



Board of Directors
Howard Rudd, Chair
John Norman, Secretary/Treasurer
Nick Alexander
Louise Walker

AGENDA
Special Board Meeting
January 24, 2020 @ 1:45 p.m.
Conference Rooms 1 & 2
311 Vernon Street
Roseville, CA

- I. Silent Roll Call**
- II. Non-Agenda Public Comment**
- III. Action Items**
 - a. Approve the December 12, 2019 Special Board Meeting Minutes
 - b. Accept the RCDC FY2018-19 Audited Financial Statement Report
- IV. Closed Session**
 - A. Conference with Real Property Negotiator**
 - a. Property – 238 Vernon Street, Roseville, CA
 - b. Agency Negotiator – Mike Isom, CEO
 - c. Negotiating Party – Mez Investment Group
 - d. Under Negotiation – Purchase, Price and Terms of Payment
 - B. Conference with Real Property Negotiator**
 - a. Property – 238 Vernon Street, Roseville, CA
 - b. Agency Negotiator – Mike Isom, CEO
 - c. Negotiating Party – Golden State Homes, LLC
 - d. Under Negotiation – Purchase, Price and Terms of Payment
 - C. Conference with Real Property Negotiator**
 - a. Property – 238 Vernon Street, Roseville, CA
 - b. Agency Negotiator – Mike Isom, CEO
 - c. Negotiating Party – Thomas Roth
 - d. Under Negotiation – Purchase, Price and Terms of Payment
 - D. Conference with Legal Counsel – Existing Litigation (Subdivision (a) of Section 54956.9)**

Ryan v. City of Roseville, et al.
USDC – Eastern District of California Case #2:17-cv-01453-MCW-DB

Ryan v. City of Roseville. et al.
Placer County Superior Court Case #SCV0041974
- V. Board and Staff Comments**
- VI. Adjournment**



Meeting Minutes
Special Board Meeting
December 12, 2019

Present: Chairman Howard Rudd, Secretary/Treasurer John Norman, and Director Alexander

Corporate Counsel: Larry Larsen, Law Offices of Gregory D. Thatch

Corporate Staff: CEO Mike Isom and Board Secretary Amy Ruiz

II. Non-Agenda Public Comment

Chairman Rudd opened the floor for public comment

None Received

III. Action Items

a. Approve the November 14, 2019 Board Meeting Minutes

Secretary/Treasurer Norman made a motion to approve the minutes for the November 14, 2019 Board Meeting. Director Alexander seconded the motion.

Votes: Motion Carried 3-0

Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander

b. Accept the RCDC FY2018-19 Audited Financial Statement Report

The Board would like to defer this to the next meeting for further discussion.

Votes: Motion Carried 3-0

Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander

IV. Closed Session

A. Conference with Real Property Negotiator

- a. Property – 238 Vernon Street, Roseville, CA
- b. Agency Negotiator – Mike Isom, CEO
- c. Negotiating Party – Thomas Roth
- d. Under Negotiation – Purchase, Price and Terms of Payment

B. Conference with Legal Counsel – Existing Litigation (Subdivision (a) of Section 54956.9)

Ryan v. City of Roseville, et al.
USDC – Eastern District of California Case #2:17-cv-01453-MCW-DB

Ryan v. City of Roseville. et al.
Placer County Superior Court Case #SCV0041974

Nothing to Report.

V. Board and Staff Comments

None

VII. Adjournment – 8:40 a.m.



**RCDC Special Board Meeting
January 24, 2020
Staff Report**

**Mike Isom, CEO (916-774-5527)
Melissa Hagan, Administrative Analyst (916-774-5476)**

Item III-B (Action): Accept the RCDC FY2018-19 Audited Financial Statement Report

RECOMMENDATION

The RCDC Audit Committee recommends that the Board accept the FY2018-19 Audited Consolidated Financial Statement Report as prepared by Eide Bailly LLP.

BACKGROUND & DISCUSSION

During the week of August 12, 2019, Eide Bailly, LLP of Sacramento, an independent certified professional accounting firm, performed their fieldwork and testing as it related to the RCDC's financial transactions and operations for the year ending June 30, 2019. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. The consolidated financial statements were issued a clean opinion by the auditors in their Independent Auditor's Report included in the financial statement report. Eide Bailly identified one significant deficiency related to internal controls during the audit.

