RCDC
ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION



# AGENDA
## Special Board Meeting
November 15, 2018 @ 8:00 a.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 September 27, 2018 Board Meeting Minutes
b. Accept the Fiscal Year 2018 Audit Findings

**IV. Closed Session**

**A. 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

**B. Conference with Legal Counsel – Initiation of Litigation (Subdivision c) of Section 54956.9)**

One Potential Case

**V. Board and Staff Comments**

**VI. Adjournment**

| | |
|---|---|
| Present: | Chairman Howard Rudd, Secretary/Treasurer John Norman, Directors Nick Alexander and Louise Walker |
| Corporate Counsel: | Greg Thatch, Law Offices of Gregory D. Thatch |
| Corporate Staff: | CEO Mike Isom and Board Secretary Lonnye Heple |

**II. Non-Agenda Public Comment**

Chairman Rudd opened the floor for public comment

None Received

**III. Action Items**

**a. Approve the July 31, 2018 Special Board Meeting Minutes**

Director Alexander made a motion to approve the minutes for the July 31, 2018 Special Board Meeting. Secretary/Treasurer Norman seconded the motion.

| | |
|---|---|
| Votes: | Motion Carried 4-0 |
| Yes: | Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker |

**b. Approve the Revised Record Retention Schedule**

Director Walker made a motion to accept staff's recommendation and approve the revised Record Retention Schedule. Secretary/Treasurer Norman seconded the motion.

| | |
|---|---|
| Votes: | Motion Carried 4-0 |
| Yes: | Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker |

**c. Appoint Audit Committee Member**

Secretary/Treasurer Norman made a motion to appoint Director Walker to the Audit Committee. Director Alexander seconded the motion.

| | |
|---|---|
| Votes: | Motion Carried 4-0 |
| Yes: | Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker |

**d. Authorize the Dissolution and Winding Up of 242-246 Vernon Street, LLC**

Secretary/Treasurer Norman made a motion to accept staff's recommendation and authorize the Chief Executive Officer to take such actions and to make, execute, deliver and file on behalf of LLC, any and all documents as may be necessary or desirable to dissolve and wind up a LLC, including, but not limited to, notifying creditors (if any); liquidating assets and paying debts; filing a Certificate of Cancellation; filing a final tax return; and distributing assets and liabilities. Director Alexander seconded the motion.

Votes: Motion Carried 4-0
Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker

**e. Authorize the Dissolution and Winding Up of 240 Vernon Street, LLC**
Director Alexander made a motion to accept staff's recommendation and authorize the Chief Executive Officer to take such actions and to make, execute, deliver and file on behalf of LLC, any and all documents as may be necessary or desirable to dissolve and wind up a LLC, including, but not limited to, notifying creditors (if any); liquidating assets and paying debts; filing a Certificate of Cancellation; filing a final tax return; and distributing assets and liabilities. Secretary/Treasurer Norman seconded the motion.

Votes: Motion Carried 4-0
Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker

**f. Authorize the CEO to sign the Downtown Roseville PBID Renewal Petition and Submit a Ballot in Favor of Renewal on behalf of 238 Vernon Street, LLC.**
Director Alexander made a motion to accept staff's recommendation and authorize the Chief Executive Officer to sign the Downtown Roseville PBID Renewal Petition and submit a ballot in favor of renewal on behalf of 238 Vernon Street, LLC. Director Walker seconded the motion.

Votes: Motion Carried 4-0
Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker

Note: 240 Vernon Street, LLC was removed from the action.

**g. Provide Direction Regarding Disposition of City of Roseville and Successor Agency Loans to RCDC and Future Strategic Closure of the RCDC**
Secretary/Treasurer Norman made a motion to pay the principal due in full on the City loan when sufficient funds become available. Director Alexander seconded the motion.

Votes: Motion Carried 4-0
Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker

The Board also directed staff to schedule a RCDC Board/City Council workshop in February 2019.

**h. Adoption of Resolution of Commendation and Appreciation for Lonnye Heple**
Director Alexander made a motion to accept staff's recommendation and adopt the Resolution of Commendation and Appreciation for Lonnye Heple. Secretary/Treasurer Norman seconded the motion.

