

**BANNING HOUSING AUTHORITY  
HOUSING SUCCESSOR OF THE  
CITY OF BANNING, CALIFORNIA  
FINANCIAL STATEMENTS**

**JUNE 30, 2014**

BANNING HOUSING AUTHORITY  
HOUSING SUCCESSOR OF THE  
CITY OF BANNING, CALIFORNIA

FINANCIAL STATEMENTS

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BANNING HOUSING AUTHORITY

JUNE 30, 2014

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the  
Banning Housing Authority  
City of Banning, California

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the Banning Housing Authority, (the Housing Successor), a Special Revenue Fund of the City of Banning, California, as of and for the year ended June 30, 2014, 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.

### ***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 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 Housing Successor'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 Housing Successor'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  
Banning Housing Successor  
City of Banning, 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 Banning Housing Authority, a special revenue fund of the City of Banning, as of June 30, 2014, and the respective changes in financial position thereof 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, the financial statements present on the Banning Housing Authority, a special revenue fund of the City of Banning, and do not purport to, and do not, present fairly the financial position of the City of Banning, California, as of June 30, 2014, the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 budgetary comparison information as listed in the 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 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. 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*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of the Banning Housing Authority's basic financial statements. 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 basic 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.



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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 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.

A handwritten signature in black ink that reads 'Lance, Soll &amp; Lungard, LLP'.

Brea, California  
December 24, 2014

**BANNING HOUSING AUTHORITY**

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET**  
**JUNE 30, 2014**

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	<b>Governmental Fund</b>	<b>Reclassifications</b>	<b>Statement of Net Position</b>
<b>Assets:</b>			
Pooled cash and investments	\$ 508,771	\$ -	\$ 508,771
Receivables:			
Notes and loans	966,205	-	966,205
Accrued interest	964	-	964
Due from other governments	2,298,433	-	2,298,433
<b>Total Assets</b>	<b>\$ 3,774,373</b>	<b>\$ -</b>	<b>\$ 3,774,373</b>
<b>Deferred inflows of Resources, and Fund Balances/Net Position:</b>			
<b>Deferred inflows of resources:</b>			
Unavailable revenues	\$ 966,205	\$ (966,205)	\$ -
<b>Total Deferred inflows of Resources</b>	<b>966,205</b>	<b>(966,205)</b>	<b>-</b>
<b>Fund Balances/Net Position:</b>			
<b>Restricted for:</b>			
Community development projects	2,808,168		3,774,373
<b>Total Fund Balances/Net Position</b>	<b>2,808,168</b>	<b>-</b>	<b>3,774,373</b>
<b>Total Deferred inflows of resources, and Fund Balances/Net Position</b>	<b>\$ 3,774,373</b>	<b>\$ (966,205)</b>	<b>\$ 3,774,373</b>

**BANNING HOUSING AUTHORITY****STATEMENT OF ACTIVITIES AND GOVERNMENTAL STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

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	<b>Governmental Fund</b>	<b>Reclassifications</b>	<b>Statement of Activities</b>
<b>Revenues:</b>			
Use of money and property	\$ 2,514		\$ 2,514
Miscellaneous	20,000	-	20,000
<b>Total Revenues</b>	<b>22,514</b>	<b>-</b>	<b>22,514</b>
<b>Expenditures:</b>			
Current:			
Community development	-	154,401	154,401
<b>Total Expenditures</b>	<b>-</b>	<b>154,401</b>	<b>154,401</b>
Net Change in Fund Balances	22,514	(154,401)	(131,887)
Fund Balance/ Net Position, Beginning of Year	2,785,654	1,120,606	3,906,260
<b>Fund Balance/Net Position, End of Year</b>	<b>\$ 2,808,168</b>	<b>\$ 966,205</b>	<b>\$ 3,774,373</b>

## **BANNING HOUSING AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS** **JUNE 30, 2014**

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#### **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 Banning Housing Authority, a Special Revenue Fund of the City of Banning, California (the City) 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 Banning that previously had reported a redevelopment agency within the report entity of the City as a blended component unit.

On January 10, 2012, and in accordance with California Health and Safety Code Section 34176, with resolution 2012-01 HA the Housing Authority, a blended component unit of the City of Banning, California elected to retain the housing assets and function of the former redevelopment agency. The Housing Authority 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 Banning Housing Authority 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.

###### **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.

## BANNING HOUSING SUCCESSOR

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2014

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#### 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. 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 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.

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, and 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.

## BANNING HOUSING SUCCESSOR

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2014

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

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 ACCOUNT BALANCES

##### Note 2: Cash and Investments

The City of Banning 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 pooled cash and investment position as of June 30, 2014, was \$508,771.

