

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, 2018

JUNE 30, 2018

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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 and major fund 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, 2018, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Community Development Commission of the City of Hesperia as of June 30, 2018, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1a the financial statements present only the Community Development Commission of the City of Hesperia and do not purport to, and do not fairly present, the financial position of the City of Hesperia, California, as of June 30, 2018 and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, as discussed in Note 6, current and prior year revenues were not sufficient to cover the Commission's expenditures which resulted to contributions from the City. Our opinions are not modified with respect to these matters.

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, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Carlsbad, California
February 25, 2019

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, 2018. Please read this in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The Commission's net position decreased slightly by 1% below June 30, 2017 due primarily from the following factors listed below:

- For FY 2017-18, assets decreased by \$24,211, representing a decrease in due from other Governments, from the previous fiscal year. Liabilities increased by \$101,208, a combination of an \$10,948 increase in accounts payable and a \$90,260 increase in due to other Governments, reflecting a growing negative cash, and resulting in a decrease in net position of \$124,927.
- During the year ending June 30, 2018, the Commission's expenditures exceeded revenues by \$125,419, resulting in a corresponding drop in fund balance by the same amount. The FY 2017-18 revenue total of \$476,047 has decreased by about \$93,000 from the previous fiscal year. This drop in revenue is due to a decline in City of Hesperia contributions, property income, and other revenue. Expenditures in FY 2017-18 totaled \$601,466, which has increased by \$90,000 compared to the previous fiscal year. This increase in expenditures from the previous year is represented by an increase of \$123,098 in salaries and benefits. Other costs were reduced from the prior fiscal year in areas including contract services, advertising, and program expenditures like trade shows.

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 and liabilities, 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 14-20 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 exceeded liabilities by \$11.6 million, at June 30, 2018.

Table 1
Condensed Statement of Net Position

	2017	2018	Changes from 2017 to 2018	
			Amount	Percentage
Current and other assets	\$ 12,142,149	\$ 12,118,430	\$ (23,719)	0%
Total Assets	12,142,149	12,118,430	(23,719)	0%
Current and other liabilities	390,075	491,283	101,208	26%
Total Liabilities	390,075	491,283	101,208	26%
Net Position:				
Restricted for economic development	11,752,074	11,627,147	(124,927)	-1%
Total Net Position	<u>\$ 11,752,074</u>	<u>\$ 11,627,147</u>	<u>\$ (124,927)</u>	<u>-1%</u>

The following is a brief explanation for the balance changes of Table 1 above for the fiscal year ending June 30, 2018.

- Current and other assets decreased marginally remaining at \$12.1 million from FY 2016-17. This decrease in assets is represented by a \$24,241 decrease in Due from Other Government.
- Current and other liabilities of \$491,283 represents a \$101,208 increase from the previous year's ending balance of \$390,075.

COMMISSION CHANGES IN NET POSITION

The cost of all Commission activities this year was \$600,974. This represents an increase of 18% from FY 2017-18 costs of activities of \$510,431. The total revenue of nearly \$476,047 in FY 2017-18 is a drop of 16% from FY 2016-17.

Table 2
Changes in Net Position

	2017	2018	Changes from 2017 to 2018	
			Amount	Percentage
Revenues				
Program revenues:				
Operating grants and contributions	\$ 453,588	\$ 428,682	\$ (24,906)	-5%
General revenues:				
Income from money and property	74,904	47,365	(27,539)	-37%
Other	40,956	-	(40,956)	-100%
Total revenues	<u>569,448</u>	<u>476,047</u>	<u>(93,401)</u>	<u>-16%</u>
Expenses				
Development services	510,431	600,974	90,543	18%
Total expenses	<u>510,431</u>	<u>600,974</u>	<u>90,543</u>	<u>18%</u>
Change in net position	<u>59,017</u>	<u>(124,927)</u>	<u>(183,944)</u>	<u>312%</u>
Net position at July 1	<u>11,693,057</u>	<u>11,752,074</u>	<u>59,017</u>	<u>1%</u>
Net position at June 30	<u>\$ 11,752,074</u>	<u>\$ 11,627,147</u>	<u>\$ (124,927)</u>	<u>-1%</u>

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

- The Commission received a contribution of \$428,682 from the City of Hesperia to help fund for ongoing activities. The contribution from the City of Hesperia is slightly less than the \$453,588 that was contributed in FY 2016-17.
- In FY 2017-18, expenditures totaled \$600,974, which is an increase of nearly \$90,543 or 18% compared to the FY 2016-17 total of \$510,431. This is primarily due to an increase in salaries and benefits.

FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

At year-end, the Commission's governmental fund reported a fund balance of \$11,612,099 compared to the previous year's fund balance of \$11,737,518 at June 30, 2017. Without considering the \$428,682 contribution from the City of Hesperia, the revenues totaled \$47,365, a 60% decrease compared to the previous year's revenue of \$115,860. The primary reasons for the Commission's revenues contracting were due to lack of activity from other revenues and a decrease in property income. The Commission's expenditures increasing was related to a significant boost in salaries and benefit expenses for FY 2017-18. As with the previous fiscal year, there were expenditure reductions in advertisement, contract services, and program expenditures like trade shows.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As with the previous year, the Commission's FY 2018-2019 budget anticipates expenditures to substantially exceed the revenues.

- In FY 2018-19, the Commission's adopted budgeted revenues are anticipated to be \$70,413, with major revenue from Rents and Leases of \$30,000 and reimbursement from other agencies comprising \$25,550.
- In FY 2018-19, the Commission's adopted budgeted expenditures are \$524,026, which is approximately a 13% decrease from the FY 2017-18 actual amounts of \$601,466, reflecting a significant decrease in projected materials and operations costs.
- Additional funding of the ongoing activities in the Commission for FY 2018-19 are part of a cumulative contribution of \$1,382,270 from the City of Hesperia's General Fund. Despite the positive fund balance of \$11,612,099, the Commission has a negative cash balance of \$465,530 due to the insufficient revenue being generated. 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

STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities
ASSETS	
<hr/>	
Current Assets:	
Due from other governmental agencies	\$ 1,260
Total Current Assets	<hr/> 1,260
Noncurrent Assets:	
Other Noncurrent Assets:	
Land held for resale	12,102,122
Notes receivable	278,144
Allowance for doubtful accounts	(278,144)
Deposits	15,048
Total Other Noncurrent Assets	<hr/> 12,117,170
Total Assets	<hr/> 12,118,430
LIABILITIES	
<hr/>	
Current Liabilities:	
Accounts payable and other current liabilities	15,753
Deposits	10,000
Due to other agencies	465,530
Total Current Liabilities	<hr/> 491,283
Total Liabilities	<hr/> 491,283
NET POSITION	
<hr/>	
Restricted for economic development	11,627,147
Total Net Position	<hr/> <hr/> \$ 11,627,147

See accompanying notes to financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Primary Government					
Governmental activities:					
Development services	\$ 600,974	\$ -	\$ 428,682	\$ -	\$ (172,292)
Total governmental activities	<u>\$ 600,974</u>	<u>\$ -</u>	<u>\$ 428,682</u>	<u>\$ -</u>	<u>\$ (172,292)</u>
General Revenues:					
					47,365
					<u>(124,927)</u>
					11,752,074
					<u>\$ 11,627,147</u>

See accompanying notes to financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA

BALANCE SHEET
June 30, 2018

Assets

Due from other governmental agencies	\$	1,260
Notes receivable		278,144
Allowance for notes receivable		(278,144)
Land held for resale		12,102,122
Total Assets		<u>12,103,382</u>

Liabilities and Fund Balances

Liabilities:

Accounts payable and other current liabilities	\$	15,753
Due to other agencies		465,530
Deposits		10,000
Total Liabilities		<u>491,283</u>

Fund Balances:

Restricted:

Economic development		<u>11,612,099</u>
Total Fund Balances		<u>11,612,099</u>

Total Liabilities and Fund Balances	\$	<u><u>12,103,382</u></u>
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See accompanying notes to financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION

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

Total fund balances - governmental funds.	\$ 11,612,099
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.	<u>15,048</u>
Total Net Position	<u>\$ 11,627,147</u>

See accompanying notes to financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2018

Revenues:	
Use of money and property	\$ 47,365
Contributions from City	<u>428,682</u>
Total Revenues	<u>476,047</u>
Expenditures:	
Current:	
Development services	<u>601,466</u>
Total Expenditures	<u>601,466</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(125,419)</u>
Net Change in Fund Balances	(125,419)
Fund balances at beginning of period	<u>11,737,518</u>
Fund balances at end of year	<u>\$ 11,612,099</u>

See accompanying notes to financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA

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, 2018

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

Net change in fund balances - total governmental funds	\$ (125,419)
Recording of long-term deposits are included in governmental activities in the government-wide statement of activities.	<u>492</u>
Change in net position of governmental activities	<u>\$ (124,927)</u>

See accompanying notes to financial statements.

