HESPERIA HOUSING AUTHORITY

COMPONENT UNIT
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2013

June 30, 2013

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Housing Authority
Hesperia, California

We have audited the accompanying basic financial statements of the governmental activities of the Hesperia Housing Authority (a component unit of the City of Hesperia) as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 component unit 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 auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Hesperia Housing Authority as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Offices located in Orange and San Diego Counties

Emphasis of Matters

As discussed in Note 1.e. to the basic financial statements, the Authority incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1.e. to the basic financial statements, the Authority has changed its method for accounting and reporting certain items previously reported as assets and liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65 "*Items Previously Reported as Assets and Liabilities*". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

White Nelson Diehl Evans LLP

December 19, 2013
Carlsbad, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Housing Authority (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ending June 30, 2013. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's net position decreased 52% or $26.6 million from the June 30, 2012 net position of $51.6 million. The primary reason for the decrease in net position to $25.0 million was due to an extraordinary loss of $26.9 million, which is related to the State of California's Department of Finance determining that $17.0 million of advances to the Successor Agency of the former Hesperia Community Redevelopment Agency were no longer valid, along with demanding that $9.9 million of cash, previously being held for contingent liabilities, be returned to the Successor Agency for distribution to the San Bernardino Auditor-Controller.

- During the year, the Authority's revenue exceeded operating expenses by $0.2 million. The primary reason for the increase to net position before calculating the extraordinary loss is the result of receiving a $0.3 million pass through payment from the former Victor Valley Economic Development Authority (VVEDA), interest income of $0.1 million, and a principal payment of $0.1 million. These revenues were offset by $0.3 million of operating expenses.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing information about the Authority's most significant funds.

REPORTING THE AUTHORITY AS A WHOLE

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

Government-Wide Financial Statements

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Position and the Statement of Activities – report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting method, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 10-12 of this report.

REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

The basic governmental fund financial statements can be found on pages 14-17 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 18-30 of this report.

THE HESPERIA HOUSING AUTHORITY AS A WHOLE

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

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows exceeded liabilities and deferred inflows of resources by $25.0 million at the close of the most recent fiscal year.

Table 1
Condensed Statement of Net Position

	2012	2013	Changes from 2012 to 2013 Amount	Percentage
Current and other assets	$ 62,595,652	$ 45,875,292	$ (16,720,360)	-27%
Capital assets	6,676,527	6,666,997	(9,530)	0%
Total Assets	69,272,179	52,542,289	(16,729,890)	-24%
Total deferred outflow of resources	-	-	-	0%
Current liabilities	30,379	9,866,417	9,836,038	32378%
Noncurrent liabilities	17,658,174	17,715,591	57,417	0%
Total Liabilities	17,688,553	27,582,008	9,893,455	56%
Total deferred inflow of resources	-	-	-	0%
Net Position:				
Net investment in capital assets	6,676,527	6,666,997	(9,530)	0%
Unrestricted	44,907,099	18,293,284	(26,613,815)	-59%
Total Net Position	$ 51,583,626	$ 24,960,281	$ (26,623,345)	-52%

The following is a brief explanation for the balance change of Table 1 above for fiscal year ending June 30, 2013:

- Current and other assets of $45.9 million decreased by $16.7 million from the year ending June 30, 2012. The decrease is primarily due to the reduction in Advances of $17.0 million. Through the due diligence review (DDR) process, the State of California's Department of Finance (DOF) determined that the advances to the Successor Agency of the former Hesperia Community Redevelopment Agency (Successor Agency) were no longer valid.

- Current liabilities totaled $9.9 million at June 30, 2013. The $9.8 million increase over FY 2011-12 is primarily the result of an increase to due to other governmental agencies and represents the $9.8 million demand from the Department of Finance to return cash previously held for contingent liabilities to the Successor agency for distribution to the San Bernardino County Auditor-Controller.

