

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, 2014



JUNE 30, 2014

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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, 2014, 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 of 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 financial position of the Community Development Commission of the City of Hesperia as of June 30, 2014, and the 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 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.

The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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*

December 17, 2014  
Carlsbad, California

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

Our discussion and analysis of the Community Development Commission of the City of Hesperia (Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ending June 30, 2014. Please read this in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Commission's net position is \$13.0 million; of which, \$12.3 million is net investment in capital assets, all of which is land. The net position decreased by 6% from the previous year's amount of \$13.9 million. This decrease is primarily attributed to a loss on the sale of land during this fiscal year.
- During the year, the Commission's expenses exceeded revenues, resulting in a decrease in Net Position of \$0.9 million. Compared to the previous year's increase in Net Position of \$0.5 million, the dramatic decline in Net Position is attributable to a \$0.8 million decrease in revenue, combined with a \$0.6 million increase in expenditures. Unlike the current year, FY 2012-13 revenues included a one-time \$0.2 million contribution from the City of Hesperia, along with the repayment of a \$0.6 million owner participation agreement due to nonperformance. Expenditures increased \$0.6 million in FY 2013-14, resulting primarily from a loss on the sale of land.

### **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 \$13.0 million, at the close of the most recent fiscal year.

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

|                                     | 2013                 | 2014                 | Changes from 2013 to 2014 |            |
|-------------------------------------|----------------------|----------------------|---------------------------|------------|
|                                     |                      |                      | Amount                    | Percentage |
| Current and other assets            | \$ 656,139           | \$ 697,601           | \$ 41,462                 | 6%         |
| Capital assets                      | 13,242,113           | 12,333,955           | (908,158)                 | -7%        |
| Total Assets                        | <u>13,898,252</u>    | <u>13,031,556</u>    | <u>(866,696)</u>          | <u>-6%</u> |
| Total deferred outflow of resources | -                    | -                    | -                         | 0%         |
| Current liabilities                 | 29,760               | 34,986               | 5,226                     | 18%        |
| Total Liabilities                   | <u>29,760</u>        | <u>34,986</u>        | <u>5,226</u>              | <u>18%</u> |
| Total deferred inflow of resources  | -                    | -                    | -                         | 0%         |
| Net Position:                       |                      |                      |                           |            |
| Net investment in capital assets    | 13,242,113           | 12,333,955           | (908,158)                 | -7%        |
| Unrestricted                        | 626,379              | 662,615              | 36,236                    | 6%         |
| Total Net Position                  | <u>\$ 13,868,492</u> | <u>\$ 12,996,570</u> | <u>\$ (871,922)</u>       | <u>-6%</u> |

The following is a brief explanation for the balance changes of Table 1 above for the fiscal year ending June 30, 2014.

- The Community Development Commission's capital assets, all of which is land, ended the year at \$12.3 million, a decrease of \$0.9 million from the previous year's \$13.2 million. This decrease is due to the sale of land.
- Current and other assets increased by 6% to \$0.7 million from June 30, 2013. Nearly half of the \$0.7 million consists of cash and cash equivalents. Also included is a \$270,000 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.
- Total liabilities of \$34,986 represents a \$5,226 increase over the previous fiscal year's ending balance of \$29,760. This is primarily due to an increase in accounts payable, reflecting the timing of invoices due at June 30, 2014 but not yet paid.

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

The cost of all Commission activities this year was \$1.1 million. This represents a significant increase from FY 2012-13, which is primarily due to a \$0.6 million loss on the sale of land.

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

|                                  | 2013                 | 2014                 | Changes from 2013 to 2014 |             |
|----------------------------------|----------------------|----------------------|---------------------------|-------------|
|                                  |                      |                      | Amount                    | Percentage  |
| <b>Revenues</b>                  |                      |                      |                           |             |
| Program revenues:                |                      |                      |                           |             |
| Charges for services             | \$ -                 | \$ 81,879            | \$ 81,879                 | 100%        |
| Capital grants and contributions | 4,650                | -                    | (4,650)                   | -100%       |
| General revenues:                |                      |                      |                           |             |
| Income from money and property   | 70,185               | 61,200               | (8,985)                   | -13%        |
| Other                            | 918,452              | 39,750               | (878,702)                 | -96%        |
| <b>Total revenues</b>            | <b>993,287</b>       | <b>182,829</b>       | <b>(810,458)</b>          | <b>-82%</b> |
| <b>Expenses</b>                  |                      |                      |                           |             |
| Development services             | 424,819              | 1,054,751            | 629,932                   | 148%        |
| <b>Total expenses</b>            | <b>424,819</b>       | <b>1,054,751</b>     | <b>629,932</b>            | <b>148%</b> |
| Change in net position           | 568,468              | (871,922)            | (1,440,390)               | -253%       |
| Net position at July 1,          | 13,300,024           | 13,868,492           | 568,468                   | 4%          |
| Net position at June 30,         | <b>\$ 13,868,492</b> | <b>\$ 12,996,570</b> | <b>\$ (871,922)</b>       | <b>-6%</b>  |

