

COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF HESPERIA

COMPONENT UNIT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2015

JUNE 30, 2015

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Community Development Commission of the City of Hesperia  
Hesperia, California

We have audited the accompanying financial statements of the governmental activities of the Community Development Commission of the City of Hesperia (a component unit of the City of Hesperia) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission'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 component unit 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 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 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 Commission'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 Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Community Development Commission of the City of Hesperia as of June 30, 2015, 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 schedule as identified 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 management's discussion and analysis and budgetary comparison schedule 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  
December 16, 2015

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

Our discussion and analysis of the City of Hesperia's Community Development Commission (Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ending June 30, 2015. Please read this in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Commission's net position is \$12.6 million; of which, \$12.3 million is net investment in capital assets, all of which is land. The net position decreased by 3% from the previous year's amount of \$13.0 million. This decrease is primarily attributed to the actual time spent on the Commission's program objectives utilizing more resources to accomplish the program needs of the Commission.
- During the year ending June 30, 2015, the Commission's expenses exceeded revenues, resulting in a decrease in net position of \$0.4 million, compared to the previous year's decrease of \$0.9 million. Without considering the loss on sale of land in FY 2013-14, the expenditures totaled slightly less than \$0.5 million compared to the current year's expenditures of a little over \$0.5 million. This increase in expenditures from the previous year is attributed to more staff time spent on the Commission's program objectives.

### **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 Commission as a whole and present a long-term view of the Commission'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 Commission's operations in more detail than the government-wide statements by providing information about the Commission's most significant funds.

### **REPORTING THE COMMISSION AS A WHOLE**

The discussion and analysis provided here are intended to serve as an introduction to the Commission'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 Commission's finances is, "Is the Commission 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 Commission 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 Commission'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 Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Commission'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 COMMISSION'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 Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission 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 14-21 of this report.

## **THE COMMUNITY DEVELOPMENT COMMISSION AS A WHOLE**

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Commission.

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12.6 million, at the close of the most recent fiscal year.

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

|                                     | 2014                 | 2015                 | Changes from 2014 to 2015 |            |
|-------------------------------------|----------------------|----------------------|---------------------------|------------|
|                                     |                      |                      | Amount                    | Percentage |
| Current and other assets            | \$ 697,601           | \$ 317,828           | \$ (379,773)              | -54%       |
| Capital assets                      | 12,333,955           | 12,333,955           | -                         | 0%         |
| Total Assets                        | 13,031,556           | 12,651,783           | (379,773)                 | -3%        |
| Total deferred outflow of resources | -                    | -                    | -                         |            |
| Current and other liabilities       | 34,986               | 26,793               | (8,193)                   | -23%       |
| Total Liabilities                   | 34,986               | 26,793               | (8,193)                   | -23%       |
| Total deferred inflow of resources  | -                    | -                    | -                         | 0%         |
| Net Position:                       |                      |                      |                           |            |
| Net investment in capital assets    | 12,333,955           | 12,333,955           | -                         | 0%         |
| Unrestricted                        | 662,615              | 291,035              | (371,580)                 | -56%       |
| <b>Total Net Position</b>           | <u>\$ 12,996,570</u> | <u>\$ 12,624,990</u> | <u>\$ (371,580)</u>       | <u>-3%</u> |

The following is a brief explanation for the balance changes of Table 1 above for the fiscal year ending June 30, 2015.

- Current and other assets decreased by 54%, or \$0.4 million from June 30, 2014 primarily in cash and accounts receivable. There was an increase in time spent on the Commission's program activities resulting in the significant decrease of cash. For accounts receivable, revenues were collected pertaining to Opportunity High Desert. Also included is a \$0.3 million note receivable related to the sale of land during FY 2013-14. Additional information about the Note Receivable can be found in Note 6 on page 21. The Community Development Commission's capital assets, all of which is land, totaled \$12.3 million. This total remains unchanged from the previous year.
- Current and other liabilities of \$26,793 represents a \$8,193 decrease from the previous fiscal year's ending balance of \$34,986. This is primarily due to a decrease in accounts payable, reflecting the timing of invoices paid at June 30, 2015, with the remaining yet to be paid.

#### **COMMISSION CHANGES IN NET POSITION**

The cost of all Commission activities this year was \$0.5 million. This represents a significant decrease from FY 2013-14 of \$1.1 million, which is primarily due to the Commission not incurring a \$0.6 million loss on sale of land in FY 2014-15 as it did in FY 2013-14.