Of particular note this year is a change in the reporting framework of the financial statements from Financial Accounting Standards Board (FASB) to Governmental Accounting Standards Board (GASB) standards. Historically, because the RCDC is a non-profit entity, the audit and financial statements were prepared under FASB standards. While the previous financial statements prepared under FASB standards provided useful financial information, the auditors concluded that the statements are more appropriately reported in the GASB framework due to the RCDC's structure as a component unit of the City of Roseville. The change in reporting framework does not affect the RCDC's non-profit status, and the corporation is still required to file state and federal non-profit tax returns.

On December 4, 2019, Philip White, CPA, of Eide Bailly, met with the RCDC Audit Committee comprised of members Louise Walker and Nick Alexander to provide an overview of the audit process, the financial statements, the required communications, and an explanation of the audit issue related to internal controls.

During the overview to the committee, Mr. White explained that the objective of the audit of financial statements is to provide an expression of an opinion on the fairness with which the financial statements present, in all material respects, the financial position, the results of operations, and its cash flows, in conformity with generally accepted accounting principles. The auditor accomplishes this by examining records and reports, testing transactions, reviewing operating practices, procedures and documentation, and by verifying assets and liabilities by comparing those items to internal and external documentation. Through the process of gathering appropriate and sufficient evidence, the auditor provides reasonable assurance, not absolute assurance that the statements are free of material misstatement, whether due to fraud or error.

GROWTH • PROSPERITY • OPPORTUNITY

P.O. Box 696, Roseville, CA 95678 • 916-774-5334 • www.rosevillecdc.com

During the testing and understanding of these processes, Eide Bailly discovered a significant deficiency in internal control related to the preparation of financial statements. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The auditing firm produces the financial statements and accompanying notes from financial documents and schedules extracted from the accounting system and prepared by accounting staff. This has been the historical practice for the RCDC and is common for an organization of our size. The auditors suggest, however, that staff with the necessary knowledge, skills and experience produce the financial statements and accompanying notes in order to mitigate the possibility of misstatement.

Despite this deficiency, it did not adversely affect the opinion by the auditors that the “financial statements present fairly, in all material respects, the financial position of the Organization at June 30, 2019.”

Attachments

- A. FY2018-19 Audited Consolidated Financial Statement Report
- B. 2019 RCDC AU-C 260 Conclusion
- C. 2019 RCDC AU-C 265 Conclusion



November 13, 2019

To the Board of Directors
Roseville Community Development Corporation, Inc.
Roseville, California

We have audited the governmental activities and general fund of the Roseville Community Development Corporation, Inc. (a non-profit organization) (Organization) as of and for the year ended June 30, 2019, and have issued our report thereon dated November 13, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated March 29, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Organization solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding control deficiencies over financial reporting and other matters noted during our audit in a separate letter to you dated November 13, 2019.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. As discuss in note 6 to the financial statement, the Organization corrected for an error in the framework of accounting. The financial statements were previously reported under the Financial Accounting Standards Board framework for not-for-profit entities. The financial statements were adjusted to the Governmental Accounting Standards Board (GASB) reporting framework. No other matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Organization's financial statements relate to the Organization's contingency relating to its strategic pause.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. No uncorrected misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Organization's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated November 13, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Organization's auditors.

Modification of the Auditor's Report

We have the following emphasis of matter modifications in our auditor's report:

We have added an emphasis of a matter paragraph for adjustments to beginning net position and beginning fund balance as a result of errors in previously reported amounts and a change in accounting framework.

This report is intended solely for the information and use of the Board of Directors, and management of Roseville Community Development Corporation and is not intended to be, and should not be, used by anyone other than these specified

This report is intended solely for the information and use of the Board of Directors, and management of Roseville Community Development Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California



November 13, 2019

To the Board of Directors
Roseville Community Development Corporation, Inc.
Roseville, California

In planning and performing our audit of the financial statements of Roseville Community Development Corporation, Inc. (Organization) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiency to be a material weakness:

Internal Control over the Preparation of Financial Statements

The Organization does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Although this circumstance is not unusual for an organization of your size, it is incumbent upon management to appoint an individual with the necessary skills, knowledge, and experience to evaluate the nonaudit services. The absence of this person increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the entity's internal control. This resulted in the financial statements reported under the incorrect reporting framework.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California



