The California Redevelopment Agency (RDA) dissolution process has created cash flow issues due to the new processes imposed by the legislation. Essentially, revenue receipts are delayed significantly for each six month period as the Recognized Obligation Payment Schedule (ROPS) makes its way through the various levels of approval. This delayed receipt of funds by Victor Valley Economic Development Agency (VVEDA) leads to a delayed distribution to its JPA members, which ultimately contributes to the shortfall already realized due to sharp decreases in property values of the last several years. For December 2013, any and all existing cash balances on hand must be sent to the Trustee in order for the RDA and SCLAA to meet as much of its contractual obligations as possible.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Debt Service Requirements to Maturity

The annual requirements to amortize outstanding SCLAA debt as of June 30, 2014, are as follows for each fiscal year ending June 30:

Year Ending June 30	Tax Allocation Bonds Principal*	Tax Allocation Bonds Interest
2015	\$ 4,985,000	17,104,023
2016	4,635,000	16,874,359
2017	4,865,000	16,635,808
2018	5,110,000	16,387,661
2019	5,365,000	16,093,581
2020-24	31,215,000	75,914,656
2025-29	40,270,000	66,763,673
2030-34	52,345,000	54,998,182
2035-39	69,130,000	38,150,826
2040-44	91,585,000	15,055,300
2045-49	90,425,000	-
2050-51	36,730,000	-
Subtotal	<u>436,660,000</u>	<u>333,978,069</u>
Less Discounts / Premiums	<u>(2,827,139)</u>	<u>-</u>
Total	<u>\$433,832,861</u>	<u>333,978,069</u>

*These totals include capital appreciation of \$115,152,464 for Tax Allocation Bonds that will be accrued in the future years.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Pledged Revenue

SCLAA has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses were so required by the debt agreement) are indicated in the table below:

<u>Description of Pledged Revenue</u>	<u>Annual Amount of Pledged Revenue (net of expenses, where required)</u>	<u>Annual Debt Service Payments (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Property Tax Increment pledged by the Southern California Logistics Airport Authority	17,562,350	21,516,385	123%

(5) Advances To/From and Transfers In/Out

Advances to/from:

<u>Fund Reporting Receivable</u>	<u>Fund Reporting Payable</u>	<u>Amount</u>
Successor Agency *	SCLAA	\$ 11,939,597 a)
SCLAA	Capital Impact Facilities**	1,942,248 b)
SCLAA	Successor Agency *	6,915,667 c)
	Total	<u>\$ 20,797,512</u>

* - Advances to or from the Successor Agency have been classified as Advances to or from Other Governments in the basic financial statements

** - Advances to or from other funds of the City have been classified as advances to or from the City in the basic financial statements of the Authority.

a) The SCLAA entered into two agreements to borrow money from the Victorville Redevelopment Agency to fund the cost of redevelopment activity and prior years' capital improvements and redevelopment projects that were incurred by the SCLAA in prior years:

i. Per a loan agreement approved on October 20, 2009 by the Board of the Victorville RDA, a \$1,700,000 advance was made from the Low and Moderate Housing Fund to the SCLAA. The advance is to be used for SCLAA redevelopment activities. The advance has a term of repayment of

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(5) Advances To/From and Transfers In/Out (Continued)

five years, with an annualized Local Agency Investment Fund (“LAIF”) rate of return, as the interest rate. The outstanding balance of the advance as of June 30, 2014 is \$1,731,081.

- ii. Per a loan agreement approved on September 15, 2009 by the Board of Victorville RDA, a \$10,000,000 advance was made from the Bear Valley Road Redevelopment Project Area (RDA Capital Project Fund) to the Southern California Logistics Airport Authority. The advance is to be used to continue redevelopment at SCLA and to fund prior years’ capital improvements and redevelopment project expenses. The advance has a term of repayment of five years from the date of the agreement, with an annualized Local Agency Investment Fund (“LAIF”) rate of return as the interest rate. The outstanding balance of the advance as of June 30, 2014 is \$10,208,516.

- b) Per a loan agreement signed on September 21, 2010 by the board of the SCLAA, a \$1,895,090 advance was made from the SCLAA to the Capital Impact Facilities Fund. The advance is to be used for the purchased of land. The advance has a term of repayment to automatically renew the loan until there are sufficient funds to repay. There is an annualized rate of return at 0.495%, as the interest rate. The outstanding balance of the advance as of June 30, 2014 is \$1,942,248.