Votes: Motion Carried 4-0
Yes: Chairman Rudd, Secretary/Treasurer Norman, Director Alexander and Director Walker

## IV. Closed Session

**A. Conference with Real Property Negotiator –** 240 Vernon Street
Nothing to Report

B. **Conference with Legal Counsel – Existing Litigation (Subdivision (a) of Section 54956.9) -** Ryan v. City of Roseville, et al.
Nothing to Report

## V. Board and Staff Comments

Director Alexander informed the Board that he has partnered with SKK Development and will be submitting a proposal for development of the Post Office site on Vernon Street.

## VII. Adjournment – 9:30 a.m.


P.O. Box 696, Roseville, CA 95678 • 916-780-7232 • www.rosevillecdc.com

Mike Isom, CEO
(916) 774-5527

**Item III-B (Action): Accept the RCDC FY2017-18 Audited Financial Statement Report**

## RECOMMENDATION

The RCDC Audit Committee recommends that the Board accept the FY2017-18 Audited Consolidated Financial Statement Report as prepared by Vavrinek, Trine, Day, and Co., LLP and the accompanying SAS 115 Letter and the SAS 114 Letter.

## BACKGROUND & DISCUSSION

The financial audit for the year ending June 30, 2018 was performed by Vavrinek, Trine, Day, and Co., LLP (VTD), an independent certified professional accounting firm with offices located in Sacramento, California.

During the week of August 13, 2018, VTD audit staff performed their fieldwork and testing as it related to the RCDC's financial transactions and operations. 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. VTD identified three findings, which are further discussed below.

On November 8, 2018, James Ramsey, CPA, of the professional auditing firm of VTD 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 findings.

During the overview to the committee, Mr. Ramsey 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. It was explained that 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.

During the testing and understanding of these processes, VTD discovered three deficiencies in the Corporation's internal controls, two considered to be "material weaknesses," and one a "significant deficiency" as follows:

1. 2018 – 001 Capital Assets (Material Weakness)
   a. VTD noted that the capital assets are not adequately tracked or documented and their associated depreciation is based on the tax return schedules (which are not

prepared on a GAAP basis) and those schedules did not tie to the trial balance. The potential effect could result in a misstatement in net capital assets due to a miscalculation of depreciation or miscalculations of future gains or losses on the disposal of the property.

i. Management's response indicated acknowledgement of the need to implement procedures to accurately track fixed assets, and will implement such procedures as soon as practicable this fiscal year. Management further acknowledges the need to perform periodic physical observation of assets.

2. 2018 – 002 Journal Entries (Material Weakness)
   a. VTD noted that the person who approves journal entries did not have the skills, knowledge, or experience in accounting to perform this function. The potential effect could result in a material misstatement of the financial statements due to fraud or error.
      i. Management's response indicated acknowledgement of the need to ensure appropriately skilled individuals are involved in the preparation, review, and approval of journal entries. Management will ensure qualified individuals participate in all stages of the journal entry process moving forward.

3. 2018 – 003 Accrued Interest (Significant Deficiency)
   a. VTD noted that the Organization did not adequately or independently calculate accrued interest, but instead relied on accrued interest schedules provided by the City of Roseville (to whom the interest was owed) in order to construct a journal entry to record the addition to accrued interest and the associated interest expense.
      i. Management's response acknowledges the need to independently calculate accrued interest and perform periodic reconciliations between its own calculations and the schedules provided by the City of Roseville.

Despite the three findings reported by the auditors, none of these adversely affected the opinion by the auditors that the "financial statements presented fairly, in all material respects, the financial positon of the Organization at June 30, 2018." While material weaknesses were noted, Mr. Ramsey explained that a clean opinion could be expressed due to the larger ratio of transactions selected and tested due to the relatively small number of transactions overall.

The Committee agreed to recommend that the Board accept the audit report at the November 15, 2018 RCDC Board meeting.