Financial Statements
June 30, 2019

**Roseville Community
Development Corporation, Inc.**
(a component unit of the City of Roseville, California)

**ROSEVILLE COMMUNITY DEVELOPMENT
CORPORATION, INC.**

FOR THE YEAR ENDED JUNE 30, 2019

Table of Contents

Board of Directors	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Governmental Fund Financial Statements:	
Balance Sheet	5
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balance	7
Reconciliation of the Change in Fund Balance to the Change in Net Position	8
Notes to Financial Statements	9

**ROSEVILLE COMMUNITY DEVELOPMENT
CORPORATION, INC.**

BOARD OF DIRECTORS

JUNE 30, 2019

Howard Rudd, Chair

John Norman, Secretary/Treasurer

Nick Alexander

Louise Walker



Independent Auditor's Report

To the Board of Directors
Roseville Community Development Corporation, Inc.
Roseville, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Roseville Community Development Corporation, Inc. (Corporation), a component unit of the City of Roseville, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation'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. 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 Corporation'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 opinions on the effectiveness of the Corporation'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Corporation as of June 30, 2019, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatements

During the year ended June 30, 2019, it was determined that the Corporation is considered to be a primary government entity as defined by the Governmental Accounting Standards Board (GASB). Amounts reported for beginning net position and fund balance were restated to reflect the change in reporting framework to follow GASB. Additionally, beginning net position was restated reflect the correction of errors related to capital assets, accumulated depreciation, and accrued interest payable. These adjustments are further described in Note 7. Our opinion is not modified with respect to these matters.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires 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 the missing information.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sacramento, California
November 13, 2019

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash	\$ 2,623,770
Accounts receivable	24,680
Note receivable	182,882
Total Current Assets	<u>2,831,332</u>
Noncurrent Assets:	
Note receivable	168,105
Property and equipment, net of depreciation	2,010,429
Total Noncurrent Assets	<u>2,178,534</u>
TOTAL ASSETS	<u>5,009,866</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	20,804
Security deposits	12,500
Current portion of notes payable to City of Roseville Successor Agency	17,760
Total Current Liabilities	<u>51,064</u>
Noncurrent Liabilities:	
Accrued interest payable	747,302
Advances due to the City of Roseville	1,475,951
Notes payable to the City of Roseville Successor Agency	3,946,319
Total Noncurrent Liabilities	<u>6,169,572</u>
TOTAL LIABILITIES	<u>6,220,636</u>
NET POSITION	
Investment in capital assets	2,010,429
Unrestricted	(3,221,199)
TOTAL NET POSITION	<u>\$ (1,210,770)</u>

See accompanying notes to financial statements.

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues	Net (Expense) Revenue and Changes in Net Position
	Expenses	Operating Grants And Contributions	Governmental Activities
Governmental Activities:			
Development and operations	\$ 360,061	\$ 57,500	\$ (302,561)
Interest expense	159,036	-	(159,036)
Total governmental activities	<u>\$ 519,097</u>	<u>\$ 57,500</u>	<u>(461,597)</u>
General Revenues:			
Investment income			175,941
Miscellaneous			37,690
Gain and sale of capital assets			278,503
Total General Revenues			<u>492,134</u>
Change in Net Position			30,537
Net Position, Beginning of year, restated			<u>(1,241,307)</u>
Net Position, End of year			<u>\$ (1,210,770)</u>

See accompanying notes to financial statements.

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>
ASSETS	
Cash	\$ 2,623,770
Accounts receivable	24,680
Note receivable	<u>350,987</u>
Total Assets	<u><u>\$ 2,999,437</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 20,804
Advances due to the City of Roseville	1,475,951
Security deposits	<u>12,500</u>
Total Liabilities	<u>1,509,255</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>350,987</u>
 FUND BALANCES	
Unassigned	<u>1,139,195</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$ 2,999,437</u></u>

See accompanying notes to financial statements.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Fund balance of governmental fund	\$ 1,139,195
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.	2,010,429
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund	
Interest payable	(747,302)
Notes payable due to the City of Roseville Successor Agency	(3,964,079)
Unavailable revenue in the governmental fund is revenue in governmental activities	<u>350,987</u>
Net position of governmental activities	<u><u>\$ (1,210,770)</u></u>