June 30, 2018

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 the fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Pursuant to the Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the fund balance reported on the fund statements now consist of the following:

- 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 Commission only has restricted fund balance as of June 30, 2018.

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.

c. Measurement Focus:

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

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

In the fund financial statements, 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.

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

c. Measurement Focus (Continued):

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

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

In the Statement of Net Position, the net position is classified in the following categories:

- Restricted net position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

d. Basis of Accounting:

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

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The 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 non-exchange 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 non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

e. New Accounting Pronouncements:

Current Year Standards:

- GASB Statement No. 75 – “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, effective for periods beginning after June 15, 2017, did not impact the Commission.
- GASB Statement No. 85 – “Omnibus 2017”, effective for periods beginning after June 15, 2017, did not impact the Commission.
- GASB Statement No. 86 – “Certain Debt Extinguishment Issues”, effective for periods beginning after June 15, 2017, 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 Statement No. 83 – “Certain Asset Retirement Obligations”, effective for periods beginning after June 15, 2018.
- GASB Statement No. 84 – “Fiduciary Activities”, effective for periods beginning after December 15, 2018.
- GASB Statement No. 87 – “Leases”, effective for periods beginning after December 15, 2019.
- GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, effective for periods beginning after December 15, 2018.
- GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period, effective for periods beginning after December 15, 2019.
- GASB Statement No. 90 – Majority Equity Interests –an amendment of GASB Statements No. 14 and No. 61, effective for periods beginning after December 15, 2018.

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. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Commission does not have any type of these items at June 30, 2018.

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 does not have any type of these items at June 30, 2018.

h. Receivables:

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

i. 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.

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

Cash and Investments:

Cash and investments at June 30, 2018 are classified in the accompanying financial statements as follows:

STATEMENT OF NET POSITION:

Current Assets:	<u>June 30, 2018</u>
Cash and cash equivalents	<u>\$ 0</u>
Total cash and investments	<u>\$ 0</u>

At June 30, 2018, pooled cash of the City of Hesperia temporarily covered the Commission's \$465,530 negative cash balance. This is reported in the accompanying financial statements as due to other agencies. In the City of Hesperia's June 30, 2018 Comprehensive Annual Financial Report, the Commission's fund references a due to other funds liability of \$465,530 which reflects the temporary advance by the City's General Fund to cover the Commission's negative cash balance. This table shows \$0 for the Commission's cash balance at June 30, 2018.

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

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

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

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

3. 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.

4. NOTES RECEIVABLES:

Notes receivable at June 30, 2018 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 interest only payments at the end of each of the first nine (9) years. At the end of the tenth (10th) year (FY 2023-24), 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, 2018 was \$278,144.

5. SUBSEQUENT EVENT:

In the upcoming Fiscal Year, the Commission's budgeted expenditures are expected to exceed the budgeted revenues. Due to the insufficient revenue generated by the Commission's operations, the Commission has received cumulative contributions of \$1,382,270 from the City of Hesperia's General Fund. At adoption, no additional contributions are planned to fund the ongoing operations for FY 2018-19. The cumulative contributions to the Commission create concern of the Commission's ability to generate adequate revenue to fund the continuing activities of the Commission. An assessment of the long-term function of the Commission will be undertaken during FY 2018-19.

Other events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of February 25, 2019, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA

REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund Balance, July 1	<u>\$ 11,737,518</u>	<u>\$ 11,737,518</u>	<u>\$ 11,737,518</u>	<u>\$ -</u>
Resources (Inflows):				
Use of money and property	74,863	74,863	47,365	(27,498)
Charge for services	32,000	32,000	-	(32,000)
Contributions from City	<u>428,682</u>	<u>428,682</u>	<u>428,682</u>	<u>-</u>
Amount Available For Appropriations	<u>535,545</u>	<u>535,545</u>	<u>476,047</u>	<u>(59,498)</u>
Charges to Appropriations (Outflows):				
Current:				
Development services	<u>535,545</u>	<u>601,466</u>	<u>601,466</u>	<u>-</u>
Capital Outlay:				
Land	750	750	-	750
Total Charges to Appropriations	<u>536,295</u>	<u>602,216</u>	<u>601,466</u>	<u>750</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>(750)</u>	<u>(66,671)</u>	<u>(125,419)</u>	<u>(58,748)</u>
Fund Balance, June 30	<u><u>\$ 11,736,768</u></u>	<u><u>\$ 11,670,847</u></u>	<u><u>\$ 11,612,099</u></u>	<u><u>\$ (58,748)</u></u>

June 30, 2018

1. BUDGETARY DATA:

In conjunction with the City of Hesperia'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.