HESPERIA HOUSING AUTHORITY

COMPONENT UNIT
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE FIVE MONTH PERIOD FROM
FEBRUARY 1, 2012 (INCEPTION) THROUGH JUNE 30, 2012

For the Five Month Period From
February 1, 2012 (Inception) Through June 30, 2012

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Housing Authority
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and the major funds of the Hesperia Housing Authority (a component unit of the City of Hesperia) as of and for the five month period from February 1, 2012 (Inception) through June 30, 2012, as listed in the table of contents. These component unit financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of the Authority as of June 30, 2012, and the respective changes in financial position for the period from February 1, 2012 (Inception) through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2013 on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

2965 Roosevelt Street, Carlsbad, CA 92008-2389 • Tel: 760.729.2343 • Fax: 760.729.2234

Offices located in Orange and San Diego Counties

Management has not presented 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.

The budgetary comparison schedules and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

White Nelson Diehl Evans LLP

January 29, 2013
Carlsbad, California

This Page Intentionally Left Blank

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS	Governmental Activities
Current Assets:	
Cash and cash equivalents	$ 13,928,867
Receivables:	
Accounts receivable	4,500
Accrued interest	10,556
Due from other governmental agencies	116,124
Land held for resale	10,269,457
Total Current Assets	24,329,504
Noncurrent Assets:	
Other Non-current Assets:	
Notes receivable	17,658,174
Advances to Hesperia Water District	3,600,000
Advance to the Successor Agency	17,007,974
Total Other Non-current Assets	38,266,148
Capital assets:	
Land	6,224,126
Buildings and improvements	476,488
Less: Accumulated Depreciation	(24,087)
Total Capital Assets	6,676,527
Total Noncurrent Assets	44,942,675
Total assets	$ 69,272,179

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

LIABILITIES	Governmental Activities
Current Liabilities:	
Accounts payable and other current liabilities	$ 29,179
Deposits	1,200
Total Current Liabilities	30,379
Noncurrent Liabilities:	
Unearned revenue	17,658,174
Total Noncurrent Liabilities	17,658,174
Total Liabilities	17,688,553
NET ASSETS	
Invested in capital assets	6,676,527
Restricted for low and moderate income housing	44,907,099
Unrestricted	-
Total Net Assets	$ 51,583,626

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

STATEMENT OF ACTIVITIES
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary Government					
Governmental activities:					
Development services	$ 236,136	$ -	$ -	$ -	$ (236,136)
Total governmental activities	$ 236,136	$ -	$ -	$ -	(236,136)

General Revenues:	
Property taxes	271,442
Income from money and property	279,138
Other	84,465
Total general revenues and capital contributions	635,045
Extraordinary gain	51,184,717
Change In Net Assets	51,583,626
Net assets at beginning of period	-
Net assets at end of year	$ 51,583,626

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

This Page Intentionally Left Blank

BALANCE SHEET
June 30, 2012

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
Assets			
Cash and cash equivalents	$ 12,684,998	$ 1,243,869	$ 13,928,867
Accounts receivable	4,500	-	4,500
Accrued interest	9,606	950	10,556
Notes receivable	17,658,174	-	17,658,174
Due from other governmental agencies	-	116,124	116,124
Land held for resale	10,269,457	-	10,269,457
Advances to the Successor Agency	17,007,974	-	17,007,974
Advance to Hesperia Water District	3,600,000	-	3,600,000
Total Assets	$ 61,234,709	$ 1,360,943	$ 62,595,652
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 29,179	$ -	$ 29,179
Deposits	1,200	-	1,200
Deferred revenue	17,666,205	-	17,666,205
Total Liabilities	17,696,584	-	17,696,584
Fund Balances:			
Nonspendable:			
Land held for resale	10,269,457	-	10,269,457
Advances	20,607,974	-	20,607,974
Restricted:			
Low and moderate income housing	12,660,694	1,360,943	14,021,637
Total Fund Balances	43,538,125	1,360,943	44,899,068
Total Liabilities and Fund Balances	$ 61,234,709	$ 1,360,943	$ 62,595,652

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

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012

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

Total fund balances - governmental funds		$ 44,899,068
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.		
Cost	$ 6,700,614	
Less: Accumulated depreciation	(24,087)	6,676,527
Accrued interest on notes was not received in the current period, and therefore is not recognized in the governmental funds balance sheet.		8,031
Net Assets of governmental activities		$ 51,583,626

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
Revenues:			
Pass Through Payments	$ -	$ 271,442	$ 271,442
Use of money and property	269,203	1,904	271,107
Other revenues	84,465	-	84,465
Total Revenues	353,668	273,346	627,014
Expenditures:			
Current:			
Development services	216,380	15,840	232,220
Total Expenditures	216,380	15,840	232,220
Excess (Deficiency) of Revenues Over (Under) Expenditures	137,288	257,506	394,794
Extraordinary gain			
Dissolution of redevelopment agency	43,400,837	1,103,437	44,504,274
Net Change in Fund Balances	43,538,125	1,360,943	44,899,068
Fund balances at beginning of period	-	-	-
Fund balances at end of year	$ 43,538,125	$ 1,360,943	$ 44,899,068