- Unrestricted net position is $18.3 million, which represents a 59% decrease of $26.6 million from the June 30, 2012 total of $44.9 million. The decrease is primarily due to the DOF determination that the advances pertaining to the SERAF I, SERAF II, and the 2011 Public Improvement promissory notes were no longer an obligation of the Successor Agency. In addition, the DOF determined $9.8 million held by the Authority was required to be transferred to the Successor Agency to be distributed to the County Auditor-Controller.

AUTHORITY ACTIVITIES

Table 2
Changes in Net Position

	2012	2013	Changes from 2012 to 2013 Amount	Percentage
Revenues				
General revenues:				
Taxes:				
Property taxes	$ 271,442	$ 329,913	$ 58,471	22%
Income from money and property	279,138	115,167	(163,971)	-59%
Other	84,465	83,858	(607)	-1%
Total revenues	635,045	528,938	(106,107)	-17%
Expenses				
Development services	236,136	296,393	60,257	26%
Total expenses	236,136	296,393	60,257	26%
Change in net position	398,909	232,545	(166,364)	-42%
Net position at July 1,	-	51,583,626	51,583,626	n/a
Extraordinary gain	51,184,717	-	(51,184,717)	-100%
Extraordinary loss	-	(26,855,890)	(26,855,890)	n/a
Net position at June 30,	$ 51,583,626	$ 24,960,281	$ (26,623,345)	-52%

The operating cost of all Authority activities for fiscal year ending June 30, 2013, was $0.3 million. The Authority did have an extraordinary loss of $26.9 million, which was due to the State of California's Department of Finance determining that $17.0 million of advances to the Successor Agency were no longer valid, along with demanding that $9.8 million of cash, previously being held for contingent liabilities, be returned to the Successor Agency for distribution to the San Bernardino Auditor-Controller. Other significant changes to take note of in Table 2 are:

- At June 30, 2013, the Hesperia Housing Authority received revenue from VVEDA tax increment pass-through of $0.3 million. This was a 22% increase over the prior year and can be partially attributed to revenues received for the entire year as opposed to five months in the fiscal year prior.

- Income from money and property totaled $0.1 million, which is a decrease of 59% decrease from Fiscal Year 2011-12. The decrease is primarily due to the write-off of the advances to the Successor Agency. During FY 2011-12, the Authority recognized interest revenue pertaining to the advances. With the DOF determination, the Authority will no longer receive interest revenue from the promissory notes to the Successor Agency.

- Through June 30, 2013, development services expenditures totaled $0.3 million. The 26% increase is due to the first full year of operations for the Authority. The Authority began operations on February 01, 2012, which was five months for the year ending June 30, 2012.

- Due to the determination of the State of California's Finance Division that disallowed advances except those made to the Hesperia Water District and an additional ruling where $9.8 million was required to be transferred back to the former successor agency for distribution to the county auditor-controller, the Hesperia Housing Authority experienced an extraordinary loss of $26.9 million at June 30, 2013.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

At year-end, the Authority's governmental funds reported combined fund balances of $18.3 million.

- The fund balance of the Hesperia Housing Authority Fund was $16.6 million, of which $3.9 million was committed for Low and Moderate Housing functions, $10.3 million is land held for resale, and $2.4 million is the remaining balance of an advance to the Hesperia Water District.
- The VVEDA Housing Fund balance was $1.7 million at June 30, 2013, which must be utilized for Low and Moderate Housing functions in the VVEDA area.

CAPITAL ASSETS

The capital assets of the Authority are those assets that are used in the performance of the Authority's functions. At June 30, 2013, capital assets, net of depreciation, of the governmental activities totaled $6.7 million. The majority of this balance is $6.2 million of Land and $0.5 million of Building and Improvements. Depreciation on capital assets is recognized in the Government-Wide financial statements. These assets were transferred from the former Hesperia Community Redevelopment Agency to support the Authority's functions. (See Table 3 below.)