See accompanying notes to financial statements.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>
REVENUES:	
Contributions from member agencies	\$ 57,500
Interest income	16,297
Other revenue	37,690
Total Revenues	<u>111,487</u>
EXPENDITURES:	
Current:	
Development and operations	327,230
Debt service:	
Principal	17,066
Interest	20,284
Total Expenditures	<u>364,580</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER EXPENDITURES)	<u>(253,093)</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from the sale of capital assets	1,232,674
NET CHANGE IN FUND BALANCE	979,581
Fund Balance, Beginning of year, as restated	<u>159,614</u>
Fund Balance, End of year	<u>\$ 1,139,195</u>

See accompanying notes to financial statements.

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
RECONCILIATION OF THE CHANGE IN FUND BALANCE
TO THE CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balance - governmental fund \$ 979,581

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balance because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are capitalized and allocated over their estimated useful lives as depreciation expense:

The difference between the proceeds from the sale of and the gain on disposal of capital assets	(954,171)
Depreciation expense	(32,831)

Recognition of revenue in the governmental fund is subject to availability criteria. The change in unavailable revenue represents an increase in net position in governmental activities.	159,644
---	---------

Repayment of principal is an expenditure in the governmental fund but in the Statement of Net position the transaction reduces long-term debt.	17,066
--	--------

The amounts below included in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

The increase in interest payable	<u>(138,752)</u>
----------------------------------	------------------

Change in net position of governmental activities	<u><u>\$ 30,537</u></u>
---	-------------------------

See accompanying notes to financial statements.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 – REPORTING ENTITY

The Roseville Community Development Corporation, Inc. (Corporation) was incorporated on January 3, 2011 as a 501(c)(3) not-for-profit corporation whose purpose is to engage in the activity of physical, economic and educational development and revitalization efforts that result in expanded employment, economic prosperity and business and housing opportunities for the businesses and residents of the City of Roseville, California (City).

These basic financial statements present only the activities of the Corporation and are not intended to present the financial position of the City, or the results of its operations. The financial statements of the Corporation are included as a special revenue fund in the City's financial statements.

The Corporation is governed by a volunteer five-member board appointed by the City Council. The members, all from the community, have development, financing and business operations related experience. The board has operations, management, budget approval and strategy implementation authority that are separate from the City Council. Although the Corporation is separate legal entity, the City has a benefit/burden relationship with the Corporation and the Corporation is considered a component unit of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following items comprise the significant accounting policies of the Corporation, and its wholly owned subsidiaries, 110 Pacific Street LLC, and 238 Vernon Street LLC (the LLCs). The policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

A. *Basis of Accounting and Financial Statement Presentation*

Government-Wide Statements

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting all assets, liabilities and deferred outflows and inflows of the Corporation are included on the statement of net position. The difference between the Corporation's assets, liabilities, deferred outflows of resources and deferred inflows of resources is net position. Net position represents the resources the Corporation has available for use in providing services. The Corporation's spending priority is to spend restricted resources first, followed by unrestricted. The Corporation's net position is classified as follows:

Investment in Capital Assets – This amount represents the Corporation's capital assets, net of accumulated depreciation.

Unrestricted – This category represents neither restrictions nor investment in capital assets and may be used by the Corporation for any purpose though they may not be necessarily liquid.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting and Financial Statement Presentation (Continued)

Fund Financial Statements

The fund financial statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of the Corporation’s general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in current resources. All operations of the Corporation are accounted for in the general fund.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Grants and contributions, interest and certain grant payments are accrued when their receipt occurs within 120 days after the end of the accounting period so as to be both measurable and available. Expenditure-driven grant revenues are accrued when their receipt occurs within one year.

B. Capital assets, net of accumulated depreciation

Capital assets are reported at cost, net of accumulated depreciation in the government-wide financial statements.

The Corporation capitalizes assets with an initial cost in excess of \$5,000 and a useful life greater than one year. The Corporation depreciates capital assets using a straight-line method over the estimated useful life of each asset. Buildings and improvements are depreciated over 39 years and furniture and equipment is depreciated over 5 years.

C. Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

The Corporation considers all short term deposits purchased with an original maturity of three months or less to be cash equivalents.

