



BANNING HOUSING AUTHORITY HOUSING SUCCESSOR OF THE CITY OF BANNING, CALIFORNIA FISCAL YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

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on YOU



BANNING HOUSING AUTHORITY

HOUSING SUCCESSOR OF THE
CITY OF BANNING, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2018

BANNING HOUSING AUTHORITY

CITY OF BANNING, CALIFORNIA

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities of 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, 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
Banning Housing Authority
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 of the 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

As discussed in Note 1, the financial statements present only the Banning Housing Authority Funds and are not intended to present fairly the financial position and results of operations of the City of Banning in conformity with accounting principles generally accepted in the United States. We have audited the financial statements of the Banning Housing Authority, (the Housing Successor) as of and for the year ended June 30, 2018, and have issued our report thereon dated December 28, 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.



To the Honorable Mayor and Members of the City Council
Banning Housing Authority
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 28, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Successor's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Successor's internal control over financial reporting and compliance.

Brea, California
December 28, 2018

BANNING HOUSING AUTHORITY

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

	Governmental Fund	Reclassifications	Statement of Net Position
Assets:			
Pooled cash and investments	\$ 1,462,287	\$ -	\$ 1,462,287
Receivables:			
Notes and loans	806,205	-	806,205
Accrued interest	6,170	-	6,170
Due from other governments	968,415	-	968,415
Total Assets	\$ 3,243,077	\$ -	\$ 3,243,077
Deferred Inflows of Resources, and Fund Balances/Net Position:			
Deferred Inflows of Resources:			
Unavailable revenues	\$ 806,205	\$ (806,205)	\$ -
Total Deferred Inflows of Resources	806,205	(806,205)	-
Fund Balances/Net Position:			
Restricted for:			
Community development projects	2,436,872	806,205	3,243,077
Total Fund Balances/Net Position	2,436,872	806,205	3,243,077
Total Deferred Inflows of Resources, and Fund Balances/Net Position	\$ 3,243,077	\$ -	\$ 3,243,077

BANNING HOUSING AUTHORITY

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

	Governmental Fund	Reclassifications	Statement of Activities
Revenues:			
Intergovernmental	\$ 81,580	\$ -	
Use of money and property	13,083	-	13,083
Total Revenues	94,663	-	94,663
Expenditures:			
Current:			
Community development	7,496	-	7,496
Total Expenditures	7,496	-	7,496
Excess (Deficiency) of Revenues Over (Under) Expenditures	87,167	-	87,167
Fund Balance/Net Position, Beginning of Year	2,349,705	806,205	3,155,910
Fund Balance/Net Position, End of Year	\$ 2,436,872	\$ 806,205	\$ 3,243,077

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, 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. 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.

Unrestricted Net Position - This amount is all net position that do not meet the definition of "investment in capital assets" or "restricted net position".

BANNING HOUSING SUCCESSOR**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2018

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, 2018, was \$1,462,287.

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, 2018:

Description	Balance at June 30, 2018
First-time Home Buyer Down Payment Assistance	\$ 306,205
OPA - Westview Terrace 2011	500,000
Total loans receivable at June 30, 2018	<u>\$ 806,205</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. No amount was paid during the current fiscal year. The amount outstanding as of June 30, 2017 is \$968,415.

BANNING HOUSING AUTHORITY

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Budgetary Fund Balance, July 1	\$ 2,349,705	\$ 2,349,705	\$ 2,349,705	\$ -
Resources (Inflows):				
Intergovernmental	968,415	968,415	81,580	(886,835)
Use of money and property	1,200	1,200	13,083	11,883
Amounts Available for Appropriations	3,319,320	3,319,320	2,444,368	(874,952)
Charges to Appropriations (Outflow):				
Community development	3,713	3,713	7,496	(3,783)
Total Charges to Appropriations	3,713	3,713	7,496	(3,783)
Budgetary Fund Balance, June 30	\$ 3,315,607	\$ 3,315,607	\$ 2,436,872	\$ (878,735)

BANNING HOUSING SUCCESSOR

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgets and Budgetary Accounting

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)**

	Low and Moderate Housing Funds Housing Successor July 1, 2017	Projected Low and Moderate Housing Funds Housing Successor July 1, 2018
Opening Fund Balance	\$ 2,349,705	\$ 2,436,872
Less Unavailable Amounts:		
SERAF loans	<u>\$ (968,415)</u>	<u>\$ (968,415)</u>
	(968,415)	(968,415)
Available Housing Successor Funds	<u>1,381,290</u>	<u>1,468,457</u>
Limitation (greater of \$1,000,000 or four years deposits)		
Aggregate amount deposited for last four years:*		
2017 - 2018	N/A	94,663
2016 - 2017	5,216	5,216
2015 - 2016	21,200	21,200
2014 - 2015	61,702	61,702
2013 - 2014	<u>22,514</u>	<u>N/A</u>
Total	<u>\$ 110,632</u>	<u>\$ 182,781</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>\$ 381,290</u>	<u>468,457</u>

Please note, if a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) of Health and Safety Code 34176.1 or transfer the funds pursuant to paragraph (2) of subdivision (c) of 34176.1 within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program.

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 Mayor and Members of the City Council
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 of 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, 2018, and the related notes to the financial statements, which collectively comprise the Housing Successor's basic financial statements, and have issued our report thereon dated December 28, 2018.

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 entity'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 Honorable Mayor and Members of the City Council
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.

Brea, California
December 28, 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
Banning Housing Authority
City of Banning, California

Report on Compliance for the Housing Successor

We have audited the Banning Housing Authority'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.



To the Honorable Mayor and Members of the City Council
Banning Housing Authority
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 direct and material effect on the 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 of the Banning Housing Authority as of and for the year ended June 30, 2018 and have issued our report thereon dated December 28, 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.



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

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.

Lance, Soll & Loughard, LLP

Brea, California
December 28, 2018