

# HESPERIA HOUSING AUTHORITY

COMPONENT UNIT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

June 30, 2017

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Hesperia Housing Authority  
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Housing Authority (a component unit of the City of Hesperia) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these basic financial statements based on our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditors' 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 auditors consider internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hesperia Housing Authority as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules identified as Required Supplementary Information (RSI) in the accompanying table of contents 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 RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*White Nelson Dick Evans LLP*

Carlsbad, California  
November 29, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Hesperia Housing Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ending June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

The Authority's net position decreased by 24% or approximately \$5.1 million from June 30, 2016. While explained in detail throughout this section, as well as in the notes to the financial statements, the decrease to net position is primarily due to the Authority entering into a \$3.8 million Owner Participation Agreement (OPA) with Eagle Hesperia 55 L.P. to construct a 96-unit affordable senior apartment complex.

Additionally, the Authority sold one parcel of land held for resale. While this parcel had a book value of \$1.1 million, the Authority sold the land for \$0.2 million, which resulted in a reduction of \$0.9 million to the current assets.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority'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 Authority's operations in more detail than the government-wide statements by providing information about the Authority's most significant funds.

### **REPORTING THE AUTHORITY AS A WHOLE**

The discussion and analysis provided here are intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

### **Government-Wide Financial Statements**

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Position and the Statement of Activities – report information about the Authority 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.

The *statement of net position* presents financial information on all of the Authority's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash*

*flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 8-9 of this report.

## **REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority uses a governmental fund to account for its operations.

**Governmental Funds** - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

**Notes to the Financial Statements** - The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-23 of this report.

## **THE HESPERIA HOUSING AUTHORITY AS A WHOLE**

Our analysis focuses on the Condensed Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the Authority. As noted earlier, net position over time, may serve as a useful indicator of a government's financial position.

**Table 1**  
**Condensed Statement of Net Position**

	2016	2017	Changes from 2016 to 2017	
			Amount	Percentage
Current and other assets	\$ 20,945,425	\$ 15,876,356	\$ (5,069,069)	-24%
Capital assets	5,739	4,420	(1,319)	-23%
Total assets	20,951,164	15,880,776	(5,070,388)	-24%
Total deferred outflow of resources	-	-	-	0%
Current liabilities	15,263	8,691	(6,572)	-43%
Total liabilities	15,263	8,691	(6,572)	-43%
Total deferred inflow of resources	-	-	-	0%
Net Position:				
Investment in capital assets	5,739	4,420	(1,319)	-23%
Restricted	20,943,415	15,867,665	(5,075,750)	-24%
<b>Total Net Position</b>	<b>\$ 20,949,154</b>	<b>\$ 15,872,085</b>	<b>\$ (5,077,069)</b>	<b>-24%</b>

The following is a brief explanation for the changes in Table 1 above for the fiscal year ending June 30, 2017:

- Current and other assets in the amount of \$15.9 million decreased by \$5.0 million or 24% from the year ending June 30, 2016. This is primarily due to cash decreasing by \$3.9 million during the fiscal year and selling a parcel of land held for resale, which had a book value of \$1.1 million. This decrease to cash is primarily due to the OPA with Eagle Hesperia 55 L.P. for \$3.8 million.
- Due to depreciation, Capital assets decreased during the year.
- Current liabilities totaled \$8,691 at June 30, 2017, which is a decrease of \$6,572. This difference is attributed to the timing of the payment of invoices.

## AUTHORITY ACTIVITIES

As shown in Table 2, the operating cost of all Authority activities for the fiscal year was \$5.2 million, which reflects a significant increase of \$4.1 million from Fiscal Year 2015-16.

