

# RIVERSIDE COMMUNITY HOUSING CORPORATION

## STATEMENT OF NET POSITION JUNE 30, 2017

### ASSETS

#### Current Assets

Cash & cash equivalents	\$ 915,277
Accounts receivable (net)	687,945
<b>Total Current Assets</b>	<u>1,603,222</u>

#### Noncurrent Assets

Capital assets - net	6,390,555
Notes receivable	119,335
<b>Total Noncurrent Assets</b>	<u>6,509,890</u>

<b>TOTAL ASSETS</b>	<u><b>8,113,112</b></u>
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<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	845,195
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### LIABILITIES

#### Current Liabilities

Accounts payable	190,496
Unearned income	108,026
Other liabilities	209,685
Tenant security deposits	317,689
Compensated absences - current	35,916
<b>Total Current Liabilities</b>	<u>861,812</u>

#### Noncurrent Liabilities

Net pension liability	1,939,176
Compensated absences - noncurrent	323,262

<b>Total Noncurrent Liabilities</b>	<u>2,262,438</u>
<b>TOTAL LIABILITIES</b>	<u><b>3,124,250</b></u>

<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	271,460
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### NET POSITION

Net Investment in Capital Assets	6,390,555
Unrestricted	(827,958)
<b>TOTAL NET POSITION</b>	<u><b>\$ 5,562,597</b></u>

# RIVERSIDE COMMUNITY HOUSING CORPORATION

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2017

### REVENUES

#### Operating Revenues

Dwelling rental (net)	\$ 1,022,313
Grants	2,142,154
Other revenue	670,781
<b>Total Operating Revenues</b>	<b>3,835,248</b>

### EXPENSES

#### Operating Expenses

Administrative	1,301,464
Utilities	396,886
Maintenance and operations	1,684,640
General	178,542
Housing assistance payments	307,674
Insurance	189,897
Depreciation	875,176
<b>Total Operating Expenses</b>	<b>4,934,279</b>
<b>Operating Income (Loss)</b>	<b>(1,099,031)</b>

#### Nonoperating Revenues (Expenses)

Investment income	722
<b>Total Nonoperating Revenues (Expenses)</b>	<b>722</b>
<b>Change in Net Position before Contributions</b>	<b>(1,098,309)</b>

#### Capital Contributions

Contribution income	7,379,668
Contribution expense	(802,783)
<b>Total Capital Contributions</b>	<b>6,576,885</b>

**Change in Net Position 5,478,576**

Net Position - beginning	84,021
<b>Net Position - ending</b>	<b>\$ 5,562,597</b>

# RIVERSIDE COMMUNITY HOUSING CORPORATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017

### CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from grants	\$ 2,142,154
Receipts from customers and users	1,291,597
Payments to suppliers and personnel	(1,824,752)
Payments for housing assistance	(307,674)
Other receipts and payments	254,789
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>1,556,114</b>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(7,265,731)
Capital contributions received	6,576,885
<b>Net Cash Provided (Used) By Financing Activities</b>	<b>(688,846)</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest income on investments	722
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>722</b>

<b>Net Increase (Decrease) In Cash</b>	<b>867,990</b>
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<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<b>47,287</b>
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<b>CASH AND CASH EQUIVALENTS - Ending of Year</b>	<b>\$ 915,277</b>
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### Reconciliation of Operating Income (Loss) to Net Cash Provided

#### (Used) by Operating Activities

<b>Operating Income (Loss)</b>	<b>\$ (1,099,031)</b>
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Adjustment to reconcile operating income (loss) to net cash provided  
(used) by operating activities:

Depreciation	875,176
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#### Changes in assets, liabilities, and deferred inflows of resources:

(Increase) decrease accounts receivable	(572,423)
Increase (decrease) other liabilities	200,890
Increase (decrease) tenant security deposits	317,689
Increase (decrease) compensated absences	359,178
Increase (decrease) accounts payable	1,168
Increase (decrease) unearned revenue	108,026
Increase (decrease) pension related	1,365,441

<b>Total Adjustments</b>	<b>2,655,145</b>
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<b>Net cash used by operating activities</b>	<b>\$ 1,556,114</b>
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# RIVERSIDE COMMUNITY HOUSING CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

The financial statements of Riverside Community Housing Development Corporation (the "Corporation") have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The Authority has previously implemented GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*. Certain significant changes in the statements are as follows: The financial statements will include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Corporation's overall financial position and results of operations.

