

HESPERIA HOUSING AUTHORITY

**COMPONENT UNIT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021



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**HESPERIA HOUSING AUTHORITY
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YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hesperia Housing Authority
Hesperia, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Housing Authority (the Authority) (a component unit of the City of Hesperia) as of and for the year ended June 30, 2021, and the related notes to the 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 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 each major fund of the Hesperia Housing Authority as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Carlsbad, California
December 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Housing Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year (FY) ending June 30, 2021. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

During FY 2020-21, the Authority's net position decreased by \$1.8 million. This decrease is primarily the result of a \$1.4 million reduction in the book value of land held for resale to reflect current market conditions, along with the recognition of \$0.4 million in homebuyer assistance loans.

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).

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*.

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 HESPERIA HOUSING AUTHORITY AS A WHOLE

Our analysis focuses on the Condensed Statement of 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.

Table 1
Condensed Statement of Net Position

	2020	2021	Changes from 2020 to 2021	
			Amount	Percentage
Current and other assets	\$ 13,983,324	\$ 12,632,458	\$ (1,350,866)	-10%
Capital assets	459	-	(459)	-100%
Total assets	13,983,783	12,632,458	(1,351,325)	-10%
Total deferred outflow of resources	-	-	-	0%
Current liabilities	12,395	429,708	417,313	3367%
Total liabilities	12,395	429,708	417,313	3367%
Total deferred inflow of resources	-	-	-	0%
Net Position:				
Investment in capital assets	459	-	(459)	-100%
Restricted	13,970,929	12,202,750	(1,768,179)	-13%
Total Net Position	\$ 13,971,388	\$ 12,202,750	\$ (1,768,638)	-13%

The following is a brief explanation for the changes in Table 1 above for the fiscal year ending June 30, 2021:

- Current and other assets in the amount of \$12.6 million decreased by \$1.4 million from the year ending June 30, 2020. This is a result of an adjustment to land held for resale to reflect current market conditions.
- Due to depreciation, capital assets decreased during the year by \$459, and is now fully depreciated.

- Current liabilities totaled \$429,708 at June 30, 2021, an increase of \$0.4 million, which is primarily attributed to a \$428,554 obligation to reimburse the City of Hesperia’s Neighborhood Stabilization Program for homebuyer assistance loans authorized by the Authority.
- Total Net Position is shown to decrease by \$1.8 million; this is due to the reduction of land held for resale of \$1.4 million and an increase in liabilities of \$0.4 million, resulting from the Authority’s obligation to reimburse the City of Hesperia’s Neighborhood Stabilization Program for homebuyer assistance loans authorized by the Authority.

AUTHORITY ACTIVITIES

As shown in Table 2, the Authority’s expenses at June 30, 2021 total \$1.9 million. The Fiscal Year (FY) 2020-21 expenditures are \$1.8 million more than the FY 2019-20 expenditures of \$0.1 million. This year’s increase is primarily due to an adjustment in the value of land held for resale of \$1.4 million, as well as the recognition of \$0.4 million of homebuyer assistance program loans. The Authority’s revenue shows a decrease of \$0.1 million, which is primarily the result of \$81,021 in reduced interest income due to lower interest rates in FY 2020-21, and a \$30,218 home rehabilitation loan repayment that occurred in the prior fiscal year (FY 2019-20).

	Changes in Net Position		Changes from 2020 to 2021	
	2020	2021	Amount	Percentage
Revenues				
General revenues:				
Income from money and property	127,589	46,568	(81,021)	-64%
Other	119,840	92,208	(27,632)	-23%
Total revenues	247,429	138,776	(108,653)	-44%
Expenses				
Development Services	94,463	1,907,414	1,812,951	1919%
Total expenses	94,463	1,907,414	1,812,951	1919%
Change in net position	152,966	(1,768,638)	(1,921,604)	-1256%
Net position at July 1	13,818,422	13,971,388	152,966	1%
Net position at June 30	\$ 13,971,388	\$ 12,202,750	\$ (1,768,638)	-13%

FINANCIAL ANALYSIS OF THE AUTHORITY’S FUNDS

At year-end, the Authority’s governmental funds reported combined fund balances of \$12.2 million.

- The fund balance of the Hesperia Housing Authority Fund is \$10.4 million, which is restricted for low and moderate income housing functions. The Fund balance has decreased by \$1.8 million from June 30, 2020. As described, the decrease is primarily due to the \$1.4 million reduction in land held for resale to reflect current market conditions, as well as the recognition of \$0.4 million of homebuyer assistance loans.
- The Victor Valley Economic Development Agency (VVEDA) Housing Authority Fund balance is \$1.8 million, which is a modest increase from June 30, 2020. The primary reason is that VVEDA funds must be utilized for low and moderate income housing functions in the VVEDA target area.