**Table 2**  
**Changes in Net Position**

	2016	2017	Changes from 2016 to 2017	
			Amount	Percentage
<b>Revenues</b>				
General revenues:				
Income from money and property	\$ 68,537	95,761	27,224	40%
Other	145,851	87,399	(58,452)	-40%
Total revenues	214,388	183,160	(31,228)	-15%
<b>Expenses</b>				
Development Services	1,123,138	5,260,229	4,137,091	368%
Total expenses	1,123,138	5,260,229	4,137,091	368%
Change in net position	(908,750)	(5,077,069)	(4,168,319)	459%
Net position at July 1, 2016	25,745,125	20,949,154	(4,795,971)	-19%
Net position at June 30, 2017	\$ 20,949,154	\$ 15,872,085	\$ (5,077,069)	-24%

As mentioned, expenses, when compared to fiscal year ending June 30, 2016, have increased by \$4.1 million. The primary reason for the increase is issuing a payment of \$3.8 million to Eagle Hesperia 55 L.P. to construct a 96-unit affordable senior apartment complex. The Authority entered into an Owner Participation Agreement (OPA), whereby the developer will pay back the loan at the end of the 55-year term.

Contributing to both the increase from June 30, 2016, as well as the total expenses of \$5.3 million, is sale of one parcel of land held for resale. The parcel originally had a book value of \$1.1 million; however, it was sold for \$0.2 million, which resulted in an expense of \$0.9 million. The 2016 expenditures included \$1.1 million of loss on sale of land held for resale.

### FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

At year-end, the Authority's governmental funds reported combined fund balances of \$15.9 million.

- The fund balance of the Hesperia Housing Authority Fund is \$14.1 million, which is restricted for low and moderate income housing functions. The Fund balance has decreased by \$5.1 million from the June 30, 2016 fund balance of \$19.2 million. As mentioned, this decrease is due to the developer OPA and selling one parcel of land held for resale.
- The Victor Valley Economic Development Agency (VVEDA) Housing Authority Fund balance of \$1.7 million remains relatively unchanged from June 30, 2017. The primary reason is that VVEDA funds must be utilized for low and moderate income housing functions in the VVEDA target area.

### CAPITAL ASSETS

The capital assets of the Authority, as shown in Table 3, are those assets that are used in the performance of the Authority's functions. At June 30, 2017, capital assets, net of depreciation, of the governmental activities totaled \$4,420.

**Table 3**  
**Capital Assets at Year-end**

	Balance at July 1, 2016 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2017 Net of Accumulated Depreciation
<b>Governmental Activities:</b>					
Equipment and vehicles	\$ 5,739	\$ -	\$ -	\$ (1,319)	\$ 4,420
	<u>\$ 5,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,319)</u>	<u>\$ 4,420</u>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In Fiscal Year 2017-18, the Authority's budget anticipates expenditures of \$0.4 million to maintain current operations. The expenditures are offset by anticipated revenue of \$0.2 million and use of reserves totaling \$0.2 million.



## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

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

**HESPERIA HOUSING AUTHORITY**STATEMENT OF NET POSITION  
June 30, 2017

<b>ASSETS</b>	Governmental Activities
Current Assets:	
Cash and cash equivalents	\$ 4,392,513
Receivables:	
Accrued interest	7,945
Land held for resale	11,468,003
Total Current Assets	15,868,461
Noncurrent Assets:	
Other Noncurrent Assets:	
Deposits	7,895
Notes receivable	21,876,374
Allowance for notes receivable	(21,876,374)
Total Other Noncurrent Assets	7,895
Capital assets:	
Equipment and vehicles	6,596
Less: Accumulated depreciation	(2,176)
Total Capital Assets	4,420
Total Noncurrent Assets	12,315
<b>Total Assets</b>	<b>15,880,776</b>
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and other current liabilities	\$ 7,691
Deposits	1,000
Total Current Liabilities	8,691
<b>Total Liabilities</b>	<b>8,691</b>
 <b>NET POSITION</b>	
Investment in capital assets	4,420
Restricted for low income housing	15,867,665
<b>Total Net Position</b>	<b>\$ 15,872,085</b>

See accompanying notes to financial statements.