**<u>Attachments</u>**

A. SAS 114 Letter: The Auditor's Communication with Those Charged with Governance
B. SAS 115 Letter: Communicating Internal Control Related Matters Identified In an Audit
C. FY 2017-18 Audited Consolidated Financial Statement Report

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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

We have audited the financial statements of Roseville Community Development Corporation (Organization) for the year ended June 30, 2018, and have issued our report thereon dated October 1, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 25, 2018. Professional standards also require that we communicate to you the following information related to our audit

<u>Significant Audit Findings</u>

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimate affecting the financial statements is management's estimate of the depreciation expense which is based on the estimated useful life of the related asset. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes the corrected misstatements of the financial statements that were detected as a result of audit procedures.



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*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 1, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors, Audit Committee and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co LLP

Sacramento, California
October 1, 2018

# ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.
## Schedule of Corrected Misstatements
## For the Fiscal Year Ended June 30, 2018

| No. | Account/Description | Debit | Credit |
|---|---|---|---|
| 1 | Accrued Interest | $ 12,700 | |
| | Interest Expense | | $ 12,700 |
| | *To adjust FY2018 layer of Accrued Interest* | | |
| 2 | Notes Payable to City of Roseville Successor Agency | 1,310 | |
| | Current Portion of Notes Payable to City of Roseville Successor Agency | | 1,310 |
| | *To adjust Current Portion of Notes Payable to City of Roseville Successor Agency* | | |

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants



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

In planning and performing our audit of the consolidated financial statements of the Roseville Community Development Corporation, Inc. (Organization) as of and for the year ended June 30, 2018, 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 auditing 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We did identify certain deficiencies in internal control, described below as items 2018 – 001 and 2018 – 002 that we consider as a material weakness.

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. We did identify certain deficiencies in internal control, described below as item 2018 – 003 that we consider to be a significant deficiency.

***2018 – 001 CAPITAL ASSETS***

**Observation:**

*Repeat finding* - We noted that the Organization did not adequately track or document capital assets and their associated depreciation but rather utilized tax return depreciation schedules, which are not prepared on a generally accepted accounting principles (GAAP) basis, provided by an outside party to construct a journal entry to record depreciation expenses. Further, the supporting documentation for depreciation provided by the Organization did not agree to the associated trial balance line items.

**Effect:**

The effect of the above observation could result in a misstatement in net capital assets due to a miscalculation of depreciation or miscalculations of future gains or losses on the disposal of the property.



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**Recommendation:**

We recommend that management implement procedures to adequately record and track capital assets, calculate depreciation, and perform a periodic reconciliation between any subsidiary ledgers utilized and financial ledgers using a GAAP basis of accounting.

**Management Response:**

Management acknowledges the need to implement procedures to accurately track fixed assets to prevent miscalculations of depreciation of future gains or losses on the disposal of property, and will implement such procedures as soon as practicable this fiscal year. Management further acknowledges the need to perform periodic physical observations of assets.

***2018 – 002 JOURNAL ENTRIES***

**Observation:**

While obtaining an understanding over the process for journal entries, we noted that the person who approves journal entries did not have the skills, knowledge, or experience in accounting to perform this function.

**Effect:**

The effect of this observation could result in a material misstatement of the financial statements due to fraud or error and cause us to test all material journal entries

**Recommendation:**

We recommend that management develop and implement policies and procedures to have appropriately skilled individuals prepare, review, and approve journal entries.

**Management Response:**

Management acknowledges the need to ensure appropriately skilled individuals are involved in the preparation, review, and approval of journal entries. Management will ensure qualified individual(s) participate in all stages of the journal entry process moving forward.

***2018 – 003 ACCRUED INTEREST***

**Observation:**

During the testing performed over the Organization's accrued interest, we noted that the Organization did not adequately calculate accrued interest but rather utilized accrued interest schedules provided by the City of Roseville (to whom the interest was owed) in order to construct a journal entry to record the addition to accrued interest and the associated interest expense.

**Effect:**

The interest accrual was not correctly calculated and adjustments were required to fairly state the balance.

**Recommendation:**

We recommend that management implement procedures to adequately calculate accrued interest and perform a periodic reconciliation between this calculation and the schedules provided by the City of Roseville.

**Management Response:**

Management acknowledges the need to independently calculate accrued interest and perform periodic reconciliations between its own calculations and the schedules provided by the City of Roseville. Such calculations and reconciliation will begin this fiscal year.

