

COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF HESPERIA

COMPONENT UNIT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2013



JUNE 30, 2013

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## INDEPENDENT AUDITORS' REPORT

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

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Community Development Commission of the City of Hesperia as of June 30, 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.

## **Emphasis of Matters**

As discussed in Note 1.e. to the basic financial statements, the Commission 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 Commission 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 schedule as identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*White Nelson Dick Evans LLP*

December 19, 2013  
Carlsbad, California

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

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

### **FINANCIAL HIGHLIGHTS**

- The Commission's net position is \$13.9 million; of which, \$13.2 million is net investment in capital assets, all of which is land. The net position has increased by 4% from previous year's amount of \$13.3 million.
- During the year, the Commission's revenue exceeded expenses by \$568,468. The primary reason for the increase to net position is the result of an operating contribution of \$250,000 from the City of Hesperia and \$633,936 received from the repayment of an owner participation agreement grant due to nonperformance, which was offset by operating expenses of \$424,819.

### **USING THIS ANNUAL REPORT**

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

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

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

### **Government-Wide Financial Statements**

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

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

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

The government-wide financial statements can be found on pages 8-9 of this report.

## **REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

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

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

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

The basic governmental fund financial statements can be found on pages 10-13 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

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

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

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities by \$13.9 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	\$ 82,674	\$ 656,139	\$ 573,465	694%
Capital assets	13,242,113	13,242,113	-	0%
Total Assets	<u>13,324,787</u>	<u>13,898,252</u>	<u>573,465</u>	<u>4%</u>
Total deferred outflow of resources	-	-	-	0%
Current liabilities	24,763	29,760	4,997	20%
Total Liabilities	<u>24,763</u>	<u>29,760</u>	<u>4,997</u>	<u>20%</u>
Total deferred inflow of resources	-	-	-	0%
Net Position:				
Net investment in capital assets	13,242,113	13,242,113	-	0%
Unrestricted	57,911	626,379	568,468	982%
Total Net Position	<u>\$ 13,300,024</u>	<u>\$ 13,868,492</u>	<u>\$ 568,468</u>	<u>4%</u>

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

- The Community Development Commission's capital assets, primarily land, totaled \$13.2 million. This total remains the same from the previous year.
- Current and other assets increased by 694%, or \$0.7 million, from the June 30, 2012 amount of \$82,674. Cash represents the majority of the increase which included such inflows as an operating contribution of \$250,000 from the City of Hesperia and the repayment of an owner participation agreement grant for \$0.6 million that was offset by outflows (expenditures) totaling \$0.4 million.
- Current liabilities total \$29,760, which represents an increase of \$4,997 from the June 30, 2012 amount of the \$24,763. During the year, deposits decreased by \$10,000; however, accounts payable and other current liabilities increased by nearly \$15,000. The increase is due to the timing of invoices and wages due at June 30, 2013 but not yet paid.

#### COMMISSION CHANGES IN NET POSITION

The cost of all Commission activities this year was \$0.4 million. During year ending June 30, 2012, the Commission operated for five months from the period of February 1, 2012 through June 30, 2012. This accounts for the stark increase of costs between FY 2011-12 and FY 2012-13.

Table 2  
Changes in Net Position

	2012	2013	Changes from 2012 to 2013	
			Amount	Percentage
<b>Revenues</b>				
Program revenues:				
Capital grants and contributions	\$ 31,000	\$ 4,650	\$ (26,350)	-85%
General revenues:				
Income from money and property	25,459	70,185	44,726	176%
Other	1,662	918,452	916,790	55162%
Total revenues	<u>58,121</u>	<u>993,287</u>	<u>935,166</u>	<u>1609%</u>
<b>Expenses</b>				
Development services	210	424,819	424,609	202195%
Total expenses	<u>210</u>	<u>424,819</u>	<u>424,609</u>	<u>202195%</u>
Change in net position	57,911	568,468	510,557	882%
Net position at July 1,	-	13,300,024	13,300,024	n/a
Extraordinary gain/(loss)	13,242,113	-	(13,242,113)	-100.0%
Net position at June 30,	<u>\$ 13,300,024</u>	<u>\$ 13,868,492</u>	<u>\$ 568,468</u>	<u>4%</u>

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

- The Community Development Commission received \$4,650 of Capital grants and contributions revenue, which was for an Off Highway Vehicle grant from the State of California. The prior fiscal year's award was \$31,000.
- Income from money and property totaled \$70,185. This is primarily rental income and is an increase of \$44,726 compared to the previous year's total of \$25,459. The increase is due to a complete year of operations.
- Through June 30, 2013, development services expenditures totaled \$0.4 million. This is an increase of \$0.4 million compared to the previous year's total of \$210, which is due to the first complete year of operations.

## FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

At year-end, the Commission's governmental fund reported fund balances of \$0.6 million, which is an increase of \$0.5 million from the June 30, 2012 fund balance of \$57,911. The increase is due to cash inflows, which includes the operating contribution from the City of Hesperia and the repayment of an owner participation agreement due to nonperformance, outpacing cash outflows for normal operating expenditures.

## CAPITAL ASSETS

The capital assets of the Commission are those assets that are used in the performance of the Commission's functions. At June 30, 2013, capital assets, net of depreciation, of the governmental activities totaled \$13.2 million, all of which is land.

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

	Balance at July 1, 2012 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2013 Net of Accumulated Depreciation
<b>Governmental Activities:</b>					
Land	\$ 13,242,113	\$ -	\$ -	\$ -	\$ 13,242,113
	<u>\$ 13,242,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,242,113</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

In FY 2013-14, the Commission’s budgeted inflow of resources is anticipated to be \$0.4 million, which consists of operating revenue of \$0.1 million, which is primarily rental income, and the planned use of budgeted reserves of \$0.3 million.

The 2013-14 expenditure budget totals \$0.4 million, which reflects a 39% reduction from the FY 2012-13 budget of \$0.6 million. The expenditure budget reflects amounts needed for the operation of the Commission.

**CONTACTING THE COMMISSION’S FINANCIAL MANAGEMENT**

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

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

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STATEMENT OF NET POSITION  
June 30, 2013

<b>ASSETS</b>	Governmental Activities
Current Assets:	
Cash and cash equivalents	\$ 619,264
Receivables:	
Accounts receivable	687
Accrued interest	122
Due from other governmental agencies	23,936
Total Current Assets	644,009
Noncurrent Assets:	
Deposits	12,130
Capital assets:	
Land	13,242,113
Total Capital Assets	13,242,113
Total Noncurrent Assets	13,254,243
<b>Total Assets</b>	<b>13,898,252</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>Total deferred outflows of resources</b>	-
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable and other current liabilities	19,760
Deposits	10,000
Total Current Liabilities	29,760
<b>Total Liabilities</b>	<b>29,760</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
<b>Total deferred inflows of resources</b>	-
<b>NET POSITION</b>	
Net investment in capital assets	13,242,113
Unrestricted	626,379
<b>Total Net Position</b>	<b>\$ 13,868,492</b>

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

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

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STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
Governmental activities:					
Development services	\$ 424,819	\$ -	\$ -	\$ 4,650	\$ (420,169)
<b>Total governmental activities</b>	<u>\$ 424,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,650</u>	<u>(420,169)</u>
General Revenues:					
					70,185
					918,452
					<u>988,637</u>
					568,468
					<u>13,300,024</u>
					<u>\$ 13,868,492</u>

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

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

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BALANCE SHEET  
June 30, 2013

**Assets and Deferred Outflows of Resources**

Assets:

Cash and cash equivalents	\$ 619,264
Accounts receivable	687
Accrued interest	122
Due from other governmental agencies	23,936
<b>Total Assets</b>	<u>644,009</u>

**Deferred Outflows of Resources**

<b>Total deferred outflows of resources</b>	<u>-</u>
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<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 644,009</u>
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**Liabilities, Deferred Inflows of Resources, and Fund Balances**

Liabilities:

Accounts payable and other current liabilities	\$ 19,760
Deposits	10,000
<b>Total Liabilities</b>	<u>29,760</u>

**Deferred Inflows of Resources**

<b>Total deferred inflows of resources</b>	<u>-</u>
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Fund Balances:

Assigned

Economic development	614,249
<b>Total Fund Balances</b>	<u>614,249</u>

<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 644,009</u>
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See accompanying independent auditors' report and notes to financial statements.