Table 3
Capital Assets at Year-end

	Balance at June 30,2012 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30,2013 Net of Accumulated Depreciation
Governmental Activities:					
Land	$ 6,224,126	$ -	$ -	$ -	$ 6,224,126
Building and improvements	452,401	-	-	(9,530)	442,871
	$ 6,676,527	$ -	$ -	$ (9,530)	$ 6,666,997

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In FY 2013-14, the Authority's budget anticipates revenue of $155,710, which is primarily interest earnings. This is a 6% increase over the $151,360 budgeted in Fiscal Year 2012-13 due to an expected increase in rents and leases. In addition, the Authority will receive a payment of $1.2 million on the advance from the Hesperia Water District.

Next fiscal year's expenditure budget for the Authority totals $0.7 million. Of the $0.7 million budgeted for FY 2013-14, $0.4 million is planned to be used as loans for the Housing Rehabilitation Loan Program (HRLP) or Downpayment Assistance Program (DAP). The remaining $0.3 million of the Authority's expenditure budget will be used for normal operations.

As part of the dissolution of redevelopment agencies, AB 1484 required all successor agencies to complete a Due Diligence Review (DDR) of all assets related to the LMIHF. The Authority serves as the Housing Successor Agency. The DDR detailed all housing related assets transferred to the Authority and was submitted to the State of California's Department of Finance (DOF) on October 12, 2012.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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STATEMENT OF NET POSITION
June 30, 2013

ASSETS	Governmental Activities
Current Assets:	
Cash and cash equivalents	$ 15,330,961
Receivables:	
Accounts receivable	4,500
Accrued interest	8,452
Due from other governmental agencies	139,652
Land held for resale	10,269,457
Total Current Assets	25,753,022
Noncurrent Assets:	
Other Non-current Assets:	
Deposits	6,679
Notes receivable	17,715,591
Advances to Hesperia Water District	2,400,000
Total Other Noncurrent Assets	20,122,270
Capital assets:	
Land	6,224,126
Buildings and improvements	476,488
Less: Accumulated depreciation	(33,617)
Total Capital Assets	6,666,997
Total Noncurrent Assets	26,789,267
Total Assets	52,542,289
DEFERRED OUTFLOWS OF RESOURCES	
Total deferred outflows of resources	-

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

LIABILITIES	Governmental Activities
Current Liabilities:	
Accounts payable and other current liabilities	$ 17,301
Deposits	1,200
Due to other governmental agencies	9,847,916
Total Current Liabilities	9,866,417
Noncurrent Liabilities:	
Unearned revenue	17,715,591
Total Noncurrent Liabilities	17,715,591
Total Liabilities	27,582,008
DEFERRED INFLOWS OF RESOURCES	
Total deferred inflows of resources	-
NET POSITION	
Net investment in capital assets	6,666,997
Unrestricted	18,293,284
Total Net Position	$ 24,960,281

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary Government					
Governmental activities:					
Development services	$ 296,393	$ -	$ -	$ -	$ (296,393)
Total governmental activities	$ 296,393	$ -	$ -	$ -	(296,393)

General Revenues:	
Property taxes	329,913
Income from money and property	115,167
Other	83,858
Total general revenues	528,938
Extraordinary loss	(26,855,890)
Change In Net Position	(26,623,345)
Net position at the beginning of the period	51,583,626
Net position at the end of the year	$ 24,960,281

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

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BALANCE SHEET
June 30, 2013

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
Assets and Deferred Outflow of Resources			
Assets:			
Cash and cash equivalents	$ 13,776,585	$ 1,554,376	$ 15,330,961
Accounts receivable	4,500	-	4,500
Accrued interest	7,585	867	8,452
Notes receivable	17,715,591	-	17,715,591
Due from other governmental agencies	-	139,652	139,652
Land held for resale	10,269,457	-	10,269,457
Advance to Hesperia Water District	2,400,000	-	2,400,000
Total Assets	44,173,718	1,694,895	45,868,613
Deferred Outflows of Resources:			
Total Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflow of Resources	$ 44,173,718	$ 1,694,895	$ 45,868,613
Liabilities, Deferred Inflow of Resources, and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 17,301	$ -	$ 17,301
Deposits	1,200	-	1,200
Deferred revenue	17,715,591	-	17,715,591
Due to other agencies	9,847,916	-	9,847,916
Total Liabilities	27,582,008	-	27,582,008
Deferred Inflows of Resources:			
Total Deferred Inflows of Resources	-	-	-
Fund Balances:			
Nonspendable:			
Land held for resale	10,269,457	-	10,269,457
Advances	2,400,000	-	2,400,000
Committed:			
Low and moderate income housing	3,922,253	1,694,895	5,617,148
Total Fund Balances	16,591,710	1,694,895	18,286,605
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	$ 44,173,718	$ 1,694,895	$ 45,868,613