CAPITAL ASSETS

The capital assets of the Authority, as shown in Table 3, are those assets that are used in the performance of the Authority’s functions. As of June 30, 2021, capital assets of the Authority are fully depreciated.

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

	Balance at July 1, 2020	Net of Accumulated Depreciation		Current Year Depreciation	Balance at June 30, 2021
		Increases	Decreases		Net of Accumulated Depreciation
Governmental Activities:					
Equipment and vehicles	\$ 459	\$ -	\$ -	\$ (459)	\$ -
	<u>\$ 459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (459)</u>	<u>\$ -</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

In Fiscal Year 2021-22, the Authority’s budget anticipates expenditures of approximately \$66,650 to maintain current operations. The expenditures are offset by anticipated revenue of \$0.2 million.

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.

FINANCIAL STATEMENTS

**HESPERIA HOUSING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2021**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 5,460,766
Receivables:	
Accrued Interest	3,883
Land Held for Resale	7,158,001
Total Current Assets	12,622,650
Noncurrent Assets:	
Other Noncurrent Assets:	
Deposits	9,808
Notes Receivable	22,863,572
Allowance for Notes Receivable	(22,863,572)
Total Other Noncurrent Assets	9,808
Capital Assets:	
Equipment and Vehicles	6,596
Less: Accumulated Depreciation	(6,596)
Total Capital Assets	-
Total Noncurrent Assets	9,808
Total Assets	12,632,458
LIABILITIES	
Current Liabilities:	
Accounts Payable and Other Current Liabilities	1,154
Due to City of Hesperia	428,554
Total Current Liabilities	429,708
NET POSITION	
Restricted for Low Income Housing	12,202,750
Total Net Position	\$ 12,202,750

See accompanying Notes to Financial Statements.

**HESPERIA HOUSING AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
Development Services	\$ 1,907,414	\$ -	\$ -	\$ -	\$ (1,907,414)
Total Governmental Activities	<u>\$ 1,907,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,907,414)</u>
GENERAL REVENUES					
Income from Money and Property					46,568
Other					92,208
Total General Revenues					<u>138,776</u>
CHANGE IN NET POSITION					(1,768,638)
Net Position - Beginning of Year					<u>13,971,388</u>
NET POSITION - END OF YEAR					<u><u>\$ 12,202,750</u></u>

See accompanying Notes to Financial Statements.

**HESPERIA HOUSING AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,641,925	\$ 1,818,841	\$ 5,460,766
Accrued Interest	2,587	1,296	3,883
Notes Receivable	22,863,572	-	22,863,572
Allowance for Notes Receivable	(22,863,572)	-	(22,863,572)
Land Held for Resale	7,158,001	-	7,158,001
	\$ 10,802,513	\$ 1,820,137	\$ 12,622,650
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable and Other Current Liabilities	\$ 1,154	\$ -	\$ 1,154
Due to City of Hesperia	428,554	-	428,554
Total Liabilities	429,708	-	429,708
FUND BALANCES			
Restricted:			
Low Income Housing	10,372,805	1,820,137	12,192,942
	\$ 10,802,513	\$ 1,820,137	\$ 12,622,650

See accompanying Notes to Financial Statements.

**HESPERIA HOUSING AUTHORITY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2021**

Total Fund Balances - Governmental Funds \$ 12,192,942

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental balance sheet.

Cost	\$	6,596	
Less: Accumulated depreciation		(6,596)	-

Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds.

9,808

Total Net Position \$ 12,202,750

**HESPERIA HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021**

	Hesperia Housing Authority	VVEDA Housing Authority	Total Housing Authority Funds
REVENUES			
Use of Money and Property	\$ 37,535	\$ 9,033	\$ 46,568
Other Revenues	92,208	-	92,208
Total Revenues	<u>129,743</u>	<u>9,033</u>	<u>138,776</u>
EXPENDITURES			
Current:			
Development Services	<u>1,906,981</u>	<u>-</u>	<u>1,906,981</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,777,238)	9,033	(1,768,205)
Fund Balances - Beginning of Year	<u>12,150,043</u>	<u>1,811,104</u>	<u>13,961,147</u>
FUND BALANCES - END OF YEAR	<u>\$ 10,372,805</u>	<u>\$ 1,820,137</u>	<u>\$ 12,192,942</u>

See accompanying Notes to Financial Statements.

**HESPERIA HOUSING AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balances - Total Governmental Funds \$ (1,768,205)

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

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. This is the amount by which depreciation and disposal exceeded capital outlays in the current period.