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

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

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

Total fund balances - governmental funds	\$ 614,249
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Activities.	12,130
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	
Land	<u>13,242,113</u>
Total Net Position	<u>\$ 13,868,492</u>

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

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

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

<b>Revenues:</b>	
Use of money and property	\$ 70,185
Other revenues	918,452
Grants	<u>4,650</u>
Total Revenues	<u>993,287</u>
<b>Expenditures:</b>	
Current:	
Development services	<u>436,949</u>
Total Expenditures	<u>436,949</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>556,338</u>
Net Change in Fund Balances	556,338
<b>Fund balances at beginning of period</b>	<u>57,911</u>
<b>Fund balances at end of year</b>	<u><u>\$ 614,249</u></u>

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

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

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$ 556,338
Recording of long-term deposits are included in governmental activities in the government-wide statement of activities.	<u>12,130</u>
Change in net position of governmental activities	<u>\$ 568,468</u>

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

June 30, 2013

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

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

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

b. Basis of Presentation:

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

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Commission has no business-type activities.

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

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

b. Basis of Presentation (Continued):

Governmental Fund Financial Statements:

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

Fund financial statements for the Commission's governmental fund are presented after the government-wide financial statements. These statements display information about the major fund.

The Commission's Governmental Fund Balance is comprised of the following components:

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

The Commission only has assigned fund balance as of June 30, 2013.

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

The Commission's major fund is described below:

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

See accompanying independent auditors' report.

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

c. Measurement Focus:

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

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

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

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

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

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

- Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets.
- Restricted net position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position – This is the portion of the net position that does not meet the definition of “net investment in capital assets, net of related debt” or “restricted net position”.

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

See accompanying independent auditors' report.

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

d. Basis of Accounting:

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

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

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

e. New Accounting Pronouncements:

*Implemented*

In fiscal year 2012-2013, the Commission 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 Commission 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 Commission 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.

See accompanying independent auditors' report.

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

e. New Accounting Pronouncements (Continued):

*Pending Accounting Standards*

GASB has issued the following statements which may impact the City'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. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

h. Capital Assets:

The only capital assets of the Commission are Land. Commission policy has set the capitalization threshold for reporting capital assets at \$5,000.

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

i. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Commission does not have any type of these items at June 30, 2013.

See accompanying independent auditors' report.

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

i. Deferred Outflows/Inflows of Resources:

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any type of these items at June 30, 2013.

j. Receivables:

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Equity in Cash and Investment Pool of the City of Hesperia

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

Cash and Investments

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

STATEMENT OF NET POSITION:

Current Assets:	<u>June 30, 2013</u>
Cash and cash equivalents	<u>\$ 619,264</u>
Total cash and investments	<u><u>\$ 619,264</u></u>

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

See accompanying independent auditors' report.

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

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

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

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

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

Investment in State Investment Pool:

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

See accompanying independent auditors' report.

**3. CHANGES IN CAPITAL ASSETS:**

A summary of changes in capital assets for the year ended June 30, 2013 is as follows:

	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>
Capital Assets				
Capital Assets, not being depreciated				
Land	\$ 13,242,113	\$ -	\$ -	\$ 13,242,113
Net Capital Assets	<u>\$ 13,242,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,242,113</u>

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

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

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

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

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

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

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REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Fund Balance, July 1</b>	<u>\$ 57,911</u>	<u>\$ 57,911</u>	<u>\$ 57,911</u>	<u>\$ -</u>
<b>Resources (Inflows):</b>				
Use of money and property	62,000	62,000	70,185	8,185
Other	450,000	450,000	918,452	468,452
Grants	<u>-</u>	<u>-</u>	<u>4,650</u>	<u>4,650</u>
Amount Available For Appropriations	<u>512,000</u>	<u>512,000</u>	<u>993,287</u>	<u>481,287</u>
<b>Charges to Appropriations (Outflows):</b>				
Current:				
Development services	<u>617,168</u>	<u>617,168</u>	<u>436,949</u>	<u>180,219</u>
Total Charges to Appropriations	<u>617,168</u>	<u>617,168</u>	<u>436,949</u>	<u>180,219</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>(105,168)</u>	<u>(105,168)</u>	<u>556,338</u>	<u>661,506</u>
<b>Fund Balance, June 30</b>	<u><u>\$ (47,257)</u></u>	<u><u>\$ (47,257)</u></u>	<u><u>\$ 614,249</u></u>	<u><u>\$ 661,506</u></u>

See accompanying note to required supplementary information.

June 30, 2013

1. BUDGETARY DATA:

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