- c) Per a loan agreement approved on July 21, 2009 by the Board of the Victorville RDA, a \$6,906,148 advance was made from the Agency’s portion of VVEDA’s 20% Low and Moderate Housing Fund to the SCLAA. The advance is to be used to fund land acquisitions associated within the Old Town project area. The advance has a term of repayment of five years, with an annualized Local Agency Investment Fund (“LAIF”) rate of return, as the interest rate. The outstanding balance of the advance as of June 30, 2014 is \$6,915,667.

(6) Commitments and Contingencies

Litigation

The SCLAA is a defendant in certain legal actions arising in the normal course of operations. The accompanying basic financial statements reflect a liability for the probable amounts of loss associated with these claims.

Complaint Filed by the United State Securities and Exchange Commission

On April 29, 2013, the United States Securities and Exchange Commission filed a complaint alleging that a number of defendants, including the City of Victorville, the Southern California Logistics Airport Authority, and certain City officials, committed certain fraudulent acts associated with the issuance in 2008 of \$13,334,925 of Subordinate Tax Allocation Revenue Bonds, Series 2008A. As of the date of issuance of the financial statements, there was a possibility that this matter might result in a loss to the City or the Southern California Logistics Airport Authority. However, the amount of the loss, if any, that might result from this matter could not be reasonably estimated.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(7) Accumulated Deficit, Other Significant Financial Obligations and Management's Plan

Southern California Logistics Airport Authority

The SCLAA has a history of operating at a deficit. During the current fiscal year, SCLAA had a net income before depreciation of \$500 thousand. After depreciation expense of \$7 million, SCLAA had a net loss of \$6.4 million. A summary of the financial condition of the SCLAA enterprise fund is as follows:

	<u>SCLAA Deficit Balance</u>
Beginning Net Position, as restated	\$(120,223,301)
Net loss	<u>(6,443,131)</u>
Ending Net Position	<u>\$(126,666,432)</u>

SCLAA Annual Debt Service Payments:

The required debt service payments of SCLAA for the fiscal year ended June 30, 2014 are \$21,516,385. Estimated pledged revenues are anticipated to be \$17,562,350 resulting in a shortfall of \$3,954,035. A draw on reserves will be necessary to bridge the gap until the economy rebounds and tax increment exceeds debt service payments.

Management's Plans to Improve Operations and Limits Obligations

The Southern California Logistic Airport Authority has taken the following actions to attempt to decrease operating costs, and limit its external obligations:

Management has created a more streamlined operation by reducing the number of airport management positions. Staff has also created an improvised fund accounting system to help better identify and separate airport operational expenses and revenues from long-term debt service obligations. Management has also increased rent collection activities resulting in more consistent lease revenues. Finally management has negotiated more favorable lease renewal terms that benefit SCLAA by way of increased rents and longer lease terms.

(8) Subsequent Events

Default on Bonded Debt

On December 1, 2014, the SCLAA defaulted on the principal and interest payment of \$2,572,269 for SCLAA Taxable Subordinate Revenue bonds, 2006, the principal and interest payment of \$1,685,966 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the principal payment of \$80,000 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A. See footnote 4 for further information.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(9) Successor Agency Trust for Assets of the Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the SCLAA because the SCLAA has historically funded its operations and debt service using significant tax increment revenue that the Victor Valley Economic Development Agency (VVEDA) has typically provided to the SCLAA in prior fiscal years. VVEDA has acted as a pass-through agency for the various recipients of tax increment revenue in the Victor Valley, and is subject to the dissolution requirements of the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 17, 2012, the Victorville City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 12-005.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill 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 the Bill.

The assets reported by SCLAA include advances in the amount of \$6,915,669 that had been made by the SCLAA to the former redevelopment agency of the City of Victorville. As a result of the dissolution of the redevelopment agency of the City of Victorville, the ability of SCLAA to be repaid this advance is dependent upon the ability of the Successor Agency to the former redevelopment agency of the City of Victorville to be able to use a portion of the Successor Agency’s tax increment allocation for the repayment of this advance.