**HESPERIA HOUSING AUTHORITY**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
<b>Primary Government</b>					
Governmental Activities:					
Development Services	\$ 5,260,229	\$ -	\$ -	\$ -	(5,260,229)
<b>Total Governmental Activities</b>	<b>\$ 5,260,229</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(5,260,229)</b>
General Revenues:					
					95,761
					87,399
					<u>183,160</u>
					(5,077,069)
					<u>20,949,154</u>
					<u>\$ 15,872,085</u>

See accompanying notes to financial statements.

**HESPERIA HOUSING AUTHORITY****BALANCE SHEET**  
June 30, 2017

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
<b>Assets</b>			
Assets:			
Cash and cash equivalents	\$ 2,677,190	\$1,715,323	\$ 4,392,513
Accrued interest	4,931	3,014	7,945
Notes receivable	21,876,374	-	21,876,374
Allowance for notes receivable	(21,876,374)	-	(21,876,374)
Land held for resale	11,468,003	-	11,468,003
<b>Total Assets</b>	<b>\$14,150,124</b>	<b>\$1,718,337</b>	<b>\$15,868,461</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
Liabilities:			
Accounts payable and other current liabilities	\$ 7,691	\$ -	\$ 7,691
Deposits	1,000	-	1,000
<b>Total Liabilities</b>	<b>8,691</b>	<b>-</b>	<b>8,691</b>
Fund Balances:			
Restricted:			
Low income housing	14,141,433	1,718,337	15,859,770
<b>Total Fund Balances</b>	<b>14,141,433</b>	<b>1,718,337</b>	<b>15,859,770</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$14,150,124</b>	<b>\$1,718,337</b>	<b>\$15,868,461</b>

See accompanying notes to financial statements.

**HESPERIA HOUSING AUTHORITY**

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2017

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances - governmental funds		\$ 15,859,770
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.		
Cost	\$ 6,596	
Less: Accumulated depreciation	<u>(2,176)</u>	4,420
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Net Position.		<u>7,895</u>
Total Net Position		<u>\$ 15,872,085</u>

See accompanying notes to financial statements.

**HESPERIA HOUSING AUTHORITY****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Year Ended June 30, 2017

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
<b>Revenues:</b>			
Use of money and property	\$ 84,979	\$ 10,782	\$ 95,761
Other revenues	87,399	-	87,399
Total Revenues	<u>172,378</u>	<u>10,782</u>	<u>183,160</u>
<b>Expenditures:</b>			
Current:			
Development services	<u>5,259,291</u>	<u>-</u>	<u>5,259,291</u>
Total Expenditures	<u>5,259,291</u>	<u>-</u>	<u>5,259,291</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,086,913)	10,782	(5,076,131)
<b>Fund balances at beginning of period</b>	<u>19,228,346</u>	<u>1,707,555</u>	<u>20,935,901</u>
<b>Fund balances at end of year</b>	<u>\$ 14,141,433</u>	<u>\$ 1,718,337</u>	<u>\$ 15,859,770</u>

See accompanying notes to financial statements.

**HESPERIA HOUSING AUTHORITY**

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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, 2017

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

Net change in fund balances - total governmental funds \$ (5,076,131)

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. This is the amount by which depreciation and disposal exceeded capital outlays in the current period.

Depreciation expense (1,319)

Recording of long-term deposits are included in governmental activities in the government-wide statement of activities.

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Change in net position of governmental activities \$ (5,077,069)

See accompanying notes to financial statements.

June 30, 2017

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Hesperia Housing Authority (Authority), which is a subsidiary component unit of the City of Hesperia (City), was established on April 5, 2011 by Resolution No. 2011-022 of the City Council. The Hesperia Housing Authority was activated when the dissolution of the former Hesperia Community Redevelopment Agency occurred on February 1, 2012. The Authority develops, manages, and promotes programs and projects that preserve and improve the supply of affordable housing in the City for low and moderate income persons.