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

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

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

Total fund balances - governmental funds		$ 18,286,605
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.		
Cost	$ 6,700,614	
Less: Accumulated depreciation	(33,617)	6,666,997
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.		6,679
Total Net Position		$ 24,960,281

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2013

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
Revenues:			
Pass through payments	$ -	$ 329,913	$ 329,913
Use of money and property	119,159	4,039	123,198
Other revenues	83,858	-	83,858
Total Revenues	203,017	333,952	536,969
Expenditures:			
Current:			
Development services	293,542	-	293,542
Total Expenditures	293,542	-	293,542
Excess (Deficiency) of Revenues Over (Under) Expenditures	(90,525)	333,952	243,427
Extraordinary loss			
Dissolution of redevelopment agency	(26,855,890)	-	(26,855,890)
Net Change in Fund Balances	(26,946,415)	333,952	(26,612,463)
Fund balances at beginning of period	43,538,125	1,360,943	44,899,068
Fund balances at end of year	$ 16,591,710	$ 1,694,895	$ 18,286,605

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balances - total governmental funds	$ (26,612,463)
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(9,530)
Depreciation Expense	
As required by ABx1 26 on February 1, 2012, the state mandated the dissolution of redevelopment agencies. Subsequently, AB 1484 required due diligence reviews of the former redevelopment agencies housing funds. Upon review of the due diligence review, the California Department of Finance determined that loans from the housing funds to the former redevelopment agency were no longer viable. For year ending June 30, 2012, interest was accrued on the loans. In light of the Department of Finance's determination, the interest accrual is being reversed.	(8,031)
Recording of long-term deposits are included in governmental activities in the government-wide statement of activities.	6,679
Change in net position of governmental activities	$ (26,623,345)

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

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

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

b. Basis of Presentation:

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

Government-Wide Financial Statements:

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

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

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

   b. Basis of Presentation (Continued):

Governmental Fund Financial Statements:

The accounting system of the Hesperia Housing Authority is organized and operated on the basis of two funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

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

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

In the government-wide statements, the Authority considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the Authority uses the most restrictive funds first. The Authority would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

The Authority has two major funds described below:

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

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

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

   c. Measurement Focus:

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

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

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

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 amount is the net position that does not meet the definition of “net investment in capital assets, net of related debt” or “restricted net position”.

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

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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

   e. New Accounting Pronouncements:

   Implemented

   In fiscal year 2012-2013, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, *"Elements of Financial Statements"* into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

   In fiscal year 2012-2013, the Authority early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Authority does not have any deferred outflows of resources or deferred inflows of resources; thereby, there is no change to net position at July 1, 2012.

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

   e. New Accounting Pronouncements (Continued):

   Pending Accounting Standards

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

   - GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62",* effective for periods beginning after December 15, 2012.
   - GASB 67 - *"Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25"*, effective for the fiscal years beginning after June 15, 2013.
   - 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 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, effective for the periods beginning after June 15, 2013.

   f. Cash and Investments:

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

   g. Claims and Judgments:

   When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the Authority records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2013, in the opinion of the Authority's Attorney, the Authority had no material unrecorded claims that would require loss provision in the financial statements, including losses for claims that are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

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

   h. 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.

   i. Land Held for Resale:

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

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

j. Capital Assets:

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

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

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

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

k. 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 Authority does not have any type of these items at June 30, 2013.