Cash in bank	\$ 337,637
Savings	2,286,133
Total cash and cash equivalents	<u>\$2,623,770</u>

The Corporation maintains its cash in bank deposit accounts (checking and savings) which, at times, may exceed federally insured limits of \$250,000. As of June 30, 2019, the uninsured portion of this balance was \$2,373,770.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance

Fund balance presented in the governmental fund financial statements is classified into the following categories based upon the type of constraints imposed on the use of funds:

Nonspendable – This classification 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 – This classification includes amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action by the entity's highest level of decision-making authority.

Assigned – This classification includes amounts intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – This classification is the residual amount for the Corporation's General Fund and includes all spendable amounts not contained in the other classifications.

In the Corporation's financial statements, the General Fund reports unassigned fund balance of \$1,139,195.

F. Deferred Inflows of Resources

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 fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Corporation reports deferred inflows related to unavailable revenue in the governmental fund for revenues that have been earned but not collected during the Corporation's availability period.

Revenue from property rentals is recorded when earned. Costs associated with rental activities are recorded when incurred.

G. Contributions

Contributions received are recorded as restricted or unrestricted assets depending on the purpose of the donation and the intended timing of donation's use. During the year ended June 30, 2019, there were no assets with donor restrictions received.

H. Budget

The Corporation does not legally adopt a budget for the General Fund.

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	Balance at June 30, 2018 (restated)	Additions	Deletions	Balance at June 30, 2019
Property and equipment, not being depreciated				
Land	\$ 503,788	\$ -	\$ (159,605)	\$ 344,183
Property and equipment, being depreciated				
Building and improvements	2,803,092	-	(877,933)	1,925,159
Furniture and equipment	158,060	-	(44,321)	113,739
Total property and equipment	2,961,152	-	(922,254)	2,038,898
Less accumulated depreciation for:				
Building and improvements	(309,449)	(32,831)	83,367	(258,913)
Furniture and equipment	(158,060)	-	44,321	(113,739)
	(467,509)	(32,831)	127,688	(372,652)
Net property and equipment, being depreciated	2,493,643	(32,831)	(794,566)	1,666,246
Total property and equipment, net	<u>\$ 2,997,431</u>	<u>\$ (32,831)</u>	<u>\$ (954,171)</u>	<u>\$ 2,010,429</u>

The land and building and improvements consist of commercial buildings and a vacant lot in downtown Roseville, California, which are held by the Corporation. Currently, the buildings are being rented to local businesses under month-to-month leases. Depreciation expense of \$32,831 was charged during the year.

NOTE 4 – NOTES PAYABLE

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2018	Retirements	Balance June 30, 2019	Current Portion
City of Roseville Successor Agency, 2.034%, due June 30, 2030	\$ 3,469,049	\$ 3,469,049	\$ -	\$ 3,469,049	\$ -
City of Roseville Successor Agency, 4%, due June 1, 2023	603,525	512,096	(17,066)	495,030	17,760
	<u>\$ 4,072,574</u>	<u>\$ 3,981,145</u>	<u>\$ (17,066)</u>	<u>\$ 3,964,079</u>	<u>\$ 17,760</u>

On August 30, 2011, the former Redevelopment Agency of the City of Roseville loaned the Corporation \$3,469,049. The note accrues interest at a rate equal to the City's average interest earnings rate plus 1 percent, adjusted every 5 years. Principal payments begin ten years from the date of first disbursement, commencing on June 30, 2021, and will be due annually with final payment maturing on June 30, 2030. As of June 30, 2019, the notes bear interest at 2.034 percent, and accrued interest on the loan is \$524,260. Interest is due and payable on the final payment of principal on the loan.

During fiscal year ended June 30, 2014, the Corporation assumed a loan payable between KMS Vernon Street LLC and the former Redevelopment Agency of the City of Roseville in the amount of \$603,525 made in connection with the acquisition of 238 Vernon Street. In the current fiscal year, the Corporation made debt principal payments in the amount of \$17,066. The loan bears an interest rate of 4 percent and as of June 30, 2019, the total outstanding balance on the note is \$495,030.