**Table 2  
Changes in Net Position**

|                                | 2014          | 2015          | Changes from 2014 to 2015 |            |
|--------------------------------|---------------|---------------|---------------------------|------------|
|                                |               |               | Amount                    | Percentage |
| <b>Revenues</b>                |               |               |                           |            |
| Program revenues:              |               |               |                           |            |
| Charges for services           | \$ 81,879     | \$ 47,961     | \$ (33,918)               | -41%       |
| General revenues:              |               |               |                           |            |
| Income from money and property | 61,200        | 75,497        | 14,297                    | 23%        |
| Other                          | 39,750        | 28,961        | (10,789)                  | -27%       |
| Total revenues                 | 182,829       | 152,419       | (30,410)                  | -17%       |
| <b>Expenses</b>                |               |               |                           |            |
| Development services           | 1,054,751     | 523,999       | (530,752)                 | -50%       |
| Total expenses                 | 1,054,751     | 523,999       | (530,752)                 | -50%       |
| Change in net position         | (871,922)     | (371,580)     | 500,342                   | 57%        |
| Net position at July 1,        | 13,868,492    | 12,996,570    | (871,922)                 | -6%        |
| Net position at June 30,       | \$ 12,996,570 | \$ 12,624,990 | \$ (371,580)              | -3%        |

Other significant changes to take note of in Table 2 are:

- The Community Development Commission received revenue of \$47,961 in charges for services which represents reimbursement from other High Desert Agencies for Opportunities High Desert Collaboration, a unified effort between High Desert local governments to leverage funds for advertising and promoting the High Desert communities.
- Other revenues of \$28,961 reflected a decrease of \$10,789 from the previous year's total of \$39,750 due primarily to the California Department of Housing and Community Development ending the Enterprise Zone Program. The Enterprise Zone Program ended December 31, 2014 with the Commission receiving 276 applications totaling \$20,725 during FY 2014-15.
- Through June 30, 2015, development services expenditures totaled \$0.5 million and resulted in a \$0.5 million decrease. The previous year's total of \$1.1 million included a loss on the sale of land in FY 2013-14. Expenditures increased 15% in Fiscal Year 2014-15 compared to the prior year (without including the \$0.6 million loss on sale of land in FY 2013-14). This increase in expenditures is attributed to more staff time spent on the Commission's program objectives.

#### **FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS**

At year-end, the Commission's governmental fund reported a fund balance of \$199, where expenditures significantly exceeded revenues. The primary purpose for the Commission's expenditures increasing was related to actual staff time spent on the Commission's program objectives. The primary reason for the Commission's revenues decreasing was related to the California Department of Housing and Community Development ending the Enterprise Zone Program on December 31, 2014.

## CAPITAL ASSETS

The capital assets of the Commission are those assets that are used in the performance of the Commission's functions. As shown in Table 3 below, at June 30, 2015 capital assets, net of depreciation, of the governmental activities totaled \$12.3 million, all of which is land. This remains unchanged as land was not acquired nor subject to depreciation.

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

|                                 | Balance at           |             |             | Balance at    |                      |
|---------------------------------|----------------------|-------------|-------------|---------------|----------------------|
|                                 | July 1, 2014         | Increases   | Decreases   | June 30, 2015 |                      |
|                                 | Net of               |             |             | Net of        |                      |
|                                 | Accumulated          |             |             | Accumulated   |                      |
|                                 | Depreciation         |             |             | Depreciation  |                      |
|                                 |                      |             |             | Current Year  |                      |
|                                 |                      |             |             | Depreciation  |                      |
| <b>Governmental Activities:</b> |                      |             |             |               |                      |
| Land                            | \$ 12,333,955        | \$ -        | \$ -        | \$ -          | \$ 12,333,955        |
|                                 | <u>\$ 12,333,955</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u>   | <u>\$ 12,333,955</u> |

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

- In FY 2015-16, the Commission's adopted budgeted revenues are anticipated to be \$0.6 million, with major revenue from the proceeds of land sales of \$0.4 million.
- In FY 2015-16, the Commission's adopted budgeted expenditures are \$0.6 million, which is approximately a 20% increase from the FY 2014-15 actual amount of \$0.5 million, reflecting a significant increase in administration expenditures associated with Opportunity High Desert and other Commission objectives.
- During FY 2015-16 an assessment of the long-term function and revenues of the Commission will be undertaken to determine the future role of the Commission in the City of Hesperia's ongoing economic development strategy.

## CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

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

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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STATEMENT OF NET POSITION  
June 30, 2015

| <b>ASSETS</b>                                  | Governmental<br>Activities |
|--|----------------------------|
| Current Assets:                                |                            |
| Cash and cash equivalents                      | \$ 26,489                  |
| Receivables:                                   |                            |
| Accounts receivable                            | 416                        |
| Accrued interest                               | 87                         |
| Total Current Assets                           | <u>26,992</u>              |
| Noncurrent Assets:                             |                            |
| Other Noncurrent Assets:                       |                            |
| Notes receivable                               | 278,144                    |
| Deposits                                       | 12,692                     |
| Total Other Noncurrent Assets                  | <u>290,836</u>             |
| Capital assets:                                |                            |
| Land   | 12,333,955                 |
| Total Capital Assets                           | <u>12,333,955</u>          |
| Total Noncurrent Assets                        | <u>12,624,791</u>          |
| <b>Total Assets</b>                            | <u>12,651,783</u>          |
| <b>LIABILITIES</b>                             |                            |
| Current Liabilities:                           |                            |
| Accounts payable and other current liabilities | 16,793                     |
| Deposits                                       | 10,000                     |
| Total Current Liabilities                      | <u>26,793</u>              |
| <b>Total Liabilities</b>                       | <u>26,793</u>              |
| <b>NET POSITION</b>                            |                            |
| Net investment in capital assets               | 12,333,955                 |
| Unrestricted                                   | 291,035                    |
| <b>Total Net Position</b>                      | <u>\$ 12,624,990</u>       |

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

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015

| Functions/Programs                   | Expenses          | Program Revenues     |                                    |                                  | Net (Expense)                       |
|--------------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
|                                      |                   | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| <b>Primary Government</b>            |                   |                      |                                    |                                  |                                     |
| Governmental activities:             |                   |                      |                                    |                                  |                                     |
| Development services                 | \$ 523,999        | \$ 47,961            | \$ -                               | \$ -                             | \$ (476,038)                        |
| <b>Total governmental activities</b> | <u>\$ 523,999</u> | <u>\$ 47,961</u>     | <u>\$ -</u>                        | <u>\$ -</u>                      | <u>\$ (476,038)</u>                 |

|                                       |                      |
|---------------------------------------|----------------------|
| General Revenues:                     |                      |
| Income from money and property        | 75,497               |
| Other                                 | 28,961               |
| Total general revenues                | <u>104,458</u>       |
| Change In Net Position                | (371,580)            |
| Net position at the beginning of year | 12,996,570           |
| Net position at the end of year       | <u>\$ 12,624,990</u> |

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

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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BALANCE SHEET  
June 30, 2015

**Assets and Deferred Outflows of Resources**

Assets:

|                           |    |                |
|---------------------------|----|----------------|
| Cash and cash equivalents | \$ | 26,489         |
| Accounts receivable       |    | 416            |
| Accrued interest          |    | 87             |
| Notes receivable          |    | <u>278,144</u> |
| <b>Total Assets</b>       |    | <u>305,136</u> |

Deferred Outflows of Resources:

|  |    |                |
|--|----|----------------|
| <b>Total Deferred Outflows of Resources</b>            |    | <u>-</u>       |
| <b>Total Assets and Deferred Outflows of Resources</b> | \$ | <u>305,136</u> |

**Liabilities, Deferred Inflows of Resources, and Fund Balances**

Liabilities:

|  |    |               |
|--|----|---------------|
| Accounts payable and other current liabilities | \$ | 16,793        |
| Deposits                                       |    | <u>10,000</u> |
| <b>Total Liabilities</b>                       |    | <u>26,793</u> |

Deferred Inflows of Resources:

|  |  |                |
|--|--|----------------|
| Unavailable Revenues                       |  | <u>278,144</u> |
| <b>Total Deferred Inflows of Resources</b> |  | <u>278,144</u> |

Fund Balances:

Restricted:

|                            |  |            |
|----------------------------|--|------------|
| Other Purposes             |  | <u>199</u> |
| <b>Total Fund Balances</b> |  | <u>199</u> |

|  |    |                |
|--|----|----------------|
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b> | \$ | <u>305,136</u> |
|--|----|----------------|

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

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2015

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

|   |    |                      |
|---|----|----------------------|
| Total fund balances - governmental funds.   | \$ | 199                  |
| 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 Activities.              |    | 12,692               |
| Land was sold in exchange for a ten-year note, that is due and payable in year ten. Revenues receivable from outside agencies are unavailable on the fund statements, but recognized on the government-wide statements. |    | 278,144              |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.  |    | <u>12,333,955</u>    |
| Total Net Position  |    | <u>\$ 12,624,990</u> |