The Authority is an integral part of the reporting entity of the City. The accounts of the Authority have been included within the scope of the basic financial statements of the City because the City Council has financial accountability over the operations of the Authority. Only the accounts of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City. Upon completion, the financial statements of the City can be obtained at City Hall.

b. Basis of Presentation:

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Hesperia Housing Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.



## 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## b. Basis of Presentation (Continued):

## Governmental Fund Financial Statements:

The accounting system of the Authority is organized and operated on the basis of two funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. 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.

Fund financial statements for the Authority's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually.

The Authority's Governmental Fund Balances are comprised of the following component:

- 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.

In the governmental fund statements, when expenditures are incurred, the Authority uses the most restrictive funds first. The Authority would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

The Authority has two major funds described below:

Hesperia Housing Authority Fund is used to account for Low and Moderate Housing activity.

Victor Valley Economic Development Authority (VVEDA) Housing Authority Fund is used to account for Low and Moderate Housing activity within the VVEDA project area that is located within the boundaries of the City.

## c. Measurement Focus:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

In the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

## 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## c. Measurement Focus (continued):

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

In the Statement of Net Position, the 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 is attributed to the acquisition, construction or improvement of the assets.
- Restricted net position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets, net of related debt” or “restricted net position”.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

## d. Basis of Accounting:

Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

## 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## d. Basis of Accounting (continued):

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

## e. New Accounting Pronouncements:

Current Year Standards:

- GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016, and did not impact the Authority.
- GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", effective for periods beginning after June 15, 2016, and did not impact the Authority.
- GASB Statement No. 77 - "Tax Abatement Disclosures", the requirements of this Statement are effective for reporting periods beginning after December 15, 2015, and did not impact the Authority.
- GASB Statement No. 78 - "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", effective for periods beginning after December 15, 2015, and did not impact the Authority.
- GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants", the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015, and did not impact the Authority.
- GASB Statement No. 80 - "Blending Requirements for Certain Component Units", effective for periods beginning after June 15, 2016, and did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for periods beginning after June 15, 2017.
- GASB Statement No. 83 - "Certain Asset Retirement Obligations", effective for periods beginning after June 15, 2018.

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):****e. New Accounting Pronouncements (Continued):**Pending Accounting Standards (Continued):

- GASB Statement No. 84 - "Fiduciary Activities", effective for periods beginning after December 15, 2018.
- GASB Statement No. 85 - "Omnibus 2017", effective for periods beginning after June 15, 2017.
- GASB Statement No. 86 - "Certain Debt Extinguishment Issues", effective for periods beginning after June 15, 2017.
- GASB Statement No. 87 - "Leases", effective for periods beginning after December 15, 2019.

**f. Cash and Investments:**

Investments are stated at fair value (quoted market price or best available estimate thereof, see Note 2).

**g. 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 Authority records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2017, in the opinion of the Authority's Attorney, the Authority had no material unrecorded claims that would require loss provision in the financial statements, including losses for claims that are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

The Authority participates in the self-insurance program of the City of Hesperia. Information relating to the self-insurance program can be found in the notes to the basic financial statements of the City of Hesperia.

**h. Land Held for Resale:**

Land held for resale is carried at the lower of cost or estimated realizable value.

**i. Capital Assets:**

Capital assets, which include land, buildings, building improvements, and equipment, are depreciated (with the exception of land) and are reported in the government-wide financial statements. Authority policy has set the capitalization threshold for reporting capital assets at \$5,000.

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

i. Capital Assets (Continued):

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

Buildings	30-50 Years
Improvements	20 Years
Machinery and Equipment	5-30 Years
Vehicles	8-20 Years

j. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Authority does not have any type of these items at June 30, 2017.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any type of these items at June 30, 2017.

k. Receivables:

All accounts, taxes, and service receivables are shown net of an allowance for uncollectibles.

l. Fund balances for Low & Moderate Income Housing:

The Authority has funds set aside in the special revenue funds to provide for future low and moderate income housing.

m. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

**2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:**

Equity in Cash and Investment Pool of the City of Hesperia:

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City. The Authority 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. The Authority has not adopted an investment policy separate from that of the City. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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.