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 Authority does not have any type of these items at June 30, 2013.

l. Receivables:

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

m. Restricted Assets:

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

n. Fund balances for Low & moderate income housing:
The Authority has funds set aside in the special revenue funds to provide for future low and moderate income housing.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

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

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City of Hesperia. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Hesperia. The Authority has not adopted an investment policy separate from that of the City of Hesperia. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Cash and Investments

Cash and cash investments at June 30, 2013 are classified in the accompanying financial statements as follows:

STATEMENT OF NET POSITION:	
Current Assets:	June 30, 2013
Cash and cash equvalents	$ 15,330,961
Total cash and investments	$ 15,330,961

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	100%	None
U.S. & State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk:

See accompanying independent auditors' report.

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

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

Investment in State Investment Pool:

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

3. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets at June 30, 2013 is as follows:

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
Capital Assets				
Capital Assets, not being depreciated:				
Land	$ 6,224,126	$ -	$ -	$ 6,224,126
Capital assets being depreciated:				
Buildings and improvements	476,488	-	-	476,488
Less accumulated depreciation for:				
Buildings and improvements	(24,087)	(9,530)	-	(33,617)
Total capital assets being depreciated, net	452,401	(9,530)	-	442,871
Net capital assets	$ 6,676,527	$ (9,530)	$ -	$ 6,666,997

Depreciation expense at June 30, 2013 was $9,530 and was coded to development services.

4. NOTES RECEIVABLE:

Notes receivable, totaling $17.7 million at June 30, 2013 consists of loans provided for low and moderate income housing, with interest of one percent (1%) and three percent (3%) and maturity of fifty-five (55) years. Due to the terms of the notes, offsetting deferred revenue for $17.7 million has been established.

See accompanying independent auditors' report.

4. NOTES RECEIVABLE (Continued):

Notes receivable at June 30, 2013 include the following:

	Outstanding June 30, 2013	Additions	Deductions	Outstanding June 30,2013
A. KDF VAH I, L.P.	$ 3,011,540	$ 29,000	$ (19,384)	$ 3,021,156
B. KDF Hesperia, L.P.	1,706,516	24,458	-	1,730,974
C. KDF Hesperia II, L.P.	2,345,729	28,102	-	2,373,831
D. PDDC San Remo Hesperia, L.P.	4,050,349	39,558	-	4,089,907
E. PDDC San Remo Hesperia II, L.P.	6,544,040	64,406	(108,723)	6,499,723
Totals	$ 17,658,174	$ 185,524	$ (128,107)	$ 17,715,591

A. KDF VAH I, L.P.:

In July, 2006, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with KDF VAH I, L.P., (a California limited partnership) for the development, construction and operation of a 68-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the HCRA loaned $2,900,000 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2013 is $121,156. The balance of the loan outstanding at June 30, 2013 was $3,021,156. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

B. KDF Hesperia, L.P.:

In December 2005, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with KDF Hesperia, L.P. (a California limited partnership) for the development, construction and operation of a 110-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the HCRA loaned $1,250,000 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear simple interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of $398,589, with an interest rate of three percent (3%), to assist with converting the construction loan to a permanent loan. Accrued interest on the combined notes through June 30, 2013 is $82,385. The balance of the loan outstanding at June 30, 2013 was $1,730,974. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

4. NOTES RECEIVABLE (Continued):

C. KDF Hesperia II, L.P.:

In March, 2006, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with KDF Hesperia II, L.P., (a California limited partnership) for the development, construction and operation of a 72-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the Authority loaned $2,000,000 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Housing Authority issued a loan of $270,071, with an interest rate of three percent (3%), to assist with converting the construction loan to a permanent loan. Accrued interest on the combined notes through June 30, 2013 is $103,760. The balance of the loan outstanding at June 30, 2013 was $2,373,831. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

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

In November 2007, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, and a California limited partnership) for the development, construction, and operation of a 65-unit apartment complex of which certain units shall be available to very low-income tenants and low-income tenants. Under the terms of the OPA, the Authority loaned $3,955,711 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%).