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 4 – NOTES PAYABLE (Continued)

B. Debt Service Requirements

Debt service requirement are shown below for all loans:

For the Year Ending June 30	Notes Payable	
	Principal	Interest
2020	\$ 17,760	\$ 19,478
2021	18,484	18,754
2022	19,237	18,001
2023	786,454	17,218
2024	346,905	-
2025-2029	1,734,525	-
2030-2032	1,040,715	1,195,613
Totals	\$ 3,964,079	\$ 1,269,064

NOTE 5 – ADVANCES DUE TO THE CITY OF ROSEVILLE

	Original Issue Amount	Balance June 30, 2018	Retirements	Balance June 30, 2019
City of Roseville 2.034%, due June 30, 2030	\$ 1,530,951	\$ 1,530,951	\$ (55,000)	\$ 1,475,951

In 2013, the City of Roseville loaned \$1,530,951 to the Corporation in addition to the loan from the Successor Agency described in Note 4. Accrued interest on the loan is \$233,042. Interest is payable in January and June of each year. Beginning in January 2023, principal will be due semi-annually in January and June with the final payment scheduled for June 2032. During 2019, an unscheduled principal payment of \$55,000 was made reducing the outstanding principal at June 30, 2019 to \$1,475,951.

NOTE 6 – NOTES RECEIVABLE

The Corporation entered into a lease agreement with a tenant at 238 Vernon Street on October 5, 2015. The First Amendment to the lease dated March 23, 2017 resulted in a notes receivable to the Corporation in the original amount of \$250,000 and a transfer of capital assets with a book value of \$242,650 to the tenant. Additionally, the tenant received a credit of \$26,042 for its funding of tenant improvements. Payments of \$2,582 are due monthly with the final payment scheduled in October 2025. The recorded balance at June 30, 2019 is \$350,987.

In July 2018, a second amendment to the lease was approved resulting in a deferral of lease payments from July 2018 through September 2018. Per the amendment, deferred lease payments are to be repaid over a 16-month period commencing in October 2018.

ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – RESTATEMENT

During the year ended June 30, 2018, it was determined that the Corporation is considered to be a primary governmental entity according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended. Accordingly, amounts reported for beginning fund balance and net position were restated, with the difference between the net assets and fund balance resulting from interest payable and capital assets, net of depreciation.

	June 30, 2018 Previously Presented	Adjustments to Change to GASB framework	Correction of Error	July 1, 2018 Restated
General Fund				
Net assets, unrestricted (deficit)	\$ 1,235,436	\$ (1,235,436)	\$ -	\$ -
Capital assets, net of depreciation	3,016,002	(3,016,002)	-	-
Accrued interest payable	(621,250)	621,250	-	-
Notes payable to the City of Roseville Successor Agency	(3,981,145)	3,981,145	-	-
Deferred inflows of resources - unavailable revenue for long-term notes receivable	-	(191,343)	-	-
Fund balance, unassigned		<u>\$ (159,614)</u>		<u>\$ (159,614)</u>

	June 30, 2018 Previously Presented	Change to GASB framework	Correction of Error	July 1, 2018 Restated
Statement of Net Position				
Net assets, unrestricted	\$ (1,235,436)	\$ 1,235,436	\$ -	\$ -
Net position, investment in capital assets	3,016,002		(18,571)	2,997,431
Accrued interest payable	(621,250)	-	12,700	(608,550)
Net position	-	(1,235,436)	(5,871)	(1,241,307)

The beginning net position of the Corporation have been restated to reflect corrections to capital asset balances and related accumulated depreciation. This adjustment was the result of the Corporation’s analysis of its capital assets and determination that certain asset types did not meet the threshold for capitalization. Additionally, the beginning net position of the Corporation have been restated to reflect a correction to accrued interest payable on the note payable to the City of Roseville Successor Agency. Interest should have been calculated at 2.034 percent of outstanding principal annually but was calculated using 2.88 percent.

NOTE 8 – CONTINGENCY

On February 7, 2018, the Corporation’s Board of Directors agreed to a strategic pause in activity to allow for time to decide the direction of the Corporation. This plan will include the sale of the remaining capital assets and the settlement of loans payable to the City of Roseville and the Successor Agency of the City of Roseville Redevelopment Agency.

Although the Corporation has sufficient resources to meet its current obligations, the assets of the Corporation are not sufficient to fulfill all of its long-term obligations. The Board is currently evaluating options on how to address the short-fall.