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances - total governmental funds		$ 44,899,068
The net effect of accrued interest recognized in the fund statements and the statement of activities		8,031
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.		(3,916)
The Hesperia Community Redevelopment Agency was dissolved as of February 1, 2012, pursuant to Assembly Bills 1x 26 and 1484. Assets and liabilities of the dissolved Agency as of February 1, 2012 were transferred to the Hesperia Housing Authority:		
Land	6,224,126	
Buildings and Improvements, net of accumulated depreciation	456,317	6,680,443
Change in net assets of governmental activities		$ 51,583,626

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

For the Five Month Period from February 1, 2012 (Inception) Through June 30, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Hesperia Housing Authority (the Authority), which is a subsidiary component unit of the City of Hesperia, was established on April 05, 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 of Hesperia for low and moderate income persons.

The Authority is an integral part of the reporting entity of the City of Hesperia (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 of Hesperia. 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 assets 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 Hesperia Housing 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 Hesperia Housing 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, liabilities, 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 Hesperia Housing 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 components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Authority Board. The Authority Board has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. The Executive Director or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the Authority's fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance in other governmental funds is limited to any negative residual fund balance after fund balance has been classified as restricted, committed, or assigned.

In the government-wide statements, the Authority considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the 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:

<u>Hesperia Housing Authority Fund</u> is used to account for Low and Moderate Housing activity.

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

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

   c. Measurement Focus:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets 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.

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 Assets, net assets are classified in the following categories:

- Invested 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 assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

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.

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

   d. Basis of Accounting:

      In the government-wide Statement of Net Assets 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.

      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. Cash and Investments:

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

   f. 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, 2012, 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.

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

g. 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.

h. Land Held for Resale:

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balance has been classified as Non-spendable – land held for resale for land held for resale in the Hesperia Housing Authority Fund.

i. Capital Assets:

Capital assets, which include land, buildings, building improvements, and equipment are depreciated 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 estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

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. Receivables:

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

k. Restricted Assets:

The Authority reports assets that are restricted for funds held in trust which are restricted for future low and moderate income housing.

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.

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 of Hesperia. 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 of Hesperia. The Authority has not adopted an investment policy separate from that of the City of Hesperia. 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.

Restricted Cash and Cash Equivalents

Restricted Cash and cash equivalents at June 30, 2012 are classified in the accompanying financial statements as follows:

	June 30, 2012
STATEMENT OF NET ASSETS:	
Current Assets:	
Cash and cash equivalents	$ 13,928,867
Total cash and cash equivalents	$ 13,928,867

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
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:

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 and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report.

See accompanying independent auditors' report.

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

Investment in State Investment Pool:

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

3. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the five month period from February 1, 2012 (Inception) through June 30, 2012 is as follows:

	Balance at February 1, 2012	Increases	Decreases	Balance at June 30, 2012
CAPITAL ASSETS:				
Capital assets, not being depreciated				
Land	$ -	$ 6,224,126	$ -	$ 6,224,126
Capital assets being depreciated				
Building and improvements	-	476,488	-	476,488
Less accumulated depreciation for				
Building and improvements	-	(24,087)	-	(24,087)
Total capital assets being depreciated, net	-	452,401	-	452,401
Net Capital Assets	$ -	$ 6,676,527	$ -	$ 6,676,527

Depreciation expense for the five month period from February 1, 2012 (Inception) through June 30, 2012 was $3,916 and was coded to development services.

4. NOTES RECEIVABLE:

Notes receivable, totaling $17,658,174 at June 30, 2012 consists of loans provided for low and moderate income housing, with interest of one percent (1%) and maturity of fifty-five (55) years. Due to the terms of the notes, offsetting deferred revenue for $17,658,174 has been established.