The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2013 is $134,196. The balance of the loan outstanding at June 30, 2013 was $4,089,907. Principal on the loan is based on a percentage of the Partnerships positive cash flow. Any unpaid balance is due and payable at the maturity date.

4. NOTES RECEIVABLE (Continued):

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

In October 5, 2010, the Hesperia Community Redevelopment Agency (HCRA) entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, and a California limited partnership) for the development, construction, and operation of a 58-unit apartment complex of which certain units shall be available to very low-income tenants and low-income tenants. Under the terms of the OPA, the Authority loaned $6,613,620 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2013 is $103,709 and principal payments received are $217,606. The balance of the loan outstanding at June 30, 2013 was $6,499,723.

5. ADVANCES:

Advances to the Successor Agency and Hesperia Water District at June 30, 2013 include the following:

	Outstanding June 30, 2013	Additions	Deductions	Outstanding June 30,2013
A. SERAF I Promissory Note	$ 7,163,287	$ -	$ (7,163,287)	$ -
B. SERAF II Promissory Note	1,688,416	-	(1,688,416)	-
C. 2011 Public Improvement Promissory Note	8,156,271	-	(8,156,271)	-
D. Hesperia Water District Note	3,600,000	-	(1,200,000)	2,400,000
Totals	$ 20,607,974	$ -	$(18,207,974)	$ 2,400,000

A. SERAF I Promissory Note:

A loan of $8,161,869 for the year ended June 30, 2010, was made from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Number Debt Service Funds of the former Hesperia Community Redevelopment Agency to provide the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is authorized by Health & Safety Code §33690.5(c). The Hesperia Community Redevelopment Agency Board authorized a loan from the Low/Moderate Income Housing Fund with a repayment by June 30, 2015, at a quarterly variable interest based on the Local Authority Investment Fund (LAIF) Quarterly Apportionment Rate, which at June 30, 2012, had a rate of 0.36%. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of this loan. During the fiscal year, the State of California Department of Finance determined that this loan was invalid, making the balance of the loan outstanding at June 30, 2013 $0.

5. ADVANCES (Continued):

B. SERAF II Promissory Note:

A loan of $1,680,385 for the year ended June 30, 2011, was made from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Debt Service Funds of the former Hesperia Community Redevelopment Agency to provide the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is authorized by Health & Safety Code §33690.5(c). The Hesperia Community Redevelopment A loan of $1,680,385 for the year ended June 30, 2011, was made from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Number Debt Service Funds of the former Hesperia Community Redevelopment Agency to provide the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment. The loan is authorized by Health & Safety Code §33690.5(c). The Hesperia Community Redevelopment Agency Board authorized a loan from the Low/Moderate Income Housing Fund with a repayment by June 30, 2016, at a quarterly variable interest based on the LAIF Quarterly Apportionment Rate, which at June 30, 2012 had a rate of 0.36%. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of this loan. During the fiscal year, the State of California Department of Finance determined that this loan was invalid, making the balance of the loan outstanding at June 30, 2013 $0.

C. 2011 Public Improvement Promissory Note:

On March 9, 2011, a 5-year loan of up to $31,680,000 was authorized between the Low and Moderate Income Housing Special Revenue Fund and the Project Area Number 1 2005 Debt Service Fund of the Hesperia Community Redevelopment Agency for matching costs for the Ranchero Road Undercrossing, Industrial Lead Track, and Township Revitalization projects. Only $14,486,524 of the authorized loan was utilized. Due to the dissolution of redevelopment agencies by AB 26x1, the Authority assumed responsibility of this loan. During the fiscal year, the State of California Department of Finance determined that this loan was invalid, making the loan balance at June 30, 2013 $0.

D. Hesperia Water District Note:

The Hesperia Water District was issued a 5-year loan by the Hesperia Community Redevelopment Agency on June 30, 2010, for $6,000,000 for various water capital projects. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2013 had a rate of 0.24%. The loan matures June 30, 2015 with annual principal payments of $1,200,000. The loan will be financed by revenues generated by the District through set rates and charges for water and sewer services. Due to the dissolution of redevelopment agencies by AB 26x1, the Hesperia Housing Authority assumed responsibility of this loan. The loan balance at June 30, 2013 is $2,400,000.