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

- The Community Development Commission received revenue of \$81,879 in charges for services which represents reimbursements from other High Desert Agencies for the first year of the Opportunities High Desert Collaboration, a unified effort between High Desert local governments to leverage funds for advertising and promoting High Desert communities.
- Other revenue of \$39,750 reflected a decrease of \$878,702 from the previous year's total of \$918,452 due primarily to one-time revenue received in FY 2012-13, including a \$250,000 contribution from the City of Hesperia, along with the repayment of a \$633,936 owner participation agreement due to nonperformance by the counterparty.
- Through June 30, 2014, development services expenditures totaled \$1.1 million. This is a significant increase compared to the previous year's total of \$0.4 million. This increase is primarily due to a \$0.6 million loss on the sale of land, as well as additional advertising expenditures related to the High Desert Opportunities Collaboration totaling nearly \$0.1 million.

## FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

At year-end, the Commission's governmental fund reported a fund balance of \$0.4 million, which is a \$0.2 million decrease from the June 30, 2013 fund balance of \$0.6 million. The decrease is due to cash outflows, primarily attributed to administrative expenditures (\$0.4 million), outpacing cash inflows primarily from rents, charges for services, and other revenues (\$0.2 million).

## 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, 2014 capital assets, net of depreciation, of the governmental activities totaled \$12.3 million, all of which is land. This reflects a decrease of \$908,158 from the FY 2012-13 balance of \$13.2 million, resulting from the sale of land.

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

|                          | Balance at<br>July 1, 2013<br>Net of<br>Accumulated<br>Depreciation | Increases   | Decreases           | Current Year<br>Depreciation | Balance at<br>June 30, 2014<br>Net of<br>Accumulated<br>Depreciation |
|--------------------------|---|-------------|---------------------|------------------------------|--|
| Governmental Activities: |   |             |                     |                              |  |
| Land                     | \$ 13,242,113   | \$ -        | \$ (908,158)        | \$ -                         | \$ 12,333,955  |
|                          | <u>\$ 13,242,113</u>  | <u>\$ -</u> | <u>\$ (908,158)</u> | <u>\$ -</u>                  | <u>\$ 12,333,955</u>   |

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

In FY 2014-15, the Commission's budgeted revenue is anticipated to be \$0.7 million, which consists mainly of proceeds from land sales of \$0.6 million.

The 2014-15 expenditure budget is \$0.3 million, which is approximately 25% less than the FY 2012-13 budget of \$0.4 million, reflecting a significant reduction in administration expenditures such as advertising, contract services, and training and education.

During FY 2014-15 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 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, 2014

|  | Governmental<br>Activities  |
|--|-----------------------------|
| <b>ASSETS</b>                                  |                             |
| <hr/>  |                             |
| Current Assets:                                |                             |
| Cash and cash equivalents                      | \$ 318,960                  |
| Receivables:                                   |                             |
| Accounts receivable                            | 96,279                      |
| Accrued interest                               | 195                         |
| Total Current Assets                           | <u>415,434</u>              |
| Noncurrent Assets:                             |                             |
| Notes receivable                               | 270,000                     |
| Deposits                                       | 12,167                      |
| Total Noncurrent Assets                        | <u>282,167</u>              |
| Capital assets:                                |                             |
| Land   | 12,333,955                  |
| Total Capital Assets                           | <u>12,333,955</u>           |
| Total Noncurrent Assets                        | <u>12,616,122</u>           |
| <b>Total Assets</b>                            | <u><u>13,031,556</u></u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                             |
| <hr/>  |                             |
| <b>Total deferred outflows of resources</b>    | <u>-</u>                    |
| <b>LIABILITIES</b>                             |                             |
| <hr/>  |                             |
| Current Liabilities:                           |                             |
| Accounts payable and other current liabilities | 24,986                      |
| Deposits                                       | 10,000                      |
| Total Current Liabilities                      | <u>34,986</u>               |
| <b>Total Liabilities</b>                       | <u>34,986</u>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                             |
| <hr/>  |                             |
| <b>Total deferred inflows of resources</b>     | <u>-</u>                    |
| <b>NET POSITION</b>                            |                             |
| <hr/>  |                             |
| Net investment in capital assets               | 12,333,955                  |
| Unrestricted                                   | 662,615                     |
| <b>Total Net Position</b>                      | <u><u>\$ 12,996,570</u></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, 2014