Notes receivable at June 30, 2012 include the following:

	Outstanding February 1, 2012	Additions	Deductions	Outstanding June 30, 2012
A. KDF VAH I, L.P.	$ -	$ 3,026,091	$ (14,551)	$ 3,011,540
B. KDF Hesperia, L.P.	-	1,706,516	-	1,706,516
C. KDF Hesperia II, L.P.	-	2,345,729	-	2,345,729
D. PDDC San Remo Hesperia, L.P.	-	4,084,513	(34,164)	4,050,349
E. PDDC San Remo Hesperia II, L.P.	-	6,652,760	(108,720)	6,544,040
Totals	$ -	$ 17,815,609	$ (157,435)	$ 17,658,174

4. NOTES RECEIVABLE (Continued):

A. KDF VAH I, L.P.:

In July, 2006, the 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 Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2012 is $126,090. The balance of the loan outstanding at June 30, 2012 was $3,011,540. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

B. KDF Hesperia, L.P.:

In December 2005, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with KDF Hesperia, L.P. (a California limited partnership) for the development, construction and operation of a 110-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the 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 Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of $398,589 to assist with converting the construction loan to a permanent loan. Accrued interest on the combined notes through June 30, 2012 is $57,927. The balance of the loan outstanding at June 30, 2012 was $1,706,516. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

C. KDF Hesperia II, L.P.:

In March, 2006, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with KDF Hesperia II, L.P., (a California limited partnership) for the development, construction and operation of a 72-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the Authority 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 Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of $270,071 to assist with converting the construction loan to a permanent loan. Accrued interest on the combined notes through June 30, 2012 is $75,658. The balance of the loan outstanding at June 30, 2012 was $2,345,729. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

4. NOTES RECEIVABLE (Continued):

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

In November 2007, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, and 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 Authority 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 Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2012 is $128,803. The balance of the loan outstanding at June 30, 2012 was $4,050,349. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

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

In October 5, 2010, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, and 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 Authority 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 Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2012 is $111,623 and payments received are $181,203. The balance of the loan outstanding at June 30, 2012 was $6,544,040.

5. ADVANCES:

Advances to the Successor Agency and Hesperia Water District at June 30, 2012 include the following:

	Outstanding February 1, 2012	Additions	Deductions	Outstanding June 30, 2012
A. SERAF I Promissory Note	$ -	$ 8,228,629	$ (1,065,342)	$ 7,163,287
B. SERAF II Promissory Note	-	1,688,416	-	1,688,416
C. 2011 Public Improvement Promissory Note	-	14,560,618	(6,404,347)	8,156,271
D. Hesperia Water District Note	-	4,816,335	(1,216,335)	3,600,000
Totals	$ -	$ 29,293,998	$ (8,686,024)	$ 20,607,974

See accompanying independent auditors' report.

5. ADVANCES (Continued):

The advances are to be repaid with a defined schedule over a reasonable term of years at an interest rate not to exceed the interest rate earned by the funds deposited into the Local Agency Investment Fund. The annual advances repayments are subject to certain limitations. Advance repayments shall not be prior to the 2013-2014 fiscal year, are subject to a formula distribution, and have a lower priority for repayment as described in AB 1484 (Health and Safety Code Section 34191.4(2)(A). The advances related to the borrowing for the SERAF payment have a priority over repayment of the other advances.

Management believes, in consultation with legal counsel, that the obligations of the Dissolved RDA due to the Authority are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484 and has not recorded an allowance for uncollectible advances. The Authority's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would not be in favor of the Authority.

AB 1484 specifies the actions to be taken and the method of repayment for advances by the Successor Agency. Upon application and approval by the successor agency and approval by the oversight board, loan agreements (advances) entered into by former redevelopment agency and the Authority shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the advances were for legitimate redevelopment purposes. The accumulated interest on the remaining amount of advances will be recalculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund.

A. SERAF I Promissory Note:

A loan of $8,161,869 for the year ended June 30, 2010, was made from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Debt Service Funds of the former Hesperia Community Redevelopment Agency to provide the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is authorized by Health & Safety Code §33690.5(c). The Hesperia Community Redevelopment Agency Board authorized a loan from the Low/Moderate Income Housing Fund with a repayment by June 30, 2015, at a quarterly variable interest based on the Local Authority Investment Fund (LAIF) Quarterly Apportionment Rate, which at June 30, 2012, had a rate of 0.36%. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of this loan. Accrued interest on the note through June 30, 2012 is $66,760 and payments received are $1,065,342. The balance of the loan outstanding at June 30, 2012 was $7,163,287.

B. SERAF II Promissory Note:

A loan of $1,680,385 for the year ended June 30, 2011, was made from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Debt Service Funds of the former Hesperia Community Redevelopment Agency to provide the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is authorized by Health & Safety Code §33690.5(c). The Hesperia Community Redevelopment Agency Board authorized a loan from the Low/Moderate Income Housing Fund with a repayment by June 30, 2016, at a quarterly variable interest based on the LAIF Quarterly Apportionment Rate, which at June 30, 2012 had a rate of 0.36%. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of this loan. Accrued interest on the note through June 30, 2012 is $8,031. The balance of the loan outstanding at June 30, 2012 was $1,688,416.