6. SELF-INSURANCE RISK POOL:

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

See accompanying independent auditors' report.

7. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS:

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

8. EXTRAORDINARY LOSS:

The Department of Finance noted in a letter dated September 16, 2013 that the City of Hesperia (City) provided documentation showing it used bond proceeds, not LMIHF (Low and Moderate Income Housing Funds), to fund the Public Improvement Loan (PIL) to the City in the amount of $14,560,618, and to fund two Supplemental Educational Revenue Augmentation Fund payments (SERAF I/II) totaling $9,842,254, which at June 30, 2012 had a combined balance of $17,007,974 (Note 16). However, because the funds used to fund the PIL and the SERAF I/II payments originated from bond proceeds and not LMIHF, these items are not considered assets of the Hesperia Housing Authority. Therefore, regardless of the funding source and despite the receipt of a Finding of Completion, the State of California's Department of Finance (DOF) determined it would not recognize Advances to the Successor Agency as enforceable obligations. Interest was not accrued on these three obligations in Fiscal Year 2012-13 and the remaining balances are zero. In addition, the DOF determined that $9,847,916 of funds that were originally transferred to the Authority for low and moderate housing uses must be transferred back, with interest, to the former Hesperia Community Redevelopment Agency (Successor Agency) to be distributed to the county auditor controller. This amount of $9,847,916, combined with the June 30, 2012 PIL and SERAF I /II balances of $17,007,974, resulted in the recognition of an extraordinary loss of $26,855,890 in the fund financial statements and government-wide financial statements.

In addition, on November 14, 2013, the DOF determined that $4,197,916 of the $9,847,916 that was originally transferred to the Authority for low and moderate housing uses must be transferred back, with interest, to the Successor Agency of former Hesperia Community Redevelopment Agency (Successor Agency) to be distributed to the county auditor controller. Additionally, The DOF approved that $5,650,000 of the $9,847,916 held by the Authority be transferred back to the Successor Agency for the payment of a settlement agreement.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
HESPERIA HOUSING AUTHORITY SPECIAL REVENUE FUND
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, July 1	$ 43,538,125	$ 43,538,125	$ 43,538,125	$ -
Resources (Inflows):				
Use of money and property	142,000	142,000	119,159	(22,841)
Other	-	-	83,858	83,858
Amount Available For Appropriations	142,000	142,000	203,017	61,017
Charges to Appropriations (Outflows):				
Current:				
Development services	867,474	897,474	293,542	603,932
Capital Outlay:				
Land	461,500	431,500	-	431,500
Dissolution of the redevelopment agency	-	-	26,855,890	(26,855,890)
Total Charges to Appropriations	1,328,974	1,328,974	27,149,432	(25,820,458)
Excess of Resources Over (Under) Charges to Appropriations	(1,186,974)	(1,186,974)	(26,946,415)	(25,759,441)
Fund Balance, June 30	$ 42,351,151	$ 42,351,151	$ 16,591,710	$ (25,759,441)

See accompanying note to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
VVEDA HOUSING AUTHORITY SPECIAL REVENUE FUND
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, July 1	$ 1,360,943	$ 1,360,943	$ 1,360,943	$ -
Resources (Inflows):				
Property Taxes	-	-	329,913	329,913
Use of money and property	4,303	4,303	4,039	(264)
Amount Available For Appropriations	4,303	4,303	333,952	329,649
Charges to Appropriations (Outflows):				
Current:				
Development services	425,000	425,000	-	425,000
Total Charges to Appropriations	425,000	425,000	-	425,000
Excess of Resources Over (Under) Charges to Appropriations	(420,697)	(420,697)	333,952	754,649
Fund Balance, June 30	$ 940,246	$ 940,246	$ 1,694,895	$ 754,649

See accompanying note to required supplementary information.

June 30, 2013

1. BUDGETARY DATA:

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