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

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2015

|  |                  |
|--|------------------|
| <b>Revenues:</b>   |                  |
| Use of money and property                                    | \$ 75,497        |
| Charges for services   | 47,961           |
| Other revenues   | 20,817           |
| Total Revenues   | <u>144,275</u>   |
| <b>Expenditures:</b>   |                  |
| Current:   |                  |
| Development services   | <u>524,524</u>   |
| Total Expenditures   | <u>524,524</u>   |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(380,249)</u> |
| <b>Other Financing Sources (Uses):</b>                       |                  |
| Sale of capital assets                                       | <u>-</u>         |
| Total Other Financing Sources (Uses)                         | <u>-</u>         |
| Net Change in Fund Balances                                  | <u>(380,249)</u> |
| <b>Fund balances at beginning of period</b>                  | <u>380,448</u>   |
| <b>Fund balances at end of year</b>                          | <u>\$ 199</u>    |

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

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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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, 2015

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

|  |                     |
|--|---------------------|
| Net change in fund balances - total governmental funds   | \$ (380,249)        |
| Recording of long-term deposits are included in governmental activities in the government-wide statement of activities.  | 525                 |
| Interest Revenue is recognized when received on the statement of revenues, expenditures, and changes in fund balances and recognized when incurred on the statement of activities. | <u>8,144</u>        |
| Change in net position of governmental activities  | <u>\$ (371,580)</u> |

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

June 30, 2015

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Community Development Commission of the City of Hesperia (the Commission), which is a subsidiary component unit of the City of Hesperia, was established on April 5, 2011 by Resolution No. 2011-023 of the City Council. The Community Development Commission was activated when the dissolution of the former Hesperia Community Redevelopment Agency occurred on February 1, 2012. The Commission develops, manages, and promotes economic development interests within the City of Hesperia.

The Commission is an integral part of the reporting entity of the City of Hesperia (the City). The accounts of the Commission 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 Commission. Only the accounts of the Commission 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 Commission 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 Commission. 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 Commission 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.

See accompanying independent auditors' report.

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

b. Basis of Presentation (Continued):

Governmental Fund Financial Statements:

The accounting system of the Commission is organized and operated on the basis of one fund, which is considered to be a separate accounting entity. The 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 Commission's governmental fund are presented after the government-wide financial statements. These statements display information about the major fund.

The Commission's Governmental Fund Balance is 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 Commission Board. The Commission 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 Commission 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 Commission'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.

The Commission only has restricted fund balance as of June 30, 2015.

In the government-wide statements, the Commission 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 Commission uses the most restrictive funds first. The Commission would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

See accompanying independent auditors' report.

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

b. Basis of Presentation (Continued):

The Commission's major fund is described below:

Community Development Commission - used to account for revenues derived from specific sources that are restricted by law or administrative regulation to expenditures for specific purposes.

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 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, the governmental fund is accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheets. The 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 Position, the net position is classified in the following categories:

- Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that 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 is the portion of 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.

See accompanying independent auditors' report.

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

d. Basis of Accounting:

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 Commission 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 fund 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:

- In Fiscal Year 2014-15, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. This statement did not impact the Commission at June 30, 2015.
- GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" was required to be implemented in the current fiscal year and did not impact the Commission at June 30, 2015.

See accompanying independent auditors' report.

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

e. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

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

- GASB 72 - "Fair Value Measurement and Application", effective for periods beginning after June 15, 2015.
- GASB 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", effective for periods beginning after June 15, 2015 - except for those 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.
- GASB 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", effective for periods beginning after June 15, 2016.
- GASB 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for periods beginning after June 15, 2017.
- GASB 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", effective for periods beginning after June 15, 2015.
- GASB 77 - "Tax Abatement Disclosures", the requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

f. Cash and Investments:

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

g. Capital Assets:

The only capital assets of the Commission are land. Commission 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.

See accompanying independent auditors' report.

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

h. 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.

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 Commission has the following item that qualifies for reporting in this category:

- Unavailable Revenue – This item arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenues, is reported only in the Commission's balance sheet.

i. Receivables:

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

j. 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 Commission does not have a separate bank account; however, the Commission's cash and investments are maintained in an investment pool managed by the City of Hesperia. The Commission 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 Commission has not adopted an investment policy separate from that of the City of Hesperia.

