

**SOUTHERN CALIFORNIA
LOGISTICS RAIL AUTHORITY**

BASIC FINANCIAL STATEMENTS

Year ended June 30, 2015

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Basic Financial Statements

Year ended June 30, 2015

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Board of Directors
Southern California Logistics Rail Authority
Victorville, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Southern California Logistics Rail Authority ("SCLRA"), a component unit of the City of Victorville, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise SCLRA'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 Rail Authority, as of June 30, 2015, 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.

Prior-Year Comparative Information

The financial statements of the City of Victorville for the fiscal year ended June 30, 2014 were audited by other auditors whose report dated February 12, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 financial statements in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2016, on our consideration of SCLRA'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 SCLRA's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
February 2, 2016

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Statement of Net Position

June 30, 2015

(with comparative data for June 30, 2014)

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and investments	\$ -	-
Total current assets	-	-
Noncurrent assets:		
Capital assets, net (note 2)	-	28,743,508
Total noncurrent assets	-	28,743,508
Total assets	-	28,743,508
<u>Net position</u>		
Investment in capital assets	-	28,743,508
Unrestricted	-	-
Total net position	\$ -	28,743,508

See accompanying notes to the basic financial statements

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2015
(with comparative data for June 30, 2014)

	2015	2014
Operating expenses:		
Depreciation	\$ -	269,315
Total operating expenses	-	269,315
Operating income (loss)	-	(269,315)
Non-operating revenue (expenses):		
Loss on transfer of capital assets	(28,743,508)	-
Total non-operating revenue (expenses)	(28,743,508)	-
Income (loss) before transfers	(28,743,508)	(269,315)
Change in net position	(28,743,508)	(269,315)
Net position at beginning of period	28,743,508	29,012,823
Net position at end of period	\$ -	28,743,508

See accompanying notes to the basic financial statements

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Statement of Cash Flows

Year ended June 30, 2015

(with comparative data for June 30, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash payments to suppliers for goods and services	\$ -	-
Net cash provided by (used for) operating activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>-</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ -	<u>(269,315)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	<u>-</u>	<u>269,315</u>
Net cash provided by (used for) operating activities	<u>\$ -</u>	<u>-</u>
<u>Noncash capital, financing and investing activities:</u>		
Loss on transfer of capital assets	<u>\$ (28,743,508)</u>	<u>-</u>

See accompanying notes to the basic financial statements

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Notes to the Basic Financial Statements

Year Ended June 30, 2015

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Southern California Logistics Rail Authority ("SCLRA"), a component unit of the City of Victorville, was formed on October 17, 2001 by the City of Victorville, the Victorville Redevelopment Agency and the Southern California Logistic Airport Authority ("SCLAA"). The purpose of SCLRA is to provide for the coordination of long range planning of the development of rail facilities and adjoining land surrounding and including Southern California Logistic Airport. The SCLRA had no operations during the fiscal year ended June 30, 2015.

(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 SCLRA 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 SCLRA 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 SCLRA 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 rail operations. SCLRA currently has no operating revenues. Operating expenses include general and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

(d) Relationship to the City of Victorville

The SCLRA is an integral part of the reporting entity of the City of Victorville ("City"). The SCLRA 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 SCLRA. Only the SCLRA 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 due to 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. SCLRA 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:

Roads	20-40 years
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SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

(h) 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.

(i) Net Position

Net Position is classified in the following categories:

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.

Unrestricted Net Position

This amount is all of the net positions that does not meet the definition of "investment in capital assets" or "restricted net position."

(j) 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 SCLRA's prior year financial statements, from which this selected financial data was derived.

SOUTHERN CALIFORNIA LOGISTICS RAIL AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(2) Capital Assets

The following is a summary of changes in capital assets for SCLRA at June 30, 2015:

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Non-depreciable assets:				
Land	\$ 10,207,466	-	(10,207,466)	-
Intangibles - Service Credit	5,497	-	(5,497)	-
Construction in Progress	<u>14,760,143</u>	<u>-</u>	<u>(14,760,143)</u>	<u>-</u>
Total non-depreciable assets	<u>24,973,106</u>	<u>-</u>	<u>(24,973,106)</u>	<u>-</u>
Depreciable assets:				
Infrastructure	<u>5,386,291</u>	<u>-</u>	<u>(5,386,291)</u>	<u>-</u>
Total	<u>5,386,291</u>	<u>-</u>	<u>(5,386,291)</u>	<u>-</u>
Less accumulated depreciation :				
Infrastructure	<u>(1,615,889)</u>	<u>-</u>	<u>1,615,889</u>	<u>-</u>
Total accumulated depreciation	<u>(1,615,889)</u>	<u>-</u>	<u>1,615,889</u>	<u>-</u>
Total depreciable assets, net	<u>3,770,402</u>	<u>-</u>	<u>(3,770,402)</u>	<u>-</u>

During the fiscal year ended June 30, 2015, the remaining SCLRA capital assets were transferred to the City of Victorville.