

Audited Financial Statements
City of Montebello
Housing Fund
Year ended June 30, 2015
with Report of Independent Auditors

An Independently Owned Member
McGLADREY ALLIANCE



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Report of Independent Auditors

**The Honorable City Council
City of Montebello, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Fund of the City of Montebello, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Housing Fund's 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 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 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Fund of the City of Montebello, California as of June 30, 2015, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Housing Fund and do not purport to, and do not, present fairly the financial position of the City of Montebello, California, as of June 30, 2015, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Vasquez + Company LLP

**Los Angeles, California
December 30, 2015**

**City of Montebello
Housing Fund
Balance Sheet
June 30, 2015**

ASSETS

Cash and investments	\$	67,636
Cash and investments with fiscal agents		3,652
Notes receivable		5,905,908
Advances to the Successor Agency Trust Fund		8,536,625
Investment in land held for resale		<u>2,040,830</u>
Total assets		<u><u>16,554,651</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES

Due to City of Montebello	\$	<u>63,770</u>
Total liabilities		<u>63,770</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue		<u>5,905,908</u>
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FUND BALANCES

Nonspendable		
Investment in land held for resale		2,040,830
Advances to the Successor Agency Trust Fund		8,536,625
Restricted for housing projects		<u>7,518</u>
Total fund balances		<u>10,584,973</u>

Total liabilities, deferred inflows of resources and fund balances	\$	<u><u>16,554,651</u></u>
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See notes to financial statements.

City of Montebello
Housing Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2015

Revenues		
Other revenue	\$	18,261
	Total revenues	18,261
Expenditures		
Current:		
Housing and community development		-
	Total expenditures	-
	Excess of revenues over expenditures	18,261
	Change in fund balance	18,261
Fund balance, beginning of year		10,566,712
Fund balance, end of year	\$	10,584,973

See notes to financial statements.

NOTE 1 GENERAL

The Housing Fund of the City of Montebello, California (City) accounts for the housing assets and housing-related functions of the City's former redevelopment agency. The Housing Fund is a Low and Moderate Income Housing Asset Fund and, as such, the City is required by Senate Bill No. 341, approved by the Governor on October 13, 2013, to provide an independent auditor's report on the financial statements of the Low and Moderate Income Housing Asset Fund within six months after the end of each fiscal year.

Pursuant to the provisions of ABX1 26, on January 25, 2012, the City Council of the City of Montebello passed and adopted Resolution No. 12-05 creating the Successor Agency to the former Montebello Redevelopment Agency (RDA) in accordance with the California Housing Authority Law and other applicable housing-related regulations. As part of Resolution No. 12-05, the City declared its intent to serve as the Successor Agency to the former RDA. The Successor Agency is reported as a Private Purpose Trust Fund of the City.

The City also declared its intent to assume all housing assets and functions of the former RDA. The transfer of the housing assets was made to the Housing Fund on February 1, 2012.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of the City of Montebello are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. The Housing Fund is accounted for as a Special Revenue Fund of the City. As such, the accompanying financial statements present only the Housing Fund and do not purport to, and do not, present fairly the financial position and the changes in financial position of the City of Montebello, California as of and for the year ended June 30, 2015.

Basis of Accounting

Special Revenue Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

Measurement Focus

Special Revenue Funds are accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables represent amounts owed to the Housing Fund pursuant to agreements for the development and operation of housing properties and by the Successor Agency Trust Fund. These receivables are long-term in nature and as such these assets are considered to represent a nonspendable portion of the Housing Fund's fund balance.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The following are the Housing Fund's fund balance classification as of June 30, 2015.

- Nonspendable - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. The Housing Fund's nonspendable fund balances represent land held for resale and long-term receivables from the Successor Agency.
- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The Housing Fund's remaining fund balances are restricted for eligible housing and community development costs as required by grantor agreements, laws and regulations.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City of Montebello's Comprehensive Annual Financial Report.

Implementation of New Accounting Pronouncements

During the year ended June 30, 2015, the City adopted the following Governmental Accounting Standards Board (GASB) statements which impacted the City's financial statements:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements (continued)

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of pensions that are provided by local governmental employers through pension plans that are administered through trusts that meet certain conditions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.
- GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of GAS Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

Refer to the City’s Comprehensive Annual Financial Report for additional information.

NOTE 3 NOTES RECEIVABLE

Notes receivable represents loans made for assistance in rehabilitating property for affordable housing, and accrued interest. Because interest is payable at maturity and is not available to finance current operations, interest on notes receivable is not recognized in the Housing Fund financial statements as a current period revenue.

Balance at
June 30, 2015

Montebello Downtown Plaza Project

On December 26, 2001, the Agency entered into an Owner Participation Agreement (Agreement) with the Montebello Downtown Plaza LLC (Participant) for the acquisition, development, and operation of affordable senior citizen rental units and retail commercial buildings. The Agreement, which was amended and restated on October 26, 2005, provides that the now dissolved Redevelopment Agency loan a total amount of \$6,250,000 from the Low- and Moderate-Income Housing Fund for the acquisition of property and construction of affordable senior housing units. The Participant was to provide financing for costs in excess of \$6,250,000. The loan is to be forgiven over a period of 99 years in exchange for continuing to operate and maintain the affordable housing project. The loan receivable balance is offset by a similar amount of deferred inflows of resources.

\$ 5,276,308

NOTE 3 NOTES RECEIVABLE (CONTINUED)

	<u>Balance at</u> <u>June 30, 2015</u>
<p><u>Whittier Project</u> In March 2000, the now dissolved Redevelopment Agency entered into an Owner Participation Agreement with Garfield Financial Corporation (Owner), whereby the Agency was to loan the Owner money for the construction of an affordable housing project. In accordance with the agreement, the amounts disbursed accrue interest at the rate of 7% compounded annually. In fiscal year 2005, the terms of the note were changed to forgive the loan over a period of 99 years in exchange for continuing to operate and maintain the affordable housing project. The loan receivable balance is offset by a similar amount of deferred inflows of resources.</p>	629,600
<p>Total Notes Receivable</p>	\$ <u><u>5,905,908</u></u>

NOTE 4 DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”* and GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities,”* the Housing Fund recognized deferred inflows of resources in the Housing Fund’s financial statements. The deferred inflows of resources, amounting to \$5,905,908, pertain to unavailable revenues which represent notes receivable that are not collectable within the availability period.

NOTE 5 SUBSEQUENT EVENTS

The City of Montebello has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements of the Housing Fund. Such events were evaluated through December 30, 2015, the date the financial statement was available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the notes to financial statements of the Housing Fund.



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