##### Note 3: Notes and Loans Receivable

The Housing Successor has entered into various loan agreements relating to owners' participation agreements. The owners' participation agreements have repayment terms between 6 and 55 years. The following summarizes the loans outstanding at June 30, 2014:

Description	Balance at June 30, 2014
First-time Home Buyer Down Payment Assistance	\$ 466,205
OPA - Westview Terrace 2011	<u>500,000</u>
Total loans receivable at June 30, 2014	<u>\$ 966,205</u>

##### Note 4: Due From Other Governments

The Housing Successor Low/Mod Fund made an advance of \$2,298,433 to the Former Redevelopment Agency Debt Service Fund to fund the mandated payment for the "Supplemental" Educational Revenue Augmentation Fund. This amount continues to be outstanding as of June 30, 2014.

**BANNING HOUSING AUTHORITY**

**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED JUNE 30, 2014**

	<b>Budget Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		<b>Positive (Negative)</b>
Budgetary Fund Balance, July 1	\$ 2,785,654	\$ 2,785,654	\$ 2,785,654	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	-	1,100	2,514	1,414
Miscellaneous	-	-	20,000	20,000
<b>Amounts Available for Appropriations</b>	<b>2,785,654</b>	<b>2,786,754</b>	<b>2,808,168</b>	<b>21,414</b>
<b>Charges to Appropriation (Outflow):</b>				
Transfers out	191,599	-	-	-
<b>Total Charges to Appropriations</b>	<b>191,599</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 2,594,055</b>	<b>\$ 2,786,754</b>	<b>\$ 2,808,168</b>	<b>\$ 21,414</b>

**BANNING HOUSING SUCCESSOR**

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2014**

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**Budget**

Budget for the Housing Authority 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.

**BANNING HOUSING AUTHORITY****COMPUTATION OF HOUSING SUCCESSOR  
EXCESS/SURPLUS (HSC 34176.1)**

	<b>Low and Moderate Housing Funds Housing Successor July 1, 2013</b>	<b>Projected Low and Moderate Housing Funds Housing Successor July 1, 2014</b>
Opening Fund Balance	\$ 2,785,654	\$ 2,808,168
Less Unavailable Amounts:		
SERAF loans	<u>\$ (2,298,433)</u>	<u>\$ (2,298,433)</u>
	<u>(2,298,433)</u>	<u>(2,298,433)</u>
Available Housing Successor Funds	<u>487,221</u>	<u>509,735</u>
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:*		
2013 - 2014	-	22,506
2012 - 2013	1,959,222	1,959,222
2011 - 2012	<u>586,307</u>	<u>586,307</u>
Total	<u><b>\$ 2,545,529</b></u>	<u><b>\$ 2,568,035</b></u>
<b>Base Limitation</b>	<u><b>\$ 1,000,000</b></u>	<u><b>\$ 1,000,000</b></u>
Greater amount	<u>\$ 2,545,529</u>	<u>\$ 2,568,035</u>
<b>Computed Excess/Surplus</b>	<b><u>None</u></b>	<b><u>None</u></b>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of the  
Banning Housing Authority  
City of Banning, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and the Banning Housing Authority, (the Housing Successor), a Special Revenue Fund of the City of Banning, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Housing Successor basic financial statements, and have issued our report thereon dated December 24, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Housing Successor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Successor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Successor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Housing Successor's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Successor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Members of the  
Banning Housing Authority  
City of Banning, California

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Successor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Successor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads 'Lance, Soll & Lungard, LLP'.

Brea, California  
December 24, 2014



CERTIFIED PUBLIC ACCOUNTANTS

**vpb** A Division of LSL, CPAs  
vilmure, peeler & boucher

- David E. Hale, CPA, CFP
- Deborah A. Harper, CPA
- Donald G. Slater, CPA
- Gary A. Cates, CPA
- Richard K. Kikuchi, CPA
- Michael D. Mangold, CPA
- Susan F. Matz, CPA
- David S. Myers, CPA
- Bryan S. Gruber, CPA

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

To the Members of the  
Banning Housing Authority  
City of Banning, California

### **Report on Compliance**

We have audited the Banning Housing Successor (the Housing Successor) compliance with the types of requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies under SB 341 that could have a direct and material effect on the Housing Successor for the year ending June 30, 2014.

### ***Management's Responsibility***

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

### ***Auditors' 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 under SB 341. 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 the 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 under SB 341. However, our audit does not provide legal determination of the Housing Successor's compliance.

### ***Opinion***

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Housing Successor under SB 341 for the year ending June 30, 2014.



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

### **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 material effect on the housing program 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 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 compliance requirement 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.

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. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads 'Lance, Soll & Lunghard, LLP'.

Brea, California  
December 24, 2014