5. ADVANCES (Continued):

C. 2011 Public Improvement Promissory Note:

On March 9, 2011, a 5-year loan of up to $31,680,000 was authorized between the Low and Moderate Income Housing Special Revenue Fund and the Project Area Number 1 2005 Debt Service Fund of the Hesperia Community Redevelopment Agency for matching costs for the Ranchero Road Undercrossing, Industrial Lead Track, and Township Revitalization projects. Only $14,486,524 of the authorized loan was utilized. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of this loan. The issue bears quarterly variable interest, based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2012 had a rate of 0.36%. The loan must be repaid on or before June 30, 2016. Accrued interest on the loan through June 30, 2012 is $74,094. The loan balance at June 30, 2012 is $8,156,271.

D. Hesperia Water District Note:

The Hesperia Water District was issued a 5-year loan by the Hesperia Community Redevelopment Agency on June 30, 2010, for $6,000,000 for various water capital projects. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2012 had a rate of 0.36%. The loan matures June 30, 2015 with annual principal payments of $1,200,000. The loan will be financed by revenues generated by the District through set rates and charges for water and sewer services. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of this loan. The loan balance at June 30, 2012 is $3,600,000.

6. 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.

7. 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.

8. EXTRAORDINARY GAIN:

The Hesperia Housing Authority received the housing assets of the former Hesperia Community Redevelopment Agency which was dissolved as a result of Assembly Bill 1x26, which was passed by the California Legislature on June 27, 2011. The former redevelopment agency transferred certain assets and liabilities to the Housing Authority.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the government-wide financial statements (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the government-wide financial statements.

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary gain recognized in the government-wide financial statements is reconciled as follows:

Total extraordinary gain reported in the governmental funds	$ 44,504,274
Capital assets recorded in the government-wide financial statements	6,680,443
Extraordinary Gain reported in the government-wide financial statements of the Authority	$ 51,184,717

9. SUBSEQUENT EVENTS:

On June 27, 2012, the Governor of the State of California signed AB 1484, which made substantive and technical changes to ABx1 26, which called for the dissolution of all redevelopment agencies. AB 1484 required that a Housing Asset Transfer form be submitted and a Due Diligence Reviews of the former Hesperia Community Redevelopment funds, performed by a certified public accountant. The goal of the each report is to identify the unencumbered assets that can be remitted to the affected taxing entities.

The Housing Asset Transfer form identified all housing assets transferred to the Hesperia Housing Authority from the former Redevelopment Agency. The Hesperia Housing Authority submitted the Housing Asset Transfer form to the State on August 23, 2012. On, September 18, 2012, the Hesperia Housing Authority received confirmation of approval from the State.

The Hesperia Housing Authority along with the Successor Agency to the Redevelopment Agency completed the first Due Diligence Review (DDR) of all low and moderate-income funds on October 15, 2012. The purpose of the DDR is to identify all unencumbered cash balances that can be remitted to the State for distribution to the other taxing entities.

On November 9, 2012, the Hesperia Housing Authority received notification that the State of California reviewed the DDR for the low and moderate-income funds. The State determined that $16,170,555 was available for distribution to the taxing entities, which has not been paid and the Hesperia Housing Authority contests.

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through January 29, 2013 the date the City's Comprehensive Annual Financial Report was issued.

This Page Intentionally Left Blank

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
HESPERIA HOUSING AUTHORITY SPECIAL REVENUE FUND
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, February 1	$ -	$ -	$ -	$ -
Resources (Inflows):				
Use of money and property	-	-	269,203	269,203
Other	-	-	84,465	84,465
Dissolution of the redevelopment agency	-	-	43,400,837	43,400,837
Amount Available For Appropriations	-	-	43,754,505	43,754,505
Charges to Appropriations (Outflows):				
Current:				
Development services	-	1,175,973	216,380	959,593
Capital Outlay:				
Land	-	475,054	-	475,054
Total Charges to Appropriations	-	1,651,027	216,380	1,434,647
Excess of Resources Over (Under) Charges to Appropriations	-	(1,651,027)	43,538,125	45,189,152
Fund Balance	$ -	$ (1,651,027)	$ 43,538,125	$ 45,189,152

See accompanying note to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
VVEDA HOUSING AUTHORITY SPECIAL REVENUE FUND
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, February 1	$ -	$ -	$ -	$ -
Resources (Inflows):				
Property Taxes	-	-	271,442	271,442
Use of money and property	-	-	1,904	1,904
Dissolution of the redevelopment agency	-	-	1,103,437	1,103,437
Amount Available For Appropriations	-	-	1,376,783	1,376,783
Charges to Appropriations (Outflows):				
Current:				
Development services	-	15,841	15,840	1
Total Charges to Appropriations	-	15,841	15,840	1
Excess of Resources Over (Under) Charges to Appropriations	-	(15,841)	1,360,943	1,376,784
Fund Balance	$ -	$ (15,841)	$ 1,360,943	$ 1,376,784

See accompanying note to required supplementary information.

June 30, 2012

1. BUDGETARY DATA:

In conjunction with the City'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.