| <u>Functions/Programs</u>            | <u>Expenses</u>     | <u>Program Revenues</u>         |   |   | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Position</u> |
|--------------------------------------|---------------------|---------------------------------|---|---|--|
|                                      |                     | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> | <u>Governmental<br/>Activities</u>                                   |
| <b>Primary Government</b>            |                     |                                 |   |   |  |
| Governmental activities:             |                     |                                 |   |   |  |
| Development services                 | \$ 1,054,751        | \$ 81,879                       | \$ -  | \$ -  | \$ (972,872)   |
| <b>Total governmental activities</b> | <u>\$ 1,054,751</u> | <u>\$ 81,879</u>                | <u>\$ -</u>                                       | <u>\$ -</u>                                     | <u>(972,872)</u>   |
|                                      |                     |                                 |   |   |  |
| General Revenues:                    |                     |                                 |   |   |  |
|                                      |                     |                                 |   |   | 61,200   |
|                                      |                     |                                 |   |   | 39,750   |
|                                      |                     |                                 |   |   | <u>100,950</u>   |
|                                      |                     |                                 |   |   | (871,922)  |
|                                      |                     |                                 |   |   | 13,868,492   |
|                                      |                     |                                 |   |   | <u>\$ 12,996,570</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, 2014

**Assets and Deferred Outflows of Resources**

Assets:

|                           |    |                |
|---------------------------|----|----------------|
| Cash and cash equivalents | \$ | 318,960        |
| Accounts receivable       |    | 96,279         |
| Accrued interest          |    | 195            |
| Notes receivable          |    | 270,000        |
| <b>Total Assets</b>       |    | <u>685,434</u> |

Deferred Outflows of Resources:

|   |  |          |
|---|--|----------|
| <b>Total Deferred Outflows of Resources</b> |  | <u>-</u> |
|---|--|----------|

|  |    |                |
|--|----|----------------|
| <b>Total Assets and Deferred Outflows of Resources</b> | \$ | <u>685,434</u> |
|--|----|----------------|

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

Liabilities:

|  |    |                |
|--|----|----------------|
| Accounts payable and other current liabilities | \$ | 24,986         |
| Deposits                                       |    | 10,000         |
| Deferred revenue                               |    | 270,000        |
| <b>Total Liabilities</b>                       |    | <u>304,986</u> |

Deferred Inflows of Resources:

|  |  |          |
|--|--|----------|
| <b>Total Deferred Inflows of Resources</b> |  | <u>-</u> |
|--|--|----------|

Fund Balances:

Assigned

|                            |  |                |
|----------------------------|--|----------------|
| Economic development       |  | <u>380,448</u> |
| <b>Total Fund Balances</b> |  | <u>380,448</u> |

|  |    |                |
|--|----|----------------|
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b> | \$ | <u>685,434</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, 2014

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

|  |                             |
|--|-----------------------------|
| Total fund balances - governmental funds.  | \$ 380,448                  |
| 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. | 12,167                      |
| Notes receivable related to land sale.   | 270,000                     |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.   |                             |
| Cost   | <u>12,333,955</u>           |
| Total Net Position   | <u><u>\$ 12,996,570</u></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, 2014

|  |                   |
|--|-------------------|
| <b>Revenues:</b>   |                   |
| Use of money and property                                    | \$ 61,200         |
| Charges for services   | 81,879            |
| Other revenues   | 39,750            |
| Total Revenues   | <u>182,829</u>    |
| <b>Expenditures:</b>   |                   |
| Current:   |                   |
| Development services   | <u>424,633</u>    |
| Total Expenditures   | <u>424,633</u>    |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(241,804)</u>  |
| <b>Other Financing Sources (Uses):</b>                       |                   |
| Sale of capital assets                                       | <u>8,003</u>      |
| Total Other Financing Sources (Uses)                         | <u>8,003</u>      |
| Net Change in Fund Balances                                  | (233,801)         |
| <b>Fund balances at beginning of period</b>                  | <u>614,249</u>    |
| <b>Fund balances at end of year</b>                          | <u>\$ 380,448</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, 2014

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

|  |  |                |                            |
|--|--|----------------|----------------------------|
| Net change in fund balances - total governmental funds   |  |                | \$ (233,801)               |
| Recording of long-term deposits are included in governmental activities in the government-wide statement of activities.  |  |                | 37                         |
| Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the loss of the assets. Thus, the Change in net assets differ from the change in fund balance by the net book value of the asset sold. |  |                |                            |
| Loss on sale of capital assets   |  | \$ (630,155)   |                            |
| Proceeds from sale of capital assets   |  | <u>(8,003)</u> | (638,158)                  |
| Change in net position of governmental activities  |  |                | <u><u>\$ (871,922)</u></u> |

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

June 30, 2014

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.