**Cash and Investments**

Cash and cash equivalents at June 30, 2017 are classified in the financial statements as follows:

<b>STATEMENT OF NET POSITION:</b>	
Current Assets:	<u>June 30, 2017</u>
Cash and cash equivalents	<u>\$ 4,392,513</u>
Total cash and investments	<u>\$ 4,392,513</u>

Investments Authorized by the California Government Code and the Authority's Investment Policy:

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	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

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk and Fair Value Measurements:

The Authority's cash and cash equivalents are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding the pooled investments related to interest rate risk, credit risk, custodial credit risk and fair value measurements are available in the City of Hesperia's Comprehensive Annual Financial Report.

3. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets at June 30, 2017 is as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Capital Assets being depreciated:				
Equipment and vehicles	\$ 6,596	\$ -	\$ -	\$ 6,596
Less accumulated depreciation for:				
Machinery and equipment	(857)	(1,319)		(2,176)
Total accumulated depreciation	(857)	(1,319)	-	(2,176)
Total capital assets being depreciated, net	5,739	(1,319)	-	4,420
Net capital assets	\$ 5,739	\$ (1,319)	\$ -	\$ 4,420

4. NOTES RECEIVABLE:

Notes receivable, totaling \$21.9 million at June 30, 2017 consists of loans provided for low and moderate income housing, with interest between one percent (1%) and three percent (3%) and maturity of fifty-five (55) years. Due to the terms of the notes, offsetting allowance for notes receivable of \$21.9 million has been established.

Notes receivable at June 30, 2017 include the following:

	Outstanding June 30, 2016	Additions	Deductions	Outstanding June 30, 2017
KDF VAH I, L.P.	\$ 3,078,320	\$ 29,000	\$ (15,718)	\$ 3,091,602
KDF Hesperia, L.P.	1,804,414	24,458	-	1,828,872
KDF Hesperia II, L.P.	2,458,214	28,102	-	2,486,316
PDDC San Remo Hesperia, L.P.	4,208,687	39,557	-	4,248,244
PDDC San Remo Hesperia II, L.P.	6,361,888	61,050	(108,722)	6,314,216
Eagle Hesperia 55, L.P.	-	3,907,124	-	3,907,124
Totals	\$17,911,523	\$4,089,291	\$(124,440)	\$ 21,876,374

A. KDF VAH I, L.P.:

In July 2006, the former Hesperia Community Redevelopment Agency (HCRA) 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 HCRA loaned \$2,900,000 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. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2017 is \$191,602. The balance of the loan outstanding at June 30, 2017 was \$3,091,602. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

## 4. NOTES RECEIVABLE (Continued):

## B. KDF Hesperia, L.P.:

In December 2005, the former HCRA entered into an 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 HCRA loaned \$1,250,000 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 simple interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of \$398,589, with an interest rate of three percent (3%), to assist with converting the construction loan to a permanent loan. Accrued interest on the combined notes through June 30, 2017 is \$180,283. The balance of the loan outstanding at June 30, 2017 was \$1,828,872. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

## C. KDF Hesperia II, L.P.:

In March, 2006, the former HCRA entered into an 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 HCRA loaned \$2,000,000 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. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Authority issued a loan of \$270,070, with an interest rate of three percent (3%), to assist with converting the construction loan to a permanent loan. Accrued interest on the combined notes through June 30, 2017 is \$216,246. The balance of the loan outstanding at June 30, 2017 was \$2,486,316. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

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

On November 2007, the former HCRA entered into an 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 HCRA 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. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2017 is \$292,533. The balance of the loan outstanding at June 30, 2017 was \$4,248,244. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.



**4. NOTES RECEIVABLE (Continued):****E. PDDC San Remo Hesperia II, L.P.:**

On October 5, 2010, the former HCRA entered into an OPA with PDDC San Remo Hesperia II, 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 HCRA 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. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2017 is \$425,408 and payments received are \$724,812. The balance of the loan outstanding at June 30, 2017 was \$6,314,216.

