



**City of Montebello**  
**Audited Financial Statements**  
**Housing Successor Fund**  
*As of and for the Year Ended June 30, 2018*  
*with Report of Independent Auditors*

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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 Successor Fund of the City of Montebello, California, as of and for the year ended June 30, 2018, 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 Successor Fund of the City of Montebello, California as of June 30, 2018, 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 Successor Fund and do not purport to, and do not, present fairly the financial position of the City of Montebello, California, as of June 30, 2018, 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. Our opinion is not modified with respect to this matter.

*Vasquez + Company LLP*

**Glendale, California  
December 28, 2018**

**City of Montebello  
Housing Successor Fund  
Balance Sheet  
June 30, 2018**

<b>ASSETS</b>		
Cash and investments	\$	821,874
Notes receivable		5,905,908
Advances to the Successor Agency Trust Fund		6,116,642
Prepaid expenses		137
Investment in land held for resale		<u>2,040,830</u>
<b>Total assets</b>	<b>\$</b>	<b><u>14,885,391</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$	1,715
Due to City of Montebello		<u>9,611</u>
<b>Total liabilities</b>		<u>11,326</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue		<u>5,905,908</u>
<b>FUND BALANCES</b>		
Nonspendable		
Investment in land held for resale		2,040,830
Advances to the Successor Agency Trust Fund		6,116,642
Prepaid expenses		137
Restricted for housing projects		<u>810,548</u>
<b>Total fund balances</b>		<u>8,968,157</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>		<b>\$ <u>14,885,391</u></b>

*See notes to financial statements.*

**City of Montebello**  
**Housing Successor Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year ended June 30, 2018**

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<b>Revenues</b>		
Other revenue	\$	5,760
	<b>Total revenues</b>	5,760
<b>Expenditures</b>		
Current:		
Housing and community development		20,059
	<b>Total expenditures</b>	20,059
	<b>Deficiency of revenues over expenditures</b>	(14,299)
	<b>Change in fund balance</b>	(14,299)
<b>Fund balance, beginning of year</b>		8,982,456
<b>Fund balance, end of year</b>	\$	8,968,157

*See notes to financial statements.*

**NOTE 1      GENERAL**

The Housing Successor Fund of the City of Montebello, California (City) accounts for the housing assets and housing-related functions of the City's former redevelopment agency (RDA). The Housing Successor 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 California Assembly Bill X1 26 (ABX1 26) (as subsequently amended from time to time, the "Dissolution Law"), on January 25, 2012, the City Council of the City of Montebello passed and adopted Resolution No. 12-05 electing to serve as the Housing Successor to the Former Montebello Redevelopment Agency (Housing Successor), and thereby manage the housing assets and functions of the former RDA in accordance with the California Housing Authority Law and other applicable housing-related regulations. The Housing Successor is reported as a special revenue fund of the City.

The transfer of the housing assets was made to the Housing Successor Fund on February 1, 2012, and subsequently approved by the California Department of Finance in accordance with the requirements of the Dissolution Law.

**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 Successor Fund is accounted for as a Special Revenue Fund of the City. As such, the accompanying financial statements present only the Housing Successor 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, 2018.

**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)**

**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.

**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 Successor Fund's fund balance classifications as of June 30, 2018.

- 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, long-term receivables from the Successor Agency and prepaid expenses.
- 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.

**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 Successor Fund financial statements as a current period revenue.

**Balance at  
June 30, 2018**

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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

Whittier Project

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.

629,600

Total Notes Receivable

\$      5,905,908

**NOTE 4            ADVANCES TO SUCCESSOR AGENCY TRUST FUND**

At June 30, 2018, the Successor Agency Trust Fund has a net liability to the Housing Successor Fund of \$6,116,642 which represent advances made by the former Low and Moderate Income Housing Fund to the former redevelopment agency. These advances were used to finance the project expenses of one of the project areas of the former redevelopment agency.

**NOTE 5            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 Successor Fund recognized deferred inflows of resources in the Housing Successor 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 6            SUBSEQUENT EVENTS**

The City of Montebello has evaluated events subsequent to June 30, 2018 to assess the need for potential recognition or disclosure in the financial statements of the Housing Successor Fund. Such events were evaluated through December 28, 2018, 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 Successor Fund.



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