The Corporation is a non-profit corporation and is a wholly owned subsidiary of the Housing Authority of the County of Riverside (a special-purpose government engaged only in business-type activities) and, therefore, the Corporation presents the financial statements required for proprietary (enterprise funds), in accordance with GASB Statement 34, paragraph 138 and GASB 63. For these governments, basic financial statements and required supplementary information consist of:

- Management Discussion and Analysis (MD&A)
- Enterprise fund financial statements consisting of:
  - Statement of Net Position
  - Statement of Revenues, Expenses & Changes in Net Position
  - Statement of Cash Flows
- Notes to Financial Statements
- Required supplementary information other than MD&A

#### A. Reporting Entity

The Corporation operates as a California non-profit public benefit corporation whose purpose is to engage in financing, acquiring, developing, rehabilitating, owning, managing, and selling affordable housing for extremely low, low and moderate income persons within the County of Riverside. Further Corporation augments low and moderate income resident services and housing programs sponsored by the Housing Authority of the County of Riverside and/or the County of Riverside Economic Development Agency.

GASB establish criteria for determining which, if any, component units should be considered part of the Housing Authority of the County of Riverside (the "Authority") for financial reporting purposes. The basic criteria for including a potential component unit organization within the Authority's reporting entity includes whether:

- The organization is legally separate (can be sued in their own name)
- The Housing Authority holds the corporate powers of the organization
- The Housing Authority appoints a voting majority of the organization's board
- The Housing Authority is able to impose its will on the organization
- The organization has the potential to impose a financial burden/benefit on the Housing Authority
- There is a fiscal dependency by the organization on the Housing Authority

Based on the aforementioned criteria, and the control and relationship between the Authority and the Corporation, the Authority has determined that the Corporation is considered a blended component unit.

B. Basic Financial Statements/Funds

All activities of the Corporation are reported in proprietary fund types. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is secured by the Corporation's capital assets and by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

In the Statement of Net Position, equity is classified as net position and displayed in three components:

- a) Net Investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those capital assets.
- b) Restricted net position – Consists of assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- c) Unrestricted net position – All other assets that do not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted net positions are available for use, generally it is the Corporation's policy to use restricted resources first.

C. Accrual Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

D. Financial Statement Accounts & Other Accounting Matters

*Revenues.*

All of the Corporation's revenues are accrued. These revenues consist of user charges for rents, utilities, repairs and other miscellaneous charges. Monies received from customers for security deposits are recorded as a liability upon receipt. Subsidies and grants, which finance current operations, are reported as operating revenues. Subsidies and grants, which finance capital operations, gain/loss on sale of fixed assets, and interest income/expense, are reported as non-operating revenues.

Revenues for government-mandated and voluntary exchange transactions, are recorded when all applicable eligibility requirements, including time requirements, are met. Resources received before all eligibility requirements are met are reported as deferred inflows of resources or unearned revenues.

In accordance with GASB standards, for the fiscal year ended June 30, 2017, dwelling income and other rental related fees of \$1,041,965 has been netted with bad debt expense of \$(19,652).

*Cash and Equivalents, and Investments.*

- a. Cash and Equivalents. The Corporation defines cash to include certificates of deposit, money market funds, savings accounts, demand deposits, and other short-term securities with original maturities of three months or less; consequently, the cost, carrying value, and market value are equivalent.
- b. Investments. Investments, if any, would be carried at fair market value, except for U.S. Treasury Bills, which would be canceled at amortized cost.

*Restricted Cash.*

Restricted cash consists of cash and investments that are held in trust, reserves and escrows, as well as other cash and investments that are restricted for specific purposes.

*Accounts Receivable.*

Accounts receivable consists of all amounts earned at year end and not yet received. Allowances for uncollectible accounts are based upon historical trends and periodic aging of accounts receivable.

*Capital Assets.*

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation of exhaustible capital assets is charged as an expense against operations utilizing the straight-line method. Accumulated depreciation is reported on the Statement of Fund Net Position. The estimated useful lives for each major class of depreciable fixed assets are as follows:

<u>Asset Class</u>	<u>Estimated Lives</u>
Buildings and Improvements	10-25
Equipment	5-15
Vehicles	10

*Compensated Absences.*

The Corporation is allocated a percentage of the compensated absence obligation of the Authority. For a more detailed discussion on the compensated absence policy see the Housing Authority of the County of Riverside's financial statements for the year ended June 30, 2017.

*Use of Estimates.*

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

*Tenant Security Deposits.*

Security deposits consist of amounts held in trust with the Corporation in order for tenants to secure apartment leases.

*Unearned Revenue.*

Unearned revenues, if any, consist of rental payments made by tenants in advance of their due date, and rental supplements to be paid to owners of private dwellings during the first month of the next fiscal year as well as grant advances that are only subject to performance milestones in order to recognize revenues.

*Deferred Inflows/Outflows of Resources.*

In accordance with GASB 63, in addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

The Authority allocates a percentage of its deferred inflows/outflows to the Corporation. As of yearend the Authority had allocated deferred outflows of resources consisting of pension amounts of \$845,195 to the Corporation.

Also, in addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Corporation's deferred inflows of resources consist of pension activity and as of June 30, 2017 was \$271,460.

*Pensions.*

The Corporation is allocated a percentage of the pension and related items of the Authority's pension obligations. For a more detailed discussion on the pension as well as the related deferred outflow/inflows of resources see the Housing Authority of the County of Riverside's financial statements for the year ended June 30, 2017.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Pension Plans (CEPP) and additions to/deductions from CEPP's fiduciary net position have been determined on the same basis as they are reported by the California Public Employee's Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Depreciation.*

Depreciation expense of \$875,176 has been recognized during the year ended June 30, 2017.

*Leasing Activities.*

The Corporation is the lessor of dwelling units to eligible residents. The rents under the leases are determined generally by the residents' income as adjusted for eligible deductions regulated by HUD, although the residents may opt for a flat rent. Leases may be cancelled at any time or renewed annually. The Corporation may cancel the leases only for a cause. Revenues associated with these leases are recorded in the accompanying financial statements and related schedules within dwelling rent revenue.

*Income Taxes.*

The Corporation is exempt from federal income tax under Internal Revenue Code Section 501 (c)(3) and by California Revenue and Taxation Code Section 23701d. Contributions from donors qualify for income tax deductions.

The Corporation has evaluated tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Corporation's continued qualification as a tax-exempt organization and whether there is unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit and/or examination; therefore, no disclosures of uncertain income tax positions are required.

**RIVERSIDE COMMUNITY HOUSING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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The Corporation files informational returns in the U.S. federal jurisdiction, as well as the State of California. The statute of limitations for federal and state purposes are generally three and four years, respectively.

***Subsequent Events.***

Events that occur after the financial statements date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date require disclosure in the accompanying notes. Management evaluated the activity of the company through (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

***Governance.***

The following table lists the Board of Directors as of the year ended June 30, 2017 for the Corporation:

Directors	Position	Term
John F. Tavaglione	Chairman	2018
Chuck Washington	Vice Chairman	2018
Kevin Jeffries	Supervisor	2018
V. Manuel Perez	Supervisor	2018
Marion Ashley	Supervisor	2018

In addition to the above Directors, the Administrator of the Corporation is Heidi Marshall, who served as the Chief Operating Officer.

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RIVERSIDE COMMUNITY HOUSING CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2017

**2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2017 are classified in the accompanying financial statements as follows:

<b>Unrestricted</b>	
Checking & Money Market	\$ 597,588
<i>Subtotal</i>	<u>597,588</u>
<b>Restricted</b>	
Tenant Security Deposits	317,689
<i>Subtotal</i>	<u>317,689</u>
<b>Total Cash &amp; Cash Equivalents</b>	<u><b>\$ 915,277</b></u>

**Required Note Disclosures**

Acknowledging that deposits and investments of state and local governments are subject to various risks, the Governmental Accounting Standards Board Statement 40 (GASB 40) requires note disclosures about investment policies and five deposit and investment risks identified as custodial credit risk, credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

**Investment Policy**

In November 5, 2015, the Board of Commissioners of the Housing Authority ratified, approved, and adopted the Investment Policy, effective July 1, 2015. This Investment Policy identifies the specific types of deposits and investments which are authorized by that Investment Policy, by the Department of Housing and Urban Development (HUD) and by the California Government Code (CGC). As a blended component unit of the Housing Authority the Corporation follows the same investment policy.