Depreciation Expense (459)

Recording of long-term deposits are included in governmental activities in the government-wide Statement of Activities.

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Change in Net Position of Governmental Activities \$ (1,768,638)

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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 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.

Governmental Fund Financial Statements

The accounting system of the Authority is organized and operated on the basis of two funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, 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.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

B. Basis of Presentation (Continued)

Governmental Fund Financial Statements (Continued)

Fund financial statements for the 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 component:

- 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.

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:

Hesperia Housing Authority Fund is used to account for Low and Moderate Housing activity. The fund balance is set aside to provide for future low and moderate income housing.

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

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, 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.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

**NOTE 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:

- 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 “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.

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.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Basis of Accounting (Continued)

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

E. Cash and Investments

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

F. Claims and Judgments

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the Authority records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2021, 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 insurance program of the City of Hesperia. Information relating to the insurance program can be found in the notes to the basic financial statements of the City of Hesperia.

G. Land Held for Resale

Land held for resale is carried at the lower of cost or estimated realizable value.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

H. Capital Assets

Capital assets, which include 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 acquisition value at the date of acquisition. 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 ranging from 5 - 30 years.

I. 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 Authority does not have any type of these items at June 30, 2021.

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 Authority does not have any type of these items at June 30, 2021.

J. Receivables

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

K. 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.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND INVESTMENTS

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

B. 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.

<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	Unlimited	None
U.S. & State or Local Agency Securities	5 Years	Unlimited	None
Banker's Acceptances	180 Days	25%	5%
Commercial Paper	270 Days	15%	10%
Negotiable Certificates of Deposit	5 Years	25%	None
Repurchase Agreements	1 Year	20%	None
Local Agency Investment Fund (LAIF)	N/A	Unlimited	None
Medium-Term Notes	5 Years	30%	None
Mutual & Money Market Funds	90 Days	20%	10%
Collateralized Bank Deposits	5 Years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 Years	10%	None
Supranational Obligations	5 Years	30%	None

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

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

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 3 CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2021 is as follows:

	Balance at June 30, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets Being Depreciated:				
Equipment and Vehicles	\$ 6,596	\$ -	\$ -	\$ 6,596
Less Accumulated Depreciation for:				
Machinery and Equipment	(6,137)	(459)	-	(6,596)
Total Capital Assets Being Depreciated, Net	459	(459)	-	-
Net Capital Assets	<u>\$ 459</u>	<u>\$ (459)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4 NOTES RECEIVABLE

Notes receivable, totaling \$22.8 million at June 30, 2021 consists of loans provided for low and moderate income housing, with interest between one percent (1%) and three percent (3%) and maturity of fifty-five (55) years. Payments on these notes are based on a percentage of the residual receipts. The Authority does not know the timing of the repayment of the notes, as there is not enough information on the receipt of residual receipts; therefore, the Authority has recorded an allowance for uncollectible for the outstanding balance of \$22.3 million.

Notes receivable at June 30, 2021 include the following:

	Outstanding June 30, 2020	Additions	Deductions	Outstanding June 30, 2021
A. KDF VAH I, L.P.	\$ 3,169,098	\$ 29,000	\$ -	\$ 3,198,098
B. KDF Hesperia, L.P.	1,888,747	24,458	-	1,913,205
C. KDF Hesperia II, L.P.	2,570,699	28,102	-	2,598,801
D. PDDC San Remo Hesperia, L.P.	4,356,520	39,557	-	4,396,077
E. PDDC San Remo Hesperia II, L.P.	6,166,110	57,557	(108,722)	6,114,945
F. Eagle Hesperia 55, L.P.	4,137,253	76,639	-	4,213,892
G. Homebuyer Assistance Program	-	428,554	-	428,554
Totals	<u>\$ 22,288,427</u>	<u>\$ 683,867</u>	<u>\$ (108,722)</u>	<u>\$ 22,863,572</u>

A. KDF VAH I, L.P.

In July 2006, the former 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 Authority assumed responsibility of the HCRA notes receivable.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 4 NOTES RECEIVABLE (CONTINUED)

A. KDF VAH I, L.P. (Continued)

Accrued interest on the note through June 30, 2021 is \$298,098. The balance of the loan outstanding at June 30, 2021 was \$3,198,098. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

B. KDF Hesperia, L.P.

In December 2005, the former HCRA entered into an 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 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, 2021 is \$264,617. The balance of the loan outstanding at June 30, 2021 was \$1,913,205. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