**F. Eagle Hesperia 55, L.P.:**

On February 16, 2016, the former HCRA entered into an OPA with Eagle Hesperia 55 L.P. (a California limited partnership) for the development, construction, and operation of a 96-unit apartment complex of which certain units shall be available to low income senior citizens. Under the terms of the OPA, the Authority loaned \$3,831,975 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 fifty-five years, with the option of extending the term up to twenty-five years; the option must be exercised between the fifty-third year and fifty-fourth year. The loan shall bear interest at a rate of two percent (2%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2017 is \$75,149. The balance of the loan outstanding at June 30, 2017 was \$3,907,124. Any unpaid balance is due and payable at the maturity date.

**5. SELF-INSURANCE RISK POOL:**

The Authority, through the City of Hesperia, is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority for the purpose of achieving savings on insurance premiums. Disclosures regarding these policies are available in the City of Hesperia's Comprehensive Annual Financial Report.

**6. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS:**

The employees of the Authority participate in the defined benefit pension plan and the other post employment benefit plan of the City of Hesperia. Disclosures regarding these plans are available in the City of Hesperia's Comprehensive Annual Financial Report.

REQUIRED SUPPLEMENTARY INFORMATION

**HESPERIA HOUSING AUTHORITY**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
HESPERIA HOUSING AUTHORITY SPECIAL REVENUE FUND  
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Fund Balance, July 1</b>	\$ 19,228,346	\$ 19,228,346	\$ 19,228,346	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	91,000	91,000	84,979	(6,021)
Other Revenues	87,139	87,139	87,399	260
Amount Available for Appropriations	178,139	178,139	172,378	(5,761)
<b>Charges to Appropriations (Outflows):</b>				
Current:				
Development Services	4,478,820	5,259,291	5,259,291	-
Total Charges to Appropriations	4,478,820	5,259,291	5,259,291	-
Excess of Resources Over/(Under) Charges to Appropriations	(4,300,681)	(5,081,152)	(5,086,913)	(5,761)
<b>Fund Balance, June 30</b>	\$ 14,927,665	\$ 14,147,194	\$ 14,141,433	\$ (5,761)

See accompanying note to required supplementary information.

**HESPERIA HOUSING AUTHORITY**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
VVEDA HOUSING AUTHORITY SPECIAL REVENUE FUND  
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Fund Balance, July 1</b>	<u>\$ 1,707,555</u>	<u>\$ 1,707,555</u>	<u>\$ 1,707,555</u>	<u>\$ -</u>
<b>Resources (Inflows):</b>				
Use of money and property	<u>8,172</u>	<u>8,172</u>	<u>10,782</u>	<u>2,610</u>
Amount Available For Appropriations	<u>8,172</u>	<u>8,172</u>	<u>10,782</u>	<u>2,610</u>
<b>Charges to Appropriations (Outflows):</b>				
Current:				
Development Services	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total Charges to Appropriations	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>(141,828)</u>	<u>(141,828)</u>	<u>10,782</u>	<u>152,610</u>
<b>Fund Balance, June 30</b>	<u><u>\$ 1,565,727</u></u>	<u><u>\$ 1,565,727</u></u>	<u><u>\$ 1,718,337</u></u>	<u><u>\$ 152,610</u></u>

See accompanying note to required supplementary information.

June 30, 2017

**1. BUDGETARY DATA:**

In conjunction with the City of Hesperia's budgeting process, the Authority adopts annual operating budgets for the governmental funds each year. The Authority's Board approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. The Board conducts public hearings prior to its adoption. Supplemental appropriations, when required during the period, are also approved by the Board. Increases in annual expenditures require approval by the Board. Interdepartmental budget changes are approved by the City Manager. In most cases, expenditures may not exceed appropriations at the fund level for each fund. At fiscal year end, all operating budget appropriations lapse. However, encumbrances at year end are reported as reservations of fund balance. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles.