

**GRAND TERRACE
HOUSING SUCCESSOR AGENCY
GRAND TERRACE, CALIFORNIA
FINANCIAL STATEMENTS
JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
Grand Terrace Housing Successor
City of Grand Terrace, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major governmental fund of the Grand Terrace Housing Successor, (the Housing Successor), a Special Revenue Fund of the City of Grand Terrace, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Housing Successor'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.

Auditor's 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 auditor's 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 entity'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 entity'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.



To the Honorable Mayor and Members of the City Council
Grand Terrace Housing Successor
City of Grand Terrace, California

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 the major governmental fund of the Grand Terrace Housing Successor, as of June 30, 2018, 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 budgetary comparison information 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 required supplementary information 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

We have audited the financial statements of Grand Terrace Housing Successor, (the Housing Successor) as of and for the year ended June 30, 2018, and have issued our report thereon dated December 17, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information is the responsibility of management and was derived from the financial statements. The report on excess/surplus calculation has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.



CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council
Grand Terrace Housing Successor
City of Grand Terrace, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018 on our consideration of the Housing Successor'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 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 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 Housing Successor's internal control over financial reporting and compliance.

Lance, Solt & Lughard, LLP

Brea, California
December 17, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENT AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and Members of the City Council
Grand Terrace Housing Successor Agency
City of Grand Terrace, California

Report on Compliance for the Housing Successor

We have audited the Grand Terrace Housing Successor's (Housing Successor) compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ending June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies.

Auditor's Responsibility

Our responsibility is to express an opinion on the Housing Successor's compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *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 noncompliance with the types of compliance requirements referred above that could have a direct and material effect on Housing Successor occurred. An audit includes examining, on a test basis, evidence about the Housing Successor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Housing Successor. However, our audit does not provide a legal determination of the Housing Successor's compliance with those requirements.

Opinion

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Housing Successor for the year ending June 30, 2018.

Report on Internal Control over Compliance

Management of the Housing Successor is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Successor's internal control over compliance with the types of requirements that could have a direct and material effect on the





To the Honorable Mayor and Members of the City Council
Grand Terrace Housing Successor Agency
City of Grand Terrace, CA

Housing Successor to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal controls over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Successor's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance of California Health and Safety Code sections applicable to California Housing Successor Agencies on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of California Health and Safety Code sections applicable to California Housing Successor Agencies will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Excess/Surplus Calculation

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Grand Terrace, California, as of and for the year ended June 30, 2018, and have issued our report thereon dated December 17, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report on excess/surplus calculation is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information is the responsibility of management and was derived from the financial statements. The report on excess/surplus calculation has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of California Health and Safety Code sections applicable to California Housing Successor Agencies. Accordingly, this communication is not suitable for any other purpose.

Brea, California
December 17, 2018

GRAND TERRACE HOUSING SUCCESSOR AGENCY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
 JUNE 30, 2018

	<u>Governmental Fund</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Position</u>
Assets:			
Cash and investments	\$ 206,732	\$ -	\$ 206,732
Receivables:			
Accounts	35,098		35,098
Notes and loans	728,519	-	728,519
Due from other governments	398,636	-	398,636
Advances to City	168,205	-	168,205
Land held for resale	463,166	-	463,166
Total Assets	<u>\$ 2,000,356</u>	<u>-</u>	<u>2,000,356</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:			
Liabilities			
Due to other governments	\$ 21,165	-	21,165
Total Liabilities	<u>21,165</u>	<u>-</u>	<u>21,165</u>
Deferred Inflows of Resources:			
Unavailable revenues	59,519	(59,519)	-
Total Deferred Inflows of Resources	<u>59,519</u>	<u>(59,519)</u>	<u>-</u>
Fund Balance/Net Position:			
Fund Balance			
Restricted for:			
Low and moderate housing activities	1,919,672	(1,919,672)	-
Total Fund Balance	<u>1,919,672</u>	<u>(1,919,672)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 2,000,356</u>		
Net Position			
Restricted for:			
Low and moderate housing activities		1,919,672	1,979,191
Total Net Position		<u>\$ 59,519</u>	<u>\$ 1,979,191</u>

GRAND TERRACE HOUSING SUCCESSOR AGENCY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2018

	Governmental Fund	Reclassifications and Eliminations	Statement of Activities
Revenues:			
Use of money and property	\$ 685	\$ 323	\$ 1,008
Total Revenues	685	323	1,008
Expenditures:			
Current:			
Community development	9,585	-	9,585
Total Expenditures	9,585	-	9,585
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,900)	323	(8,577)
Fund Balance/Net Position:			
Beginning of Year	1,928,572	59,196	1,987,768
End of Year	\$ 1,919,672	\$ 59,519	\$ 1,979,191

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The accompanying financial statements present only the Housing Successor Agency Special Revenue Fund of the City of Grand Terrace, California and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. The Bill impacted the reporting entity of the City of Grand Terrace that previously had reported a redevelopment agency within the report of the City as a blended component unit.