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 assigned fund balance as of June 30, 2014.

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.

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.

See accompanying independent auditors' report.

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 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*

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the Commission.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", required to be implemented in the current fiscal year did not impact the Commission.

*Pending Accounting Standards*

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

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for the periods beginning after June 15, 2014.

See accompanying independent auditors' report.

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

f. Cash and Investments:

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

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. 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.

i. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Commission does not have any type of these items at June 30, 2014.

In addition to liabilities, the statement of financial 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 does not have any type of these items at June 30, 2014.

j. Receivables:

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

See accompanying independent auditors' report.

**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.

**Cash and Investments**

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

**STATEMENT OF NET POSITION:**

|                            |                          |
|----------------------------|--------------------------|
| Current Assets:            | <u>June 30, 2014</u>     |
| Cash and cash equivalents  | <u>\$ 318,960</u>        |
| Total cash and investments | <u><u>\$ 318,960</u></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                                    |

See accompanying independent auditors' report.

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

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.

Investment in State Investment Pool:

The Community Development Commission 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 Community Development Commission's share of investment in this pool is reported in the accompanying financial statements at amounts based upon the Community Development Commission'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 year ended June 30, 2014 is as follows:

|                                       | <u>Balance at<br/>July 1, 2013</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at<br/>June 30, 2014</u> |
|---------------------------------------|------------------------------------|------------------|------------------|-------------------------------------|
| Capital Assets                        |                                    |                  |                  |                                     |
| Capital Assets, not being depreciated |                                    |                  |                  |                                     |
| Land                                  | \$ 13,242,113                      | \$ -             | \$ (908,158)     | \$ 12,333,955                       |
| Net Capital Assets                    | \$ 13,242,113                      | \$ -             | \$ (908,158)     | \$ 12,333,955                       |

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.

See accompanying independent auditors' report.

6. NOTES RECEIVABLES:

Notes receivable consists of \$270,000. This represents a 10-year note related to the sale of land.

Notes receivable at June 30, 2014 are as follows:

Sultan Financial Hesperia, LLC:

In October 2013, the Commission entered into a loan agreement with Sultan Financial Hesperia, LLC (a California limited liability company). 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.

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, 2014

|   | Budgeted Amounts  |                   | Actual            | Variance with<br>Final Budget |
|---|-------------------|-------------------|-------------------|-------------------------------|
|   | Original          | Final             |                   |                               |
| <b>Fund Balance, July 1</b>                                   | <u>\$ 614,249</u> | <u>\$ 614,249</u> | <u>\$ 614,249</u> | <u>\$ -</u>                   |
| <b>Resources (Inflows):</b>                                   |                   |                   |                   |                               |
| Use of money and property                                     | 60,000            | 60,000            | 61,200            | 1,200                         |
| Proceeds from sale of capital asset                           | -                 | -                 | 8,003             | 8,003                         |
| Other   | 40,800            | 40,800            | 39,750            | (1,050)                       |
| Charges for Services  | <u>-</u>          | <u>-</u>          | <u>81,879</u>     | <u>81,879</u>                 |
| Amount Available For Appropriations                           | <u>100,800</u>    | <u>100,800</u>    | <u>190,832</u>    | <u>90,032</u>                 |
| <b>Charges to Appropriations (Outflows):</b>                  |                   |                   |                   |                               |
| Current:  |                   |                   |                   |                               |
| Development services  | <u>378,894</u>    | <u>424,633</u>    | <u>424,633</u>    | <u>0</u>                      |
| Total Charges to Appropriations                               | <u>378,894</u>    | <u>424,633</u>    | <u>424,633</u>    | <u>0</u>                      |
| Excess of Resources Over<br>(Under) Charges to Appropriations | <u>(278,094)</u>  | <u>(323,833)</u>  | <u>(233,801)</u>  | <u>90,032</u>                 |
| <b>Fund Balance, June 30</b>                                  | <u>\$ 336,155</u> | <u>\$ 290,416</u> | <u>\$ 380,448</u> | <u>\$ 90,032</u>              |

See accompanying note to required supplementary information.

June 30, 2014

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.