C. KDF Hesperia II, L.P.

In March 2006, the former HCRA entered into an 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 HCRA 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 Authority assumed responsibility of the HCRA notes receivable. On February 1, 2012, the Authority issued a loan of \$270,070, 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, 2021 is \$328,731. The balance of the loan outstanding at June 30, 2021 was \$2,598,801. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 4 NOTES RECEIVABLE (CONTINUED)

D. PDDC San Remo Hesperia, L.P.

On November 2007, the former HCRA entered into an OPA with PDDC San Remo Hesperia, L.P. (Palm Desert Development Company, 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 HCRA 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 Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2021 is \$440,367. The balance of the loan outstanding at June 30, 2021 was \$4,396,077. Payments on the loan are based on a percentage of the Partnership's positive cash flow. Any unpaid balance is due and payable at the maturity date.

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

On October 5, 2010, the former HCRA entered into an OPA with PDDC San Remo Hesperia II, L.P. (Palm Desert Development Company, 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 HCRA 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 Authority assumed responsibility of the HCRA notes receivable. Accrued interest on the note through June 30, 2021 is \$407,657 and principal payments received are \$1,159,699. The balance of the loan outstanding at June 30, 2021 was \$6,114,945.

F. Eagle Hesperia 55, L.P.

On February 16, 2016, the former HCRA entered into an OPA with Eagle Hesperia 55 L.P. (a California limited partnership) for the development, construction, and operation of a 96-unit apartment complex of which certain units shall be available to low income senior citizens. Under the terms of the OPA, the Authority loaned \$3,831,975 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 fifty-five years, with the option of extending the term up to twenty-five years; the option must be exercised between the fifty-third year and fifty-fourth year. The loan shall bear interest at a rate of two percent (2%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2021 is \$381,917. The balance of the loan outstanding at June 30, 2021 was \$4,213,892. Any unpaid balance is due and payable at the maturity date.

**HESPERIA HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 4 NOTES RECEIVABLE (CONTINUED)

G. Homebuyer Assistance Program

On July 17, 2012 the City Council and Housing Authority adopted Joint Resolution No. 2012-061 and HHA 2012-010 approving implementation of the Seller Mortgage Carryback Program (SMCP) that carried back a portion of the sale price of properties as a second mortgage loan and; the SMCP will enable the City and HHA to fund the amount needed to make the purchase price of single family residential properties affordable to households whose income is fifty percent (50%) AMI or below, in the form of a thirty (30) year deferred, zero interest bearing loan. The SMCP loan is secured by a second deed of trust on the property. At June 30, 2021, there are five loans outstanding with total balance of \$428,554.

NOTE 5 RISK MANAGEMENT

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.

REQUIRED SUPPLEMENTARY INFORMATION

**HESPERIA HOUSING AUTHORITY
BUDGETARY COMPARISON SCHEDULE
HESPERIA HOUSING AUTHORITY SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE - BEGINNING OF YEAR	\$ 12,150,043	\$ 12,150,043	\$ 12,150,043	\$ -
RESOURCES (INFLOWS)				
Use of Money and Property	76,619	76,619	37,535	(39,084)
Other Revenues	90,133	90,133	92,208	2,075
Amount Available for Appropriations	166,752	166,752	129,743	(37,009)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current:				
Development Services	75,978	75,978	1,906,981	(1,831,003)
Total Charges to Appropriations	75,978	75,978	1,906,981	(1,831,003)
EXCESS OF RESOURCES OVER/(UNDER) CHARGES TO APPROPRIATIONS	90,774	90,774	(1,777,238)	(1,868,012)
FUND BALANCE - END OF YEAR	<u>\$ 12,240,817</u>	<u>\$ 12,240,817</u>	<u>\$ 10,372,805</u>	<u>\$ (1,868,012)</u>

See accompanying Notes to Required Supplementary Information.

**HESPERIA HOUSING AUTHORITY
 BUDGETARY COMPARISON SCHEDULE
 VVEDA HOUSING AUTHORITY SPECIAL REVENUE FUND –
 YEAR ENDED JUNE 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
FUND BALANCE - BEGINNING OF YEAR	\$ 1,811,104	\$ 1,811,104	\$ 1,811,104	\$ -
RESOURCES (INFLOWS)				
Use of Money and Property	<u>24,140</u>	<u>24,140</u>	<u>9,033</u>	<u>(15,107)</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,835,244</u>	<u>\$ 1,835,244</u>	<u>\$ 1,820,137</u>	<u>\$ (15,107)</u>

See accompanying Notes to Required Supplementary Information.

HESPERIA HOUSING AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021

NOTE 1 BUDGETARY DATA

In conjunction with the City of Hesperia'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.

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