*****

The Organization's written response to the significant deficiency and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Vavrinek, Trine, Day & Co LLP

Sacramento, California
October 1, 2018

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2018**

**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**

**FOR THE YEAR ENDED JUNE 30, 2018**

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**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**

**BOARD OF DIRECTORS**

**JUNE 30, 2018**

Howard Rudd, Chair

John Norman, Secretary/Treasurer

Nick Alexander

Louise Walker

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of the Roseville Community Development Corporation, Inc. (a non-profit organization) (Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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.



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***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co LLP

Sacramento, California
October 1, 2018

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**JUNE 30, 2018**

| | | |
|---|---|---|
| ASSETS | | |
| | | |
| Current Assets: | | |
| Cash and cash equivalents | $ | 1,714,497 |
| Accounts receivable | | 3,805 |
| Prepaid asset | | 8,602 |
| Current portion of notes receivable | | 26,092 |
| Total Current Assets | | 1,752,996 |
| | | |
| Non-Current Assets: | | |
| Note receivable | | 165,251 |
| Property and equipment | | 3,016,002 |
| Total Non-Current Assets | | 3,181,253 |
| | | |
| TOTAL ASSETS | $ | 4,934,249 |
| | | |
| LIABILITIES AND NET ASSETS | | |
| | | |
| Current Liabilities: | | |
| Accounts payable | $ | 14,639 |
| Security deposits | | 17,500 |
| Prepaid rent | | 4,200 |
| Current portion of note payable to City of Roseville Successor Agency | | 17,065 |
| Total Current Liabilities | | 53,404 |
| | | |
| Non-Current Liabilities: | | |
| Accrued interest payable | | 621,250 |
| Note payable to City of Roseville | | 1,530,951 |
| Notes payable to City of Roseville Successor Agency | | 3,964,080 |
| Total Non-Current Liabilities | | 6,116,281 |
| | | |
| TOTAL LIABILITIES | | 6,169,685 |
| | | |
| NET ASSETS (DEFICIT) | | |
| Unrestricted | | (1,235,436) |
| | | |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ | 4,934,249 |

See accompanying notes to consolidated financial statements.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**
**CONSOLIDATED STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2018**

| | |
|---|---|
| SUPPORT AND REVENUE | |
| City contributions | $ 50,000 |
| Corporate contributions | 37,000 |
| Rental income | 298,911 |
| Other income | 41,124 |
| Total Support and Revenue | 427,035 |
| EXPENSES | |
| Program services | 188,579 |
| Support services: | |
| Management and general | 467,831 |
| Total Expenses | 656,410 |
| Total Operating (Loss) | (229,375) |
| OTHER REVENUE (EXPENSE) | |
| Gain on sale of property and equipment | 65,266 |
| Interest income | 1,389 |
| Interest expense | (140,026) |
| Total Non Operating Income (Expense) | (73,371) |
| CHANGE IN NET ASSETS | (302,746) |
| NET DEFICIT, BEGINNING OF YEAR | (932,690) |
| NET DEFICIT, END OF YEAR | $ (1,235,436) |

See accompanying notes to consolidated financial statements.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED JUNE 30, 2018**

| | Program Services | Support Services Management and General | Total |
|---|---|---|---|
| Contract wages and benefits | $ - | $ 102,312 | $ 102,312 |
| Professional fees | 36,093 | 28,854 | 64,947 |
| Legal and accounting | - | 95,615 | 95,615 |
| Insurance | - | 17,729 | 17,729 |
| Taxes and licenses | - | 41,627 | 41,627 |
| Meetings and travel | 3,348 | 1,580 | 4,928 |
| Office expenses | 859 | 974 | 1,833 |
| Real estate fees | 43,558 | - | 43,558 |
| Repairs and maintenance | - | 3,081 | 3,081 |
| Indirect costs | - | 18,928 | 18,928 |
| Advertising | 88,322 | - | 88,322 |
| Miscellaneous | 16,399 | 3,087 | 19,486 |
| Depreciation | - | 154,044 | 154,044 |
| Total Expenses | $ 188,579 | $ 467,831 | $ 656,410 |

See accompanying notes to consolidated financial statements.