On January 10, 2012, and in accordance with California Health and Safety Code Section 34176, the City Council as part of City resolution number CC-2012-06, elected to retain the housing assets and function of the former redevelopment agency. The City continues to report the housing assets and functions in the government special revenue fund designated City Housing Successor.

The attached basic financial statements contain information relative only to the Grand Terrace Housing Successor Agency Fund (the Housing Successor).

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (Statement of Net position and Statement of Activities) report information on all activities of the Housing Successor. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental special revenue fund.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

GRAND TERRACE HOUSING SUCCESSOR AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

When both restricted and unrestricted resources are available for use, it is the Housing Successor's policy to use restricted resources first, and then unrestricted resources as they are needed.

d. Budget

Budget for the Housing Successor Fund is adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

e. Deferred Inflow of Resources

The balance sheet of the governmental fund is reporting deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Housing Successor has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from long-term loans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

f. Fund Balance and Net Position

Fund Balance

The Housing Successor's fund balances are classified on the governmental fund balance sheet among the following categories:

Nonspendable Fund Balance - This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the city council.

Assigned Fund Balance - This includes amounts that are designated by the City Council for specific purposes.

Unassigned Fund Balance - This is the residual classification that includes all spendable amounts not contained in the other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Housing Successor's policy is to apply restricted fund balance first.

GRAND TERRACE HOUSING SUCCESSOR AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

When expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Housing Successor's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Net Position

The net position reported on the Statement of Net Position in the government-wide financial statements consists of the following three categories:

Investment in capital assets - This amount consists of capital assets, net of accumulated depreciation.

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 all net position that do not meet the definition of "investment in capital assets" or "restricted net position".

II. DETAILED NOTES ON FUNDS

Note 2: Cash and Investments

The City of Grand Terrace maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The Housing Successor Agency pooled cash and investments as of June 30, 2018 was \$206,732.

Note 3: Notes and Loans Receivable

The Low and Moderate Housing Fund of the City's former redevelopment agency issued first time homebuyer and rehabilitation second trust loans with interest rates ranging from zero to 3%. The loan balances are due upon the sale of the properties. Interest of \$16,976 has accrued on the loans for a total of \$728,519.

Note 4: Due from Other Governments

The Low and Moderate Housing Fund of the City's former redevelopment agency advanced funds in the amount of \$398,636 to the Tax Increment Fund of the former redevelopment agency in order to make its SERAF payment in previous years.

Note 5: Advances to City

In previous years, the Low and Moderate Housing Fund of the City's former redevelopment agency advanced funds in the amount \$168,205 to the City's General Fund. On June 22, 2010, the City adopted Resolution 2010-15, in which the cumulative interagency borrowings were memorialized and which set forth a repayment plan by the City to the former Agency subject to available funds.

GRAND TERRACE HOUSING SUCCESSOR AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6: Land Held for Resale

The Housing Successor currently holds two properties for resale in the total amount of \$463,166.

Note 7: Insurance

The Housing Successor Agency participates in the self-insurance programs of the City of Grand Terrace. Disclosures relating to the self-insurance programs can be found in the City's Comprehensive Annual Financial Report.

GRAND TERRACE HOUSING SUCCESSOR AGENCY

BUDGETARY COMPARISON SCHEDULE
 GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,928,572	\$ 1,928,572	\$ 1,928,572	\$ -
Resources (Inflows):				
Use of money and property	-	-	685	685
Amounts Available for Appropriations	1,928,572	1,928,572	1,929,257	685
Charges to Appropriations (Outflow):				
Community development	8,200	43,200	9,585	33,615
Total Charges to Appropriations	8,200	43,200	9,585	33,615
Budgetary Fund Balance, June 30	\$ 1,920,372	\$ 1,885,372	\$ 1,919,672	\$ 34,300

CITY OF GRAND TERRACE HOUSING SUCCESSOR

COMPUTATION OF HOUSING SUCCESSOR
EXCESS/SURPLUS (HSC 34176.1)

	Low and Moderate Housing Funds All Project Area July 1, 2017	Low and Moderate Housing Funds All Project Area July 1, 2018
Opening Fund Balance	\$ 1,928,572	\$ 1,919,672
Less Unavailable Amounts:		
Land held for resale	\$ (640,166)	\$ (463,166)
Advances to City	(168,205)	(168,205)
Loans receivable	(669,000)	(669,000)
	<u>(1,477,371)</u>	<u>(1,300,371)</u>
Available Housing Successor Funds	451,201	619,301
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:		
2017 - 2018	-	685
2016 - 2017	175	175
2015 - 2016	8,262	8,262
2014 - 2015	20,935	20,935
2013 - 2014	42	-
Total	<u>\$ 29,414</u>	<u>\$ 30,057</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Computed Excess/Surplus	<u>None</u>	<u>None</u>