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(9) Successor Agency Trust for Assets of the Former Redevelopment Agency, (Continued)

As has been noted above, the SCLAA has typically relied upon significant funding from VVEDA to fund its operations and debt service. As of the date of the financial statements, there is a legal uncertainty as to whether the state statutes concerning redevelopment agency dissolution would support the continuation of this funding to the SCLAA.

(10) Prior Period Adjustments

The accompanying financial statements reflect a prior period adjustment, as set for below.

	<u>Southern California Logistics Airport Authority</u>
As previously reported	\$ (121,322,393)
Accumulated depreciation	<u>1,099,092</u> a)
As restated	<u>\$ (120,223,301)</u>

- a) During the year ended June 30, 2014 the City identified a discrepancy in their records causing accumulated depreciation to be overstated in prior years and booked an entry to adjust beginning accumulated depreciation.

SUPPLEMENTARY SCHEDULES

SOUTHERN CALIFORNIA LOGISTICS AIRPORT AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2014
(with comparative data for June 30, 2013)

				Total	
	Aeronautical	Non Aeronautical	Other Services	2014	2013
Operating revenues:					
Charges for services:					
Landing fees	\$ 1,865,567	-	-	1,865,567	2,022,782
Fuel flowage fees	362,148	-	-	362,148	268,647
Concession sales	6,458	-	-	6,458	5,743
Rent and lease revenue	5,767,510	162,500	-	5,930,010	5,917,090
Total charges for services	<u>8,001,683</u>	<u>162,500</u>	<u>-</u>	<u>8,164,183</u>	<u>8,214,262</u>
Fines and forfeitures	4,832	-	-	4,832	71,667
Other	336,174	-	598	336,772	280,209
Total Operating Revenues	<u>8,342,689</u>	<u>162,500</u>	<u>598</u>	<u>8,505,787</u>	<u>8,566,138</u>
Operating expenses:					
Personnel services	1,915,422	-	-	1,915,422	1,689,215
Maintenance and operations	7,656,992	79,312	-	7,736,304	5,786,397
Depreciation	348,622	-	6,595,998	6,944,620	4,616,648
Total operating expenses	<u>9,921,036</u>	<u>79,312</u>	<u>6,595,998</u>	<u>16,596,346</u>	<u>12,092,260</u>
Operating income (loss)	<u>(1,578,347)</u>	<u>83,188</u>	<u>(6,595,400)</u>	<u>(8,090,559)</u>	<u>(3,526,122)</u>
Nonoperating revenues (expenses):					
Taxes	14,644	-	17,702,398	17,717,042	9,602,694
Investment income	6,937	297	36,715	43,949	55,726
Interest expense	23,063	-	(16,074,770)	(16,051,707)	(17,357,563)
Gain (loss) on sale of fixed assets	5,382	-	-	5,382	-
Other	-	-	(223,613)	(223,613)	(1,394,841)
Total nonoperating revenues (expenses)	<u>50,026</u>	<u>297</u>	<u>1,440,730</u>	<u>1,491,053</u>	<u>(9,093,984)</u>
Income (loss) before transfers and capital contributions	<u>(1,528,321)</u>	<u>83,485</u>	<u>(5,154,670)</u>	<u>(6,599,506)</u>	<u>(12,620,106)</u>
Capital contribution	(102,957)	-	247,061	144,104	443,837
Capital-related revenue	12,271	-	-	12,271	-
Transfers from the City of Victorville	-	-	-	-	10,911,814
Transfers out	-	-	-	-	(91,200)
Total contributions and transfers	<u>(90,686)</u>	<u>-</u>	<u>247,061</u>	<u>156,375</u>	<u>11,264,451</u>
Change in net position	(1,619,007)	83,485	(4,907,609)	(6,443,131)	(1,355,655)
Net position (deficiency) at beginning of year, as restated (note 10)	<u>12,412,633</u>	<u>151,777</u>	<u>(132,787,711)</u>	<u>(120,223,301)</u>	<u>(119,966,738)</u>
Net position (deficiency) at end of year	<u>\$ 10,793,626</u>	<u>235,262</u>	<u>(137,695,320)</u>	<u>(126,666,432)</u>	<u>(121,322,393)</u>