The Investment Policy of the Corporation does not name the five specific deposit and investment risks identified by GASB 40, but this Investment Policy does address these risks in principal by stating that it shall be the policy of the Corporation to invest funds in a manner which will provide the maximum safety, liquidity and reasonable investment return while meeting the daily cash flow demands of the Corporation and conforming to all statutes governing the investment of the Corporation funds.

**Authorized Types of Deposits and Investments**

All types of deposits with financial institutions and all types of investments made by the Corporation during Fiscal Year 2017 were authorized by its own Investment Policy, by HUD and by the CGC. The type and value of these deposits with financial institutions and investments as of June 30, 2017 are identified below.

**Deposits with Financial Institutions**

*Insured Demand Deposit Accounts*

Bank of America	\$ 915,277	100.00%
<b>Total Insured Deposits</b>	<u><b>\$ 915,277</b></u>	<u><b>100.00%</b></u>

**Disclosure Required for Risks Related to Deposits with Financial Institutions**

**Custodial Credit Risk**

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

**RIVERSIDE COMMUNITY HOUSING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

The Investment Policy of the Corporation, HUD and the California Government Code do not address legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure such deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

*Fair Value Estimate:* GASB defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. GASB established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The estimated fair value of the Corporation's financial instruments has been determined by management using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, receivables, payables and accrued liabilities are a reasonable estimate of their fair value, due to their short-term nature and method of computation.

All financial assets that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

**3. ACCOUNTS RECEIVABLE**

The following presents a breakdown of accounts receivable as of June 30, 2017:

Tenant Accounts Receivable	
Current tenants	\$ 74,931
Noncurrent tenants	296,304
<i>Subtotal</i>	<u>371,235</u>
Less: Allowance for Doubtful Tenant Accounts	<u>(205,692)</u>
Net Tenant Accounts Receivable	165,543
 Due from the Authority	 57,056
Due from other Gov'ts	463,207
Miscellaneous Receivables	2,139
Accounts Receivable (net)	<u>\$ 687,945</u>

**RIVERSIDE COMMUNITY HOUSING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**4. CAPITAL ASSETS**

A summary of the activity for capital assets for the year ended June 30, 2017 is as follows:

	Balance at 06/30/16	Additions	Dispositions	Transfers	Balance at 06/30/17
<b>Nondepreciable</b>					
Available for Sale	\$ -	\$ -	\$ -	\$ -	\$ -
Land	-	3,197,517	-	-	3,197,517
Construction in Progress	-	619,351	-	-	619,351
<i>Subtotal</i>	-	3,816,868	-	-	3,816,868
<b>Depreciable</b>					
Buildings & Improvements	-	32,325,145	-	-	32,325,145
Equipment & Vehicles	-	489,582	(31,746)	-	457,836
<i>Subtotal</i>	-	32,814,727	(31,746)	-	32,782,981
<b>Gross Capital Assets</b>	-	<b>36,631,595</b>	<b>(31,746)</b>	-	<b>36,599,849</b>
Accumulated depreciation	-	(30,241,040)	31,746	-	(30,209,294)
<b>Capital Assets (net)</b>	<b>\$ -</b>	<b>\$ 6,390,555</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,390,555</b>

**5. NOTES RECEIVABLE**

A summary of the activity for notes receivable for the year ended June 30, 2017 is as follows:

	Balance at 06/30/16	Principal		Balance at 06/30/17	Current Portion
		Additions	Deletions		
Mobile home loans	\$ 119,335	\$ -	\$ -	\$ 119,335	\$ -

**Notes Receivable Description(s)**

*Mobile Home Loans*

The Corporation sells mobile homes to qualified individuals. Instead of cash payment or outside financing the Corporation places a lean against the property with a 0% non-interest bearing note with a 45 year maturity. The note requires no payments, after the maturity date the loan will be forgiven.

**6. NONCURRENT LIABILITIES**

A summary of the activity for noncurrent liabilities for the year ended June 30, 2017 is as follows:

	Balance at 06/30/16	Additions	Deletions	Balance at 06/30/17	Current Portion
Net Pension Liability	\$ -	\$ 1,939,176	\$ -	\$ 1,939,176	\$ -
Compensated Absences	\$ -	\$ 395,094	\$ (35,916)	\$ 359,178	\$ 35,916