The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission'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.

See accompanying independent auditors' report.

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

Cash and Investments:

Cash and investments at June 30, 2015 are classified in the accompanying financial statements as follows:

STATEMENT OF NET POSITION:

|                            |                      |
|----------------------------|----------------------|
| Current Assets:            | <u>June 30, 2015</u> |
| Cash and cash equivalents  | <u>\$ 26,489</u>     |
| Total cash and investments | <u>\$ 26,489</u>     |

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

The table below identifies the investment types that are authorized for the Commission by the California Government Code (or the Commission's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Commission'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:

The Commission'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.

**3. CHANGES IN CAPITAL ASSETS:**

A summary of changes in capital assets for the year ended June 30, 2015 is as follows:

|                                       | <u>Balance at<br/>July 1, 2014</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at<br/>June 30, 2015</u> |
|---------------------------------------|------------------------------------|------------------|------------------|-------------------------------------|
| Capital Assets                        |                                    |                  |                  |                                     |
| Capital Assets, not being depreciated |                                    |                  |                  |                                     |
| Land                                  | \$ 12,333,955                      | \$ -             | \$ -             | \$ 12,333,955                       |
| Net Capital Assets                    | <u>\$ 12,333,955</u>               | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 12,333,955</u>                |

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

The Commission, 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.

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

The employees of the Commission 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.

**6. NOTES RECEIVABLES:**

Notes receivable at June 30, 2015 include the following:

Sultan Financial Hesperia, LLC:

In October 2013, the Commission entered into a loan agreement with Sultan Financial Hesperia, LLC. (a California limited liability corporation). This agreement constitutes the sale of land sold by the Commission to Sultan Financial Hesperia, LLC for a loan amount of \$270,000. The agreement is secured by a deed of trust on the property. The term of the note is 10 years at a permanent interest rate of 5.505%. Sultan Financial Hesperia, LLC will make annual payments of interest only at the end of each of the first nine (9) years. At the end of the tenth (10<sup>th</sup>) year, Sultan Financial Hesperia, LLC will make a payment of the outstanding principal and remaining accrued interest, unless there is an occurrence of an Event of Acceleration. The balance of the loan outstanding at June 30, 2015 was \$278,144.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 For the Year Ended June 30, 2015

|   | Budgeted Amounts         |                          | Actual               | Variance with<br>Final Budget |
|---|--------------------------|--------------------------|----------------------|-------------------------------|
|   | Original                 | Final                    |                      |                               |
| <b>Fund Balance, July 1</b>                                   | <u>\$ 380,448</u>        | <u>\$ 380,448</u>        | <u>\$ 380,448</u>    | <u>\$ -</u>                   |
| <b>Resources (Inflows):</b>                                   |                          |                          |                      |                               |
| Use of money and property                                     | 61,200                   | 61,200                   | 75,497               | 14,297                        |
| Proceeds from sale of capital asset                           | 624,091                  | 624,091                  | -                    | (624,091)                     |
| Other   | 29,325                   | 29,325                   | 20,817               | (8,508)                       |
| Charges for Services  | <u>12,499</u>            | <u>12,499</u>            | <u>47,961</u>        | <u>35,462</u>                 |
| Amount Available For Appropriations                           | <u>727,115</u>           | <u>727,115</u>           | <u>144,275</u>       | <u>(582,840)</u>              |
| <b>Charges to Appropriations (Outflows):</b>                  |                          |                          |                      |                               |
| Current:  |                          |                          |                      |                               |
| Development services  | <u>346,253</u>           | <u>524,524</u>           | <u>524,524</u>       | <u>-</u>                      |
| Total Charges to Appropriations                               | <u>346,253</u>           | <u>524,524</u>           | <u>524,524</u>       | <u>-</u>                      |
| Excess of Resources Over<br>(Under) Charges to Appropriations | <u>380,862</u>           | <u>202,591</u>           | <u>(380,249)</u>     | <u>(582,840)</u>              |
| <b>Fund Balance, June 30</b>                                  | <u><u>\$ 761,310</u></u> | <u><u>\$ 583,039</u></u> | <u><u>\$ 199</u></u> | <u><u>\$ (582,840)</u></u>    |

See accompanying note to required supplementary information.

June 30, 2015

1. BUDGETARY DATA:

In conjunction with the City's budgeting process, the Commission adopts annual operating budgets for the governmental funds each year. The Commission'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.

See accompanying independent auditors' report.