**ROSEVILLE COMMUNITY DEVELOPMENT CORPORATION, INC.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2018**

| | | |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating loss | $ | (229,375) |
| Adjustments to reconcile operating loss to net cash (used)/provided by operating activities: | | |
| Depreciation | | 154,044 |
| (Increase)/Decrease in accounts receivable | | (3,805) |
| (Increase)/Decrease in notes receivable | | 26,092 |
| Increase/(Decrease) in accounts payable | | (12,781) |
| Increase/(Decrease) in security deposit | | (5,704) |
| Increase/(Decrease) in prepaid rent | | (1,000) |
| (Increase)/Decrease of prepaid asset | | (8,602) |
| Net Cash Used for Operating Activities | | (81,131) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sale of property and equipment | | 702,999 |
| Purchase of property and equipment | | (13,849) |
| Interest income | | 1,389 |
| Net Cash Provided by Investing Activities | | 690,539 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | | (15,055) |
| Interest payments | | (19,081) |
| Net Cash Used for Financing Activities | | (34,136) |
| Net Change in Cash | | 575,272 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | | 1,139,225 |
| CASH AND EQUIVALENTS, END OF YEAR | $ | 1,714,497 |

See accompanying notes to consolidated financial statements.

## NOTE 1 – REPORTING ENTITY

The Roseville Community Development Corporation, Inc. (Organization) was incorporated on January 3, 2011 as a 50l(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).

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following items comprise the significant accounting policies of the Organization, and its wholly owned subsidiaries, 110 Pacific Street LLC, 240 Vernon Street LLC, 242-246 Vernon 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*

The consolidated financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred in accordance with the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations. Temporarily restricted net assets consist of assets with time and purpose restrictions imposed by donors. Permanently restricted net assets represent a portion of funds that are not expendable, except for the interest earned on these funds.

### *B. Principles of Consolidation*

The consolidated financial statements include the accounts of the Organization and its subsidiaries and do not represent those of a single legal entity. All significant intercompany transactions and balances have been eliminated.

### *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 Organization considers all short term deposits purchased with a maturity of three months or less to be cash equivalents.

| | | |
|---|---|---|
| Cash in bank | $ | 1,022,062 |
| Savings | | 692,335 |
| Total cash and cash equivalents | $ | 1,714,397 |

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***E. Fair Value***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The three levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Deposits and withdrawals are made on the basis of $1 and not fair value. Accordingly, the Organization's investments in the saving account at June 30, 2018 of $692,335 are based on uncategorized inputs not defined as Level 1, Level 2 or Level 3.

***F. Property and Equipment***

Property and equipment are recorded at cost or using level 3 fair value inputs such as an appraisal when cost is not available. All capitalizable costs of $5,000 or more and having a useful life in excess of one year are capitalized. The Organization uses the straight-line method of depreciation over the estimated useful lives of the assets. Building and improvements are depreciated over 39 years, and furniture and equipment are depreciated over 5 years.

***G. Revenue and Cost Recognition***

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

***H. Non-operating Items***

Non-operating items are reported as Other Revenue/Expense. In the current year, the Organization recorded interest income of $1,389, reported a gain on sale of property and equipment of $65,266, and interest expense of $140,026.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *I. Contributions*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. The Organization considers that all contributions for long-lived assets have implied time restrictions and classifies this support as temporarily restricted until the purpose restriction is met. When a restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At June 30, 2018, there were no temporarily or permanently restricted contributions received.

### *J. Advertising*

Advertising costs, if any, are expensed as incurred. Advertising costs incurred in the fiscal year were $88,322.

### *K. Income Taxes*

The Organization is a California corporation that has been granted exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and from California franchise taxes under the General Nonprofit Corporation of Law of the State of California. However, the Organization is responsible for Federal and California income taxes on unrelated business income, if any. The Organization follows FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the effects from an uncertain tax position can be recognized in the financial statements if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. The Organization has determined there is no impact on the financial statements for the years ended June 30, 2018 and 2017. Therefore, no provision for income taxes has been made in the accompanying financial statements.

Income tax returns for 2014 and forward may be audited by regulatory agencies; however, the Organization is not aware of any such actions at this time.

### *L. Custodial Credit Risk*

The Organization 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, 2018, the uninsured portion of this balance was $1,464,397. The Organization has not experienced any losses in such accounts.

### *M. Prepaid Asset*

Payments made for services that will benefit periods beyond June 30, 2018 are recorded as prepaid items. In the balance sheet, prepaid items are classified as a prepaid asset.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

| | Balance at June 30, 2017 | Additions | Deletions | Balance at June 30, 2018 |
|---|---|---|---|---|
| Property and equipment, not being depreciated | | | | |
| Land | $ 703,981 | $ - | $ (200,193) | $ 503,788 |
| Property and equipment, being depreciated | | | | |
| Building and improvements | 3,320,818 | - | (517,726) | 2,803,092 |
| Furniture and equipment | 309,956 | 13,849 | (3,000) | 320,805 |
| Total property and equipment | 3,630,774 | 13,849 | (520,726) | 3,123,897 |
| Less accumulated depreciation | (540,825) | (154,044) | 83,186 | (611,683) |
| Net property and equipment, being depreciated | 3,089,949 | (140,195) | (437,540) | 2,512,214 |
| Total property and equipment, net | $ 3,793,930 | $ (140,195) | $ (637,733) | $ 3,016,002 |

The land, building and improvements consist of three commercial buildings and a vacant lot in downtown Roseville, California, which are held by the Organization. Currently, the buildings are being rented to local businesses under month-to-month leases.

## NOTE 4 – NOTES PAYABLE

### *A. Current Year Transactions and Balances*

| | Original Issue Amount | Balance June 30, 2017 | Additions | Retirements | Balance June 30, 2018 | Current Portion |
|---|---|---|---|---|---|---|
| **Organization Debt** | | | | | | |
| **Loans:** | | | | | | |
| City of Roseville Successor Agency, 2.034%, due June 30, 2030 | $ 3,469,049 | $ 3,469,049 | $ - | $ - | $ 3,469,049 | $ - |
| City of Roseville 2.034%, due June 30, 2030 | 1,530,951 | 1,530,951 | - | - | 1,530,951 | - |
| City of Roseville Successor Agency, 4%, due June 1, 2023 | 603,525 | 527,151 | - | (15,055) | 512,096 | 17,065 |
| **Total** | $ 5,603,525 | $ 5,527,151 | $ - | $ (15,055) | $ 5,512,096 | $ 17,065 |

On August 30, 2011, the former Redevelopment Agency of the City of Roseville loaned the Organization $3,469,049, and the City of Roseville loaned an additional $1,530,951 during fiscal year ended June 30, 2013. The notes accrue interest at a rate equal to the City's average interest earnings rate plus 1 percent, adjusted every 5 years. Principal and accrued interest 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, 2018, the note bears interest at 2.034 percent, and accrued interest on the loan is $621,250, of which $431,029 was due to the Successor Agency and $190,221 due to the City of Roseville.

## NOTE 4 – NOTES PAYABLE (Continued)

### *A. Current Year Transactions and Balances (Continued)*

During fiscal year ended June 30, 2014, the Organization 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 Organization made debt principal payments in the amount of $15,055. The loan bears an interest rate of 4 percent and as of June 30, 2018, the total outstanding balance on the note is $512,096.

### *B. Debt Service Requirements*

Debt service requirement are shown below for all loans:

| For the Year Ending June 30 | Organization Loans | |
|---|---|---|
| | Principal | Interest |
| 2019 | $ 17,065 | $ 119,066 |
| 2020 | 17,761 | 118,370 |
| 2021 | 518,484 | 117,647 |
| 2022 | 519,237 | 107,006 |
| 2023 | 939,549 | 96,332 |
| 2024-2028 | 2,500,000 | 247,250 |
| 2029-2030 | 1,000,000 | 29,670 |
| Totals | $ 5,512,096 | $ 835,341 |

## NOTE 5 – NOTE RECEIVABLE

The Organization entered into a lease agreement with a tenant at 238 Vernon Street. The First Amendment to the lease dated March 23, 2017 resulted in a note receivable to the Organization 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 $2,174 are due monthly with the final payment scheduled in October 2025. The recorded balance at June 30, 2018 is $187,798.

## NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through October 1, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events on transactions that would have a material impact on the current year financial statements.