

# ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

HOUSING AUTHORITY



*For the Fiscal Year Ended*

*June 30, 2010*

**CITY OF PALMDALE HOUSING AUTHORITY**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2010**

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the Board of Commissioners
Housing Authority of Palmdale
City of Palmdale, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palmdale Housing Authority (the Authority), a component unit of the City of Palmdale, California, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palmdale Housing Authority as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Mobile Home Parks Special Revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 15, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 6 and are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2010

## Management's Discussion and Analysis

As management of the City of Palmdale Housing Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010.

### Financial Highlights

- The liabilities of the Authority exceeded its assets at the close of the most recent fiscal year by \$838,387.
- The government's total net assets increased by \$120,234. Details are discussed on page 4 & 5.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,906,732 an increase of \$320,668 in comparison with the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Authority has no business-type activities. The governmental activities of the Authority include community development and interest on long-term debt.

The government-wide financial statements can be found on pages 8 - 9 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All three of the funds of the Authority are governmental funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The basic governmental fund financial statements can be found on pages 12 – 15. Budget and actual statements can be found on pages 16-17.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Mobile Home Parks Special Revenue Fund, and the Debt Service Fund, all of which are considered to be major funds. The Authority does not have any non-major governmental funds.

The Authority adopts an annual appropriated budget for its General fund, Housing Authority Mobile Home Parks Special Revenue Fund and Debt Service Fund. A budgetary comparison statement has been provided for two of the funds to demonstrate compliance with budget.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 28 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$838,387 as of June 30, 2010.

**Housing Authority's Net Assets**

	Governmental Activities 2010	Governmental Activities 2009
	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 2,870,014	\$ 2,488,602
Capital Assets	<u>15,400,853</u>	<u>15,920,249</u>
Total Assets	18,270,867	18,408,851
Long-Term Liabilities Outstanding	17,922,227	18,281,696
Other Liabilities	<u>1,187,027</u>	<u>1,085,776</u>
Total Liabilities	19,109,254	19,553,459

	Governmental Activities 2010	Governmental Activities 2009
Net Assets:		
Invested in Capital Assets, Net of Related Debt	(417,748)	(413,611)
Restricted	1,317,031	1,064,975
Unrestricted	<u>(1,737,670)</u>	<u>(1,609,985)</u>
Total Net Assets	<u>\$ (838,387)</u>	<u>\$ (958,621)</u>

The Authority's investment in capital assets, net of related debt reflects a negative balance of \$417,748. Investment in capital assets is defined as land, buildings, machinery and equipment, infrastructure, and construction in progress, less any related debt used to acquire these assets that is still outstanding. As improvements to the mobile home parks are completed and the debt related to the capital assets is paid, this negative amount should be eliminated.

The Authority's restricted net assets of \$1,317,031 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net asset deficit of \$1,737,670 should be brought to a positive number as occupancy levels and revenues continue to increase.

#### **Housing Authority's Changes in Net Assets**

	Governmental Activities 2010	Governmental Activities 2009
Revenues:		
Program Revenues:		
Charges for Services	\$ 4,147,145	\$ 4,017,108
Operating Grants and Contributions	9,100	38,760
Capital Grants and Contributions	724,409	697,820
General Revenues:		
Investment Income	<u>1,960</u>	<u>18,965</u>
Total Revenues	4,882,614	4,772,653
Expenses:		
Community Development	3,879,322	4,007,573
Interest on Long-Term Debt	<u>883,058</u>	<u>902,955</u>
Total Expenses	4,762,380	4,910,528
Increase (Decrease) in Net Assets	120,234	(137,875)
Net Assets – Beginning of Year	<u>(958,621)</u>	<u>(820,746)</u>
Net Assets – End of Year	<u>\$ (838,387)</u>	<u>\$ (958,621)</u>

**Governmental Activities.** Governmental activities increased the Authority's net assets by \$120,234 during the current fiscal year. The June 30, 2010 negative balance should be brought to a positive number in subsequent years from increased operating revenues from the mobile home parks. Key elements of the governmental activities net asset increase are as follows:

- Charges for services grew \$130,037 primarily due to an increase in rents collected as higher occupancy levels were achieved at the mobile home parks.
- Capital grants and contributions increased \$26,589 due to additional contributions from the Housing Development Fund.
- Investment income decreased by \$17,005 due to decreases in interest rates earned during the current year.
- Community development expense decreased \$128,251 primarily due to a decline in maintenance cost at the three Mobile Home Parks.

### **Financial Analysis of the Government's Funds**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds.** The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,906,732, an increase of \$320,668 in comparison with the prior year. Of this total amount, \$1,033,577 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed as follows:

- \$872,065 to pay debt service
- \$1,090 to pay contract commitments

At the end of the current fiscal year, unreserved fund balance of the general fund was \$137,363, while the remaining amount of \$1,090 was reserved for encumbrances. The Authority's general fund balance decreased \$19,090 as a result of expenses exceeding revenues.

The special revenue fund has a total fund balance of \$896,214 all of which is unreserved, undesignated and available for spending at the government's discretion.

The debt service fund has a total fund balance of \$872,065, all of which is reserved for the payment of debt service.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Authority's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$15,400,853 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. The \$519,396 decrease in the Authority's investment in capital assets for the current fiscal year was 3.3 percent as compared to prior year. The decrease is due to current depreciation.

**Housing Authority's Capital Assets  
(Net of Depreciation)**

	Governmental Activities 2010	Governmental Activities 2009
Land	\$ 2,982,052	\$ 2,982,052
Buildings and Structures	1,294,703	1,325,465
Infrastructure	<u>11,124,098</u>	<u>11,612,732</u>
Total	<u>\$ 15,400,853</u>	<u>\$ 15,920,249</u>

Additional information on the Authority's capital assets can be found on page 26, Note 5.

**Long-Term Debt.** At the end of the current fiscal year, the Housing Authority had a loan payable outstanding of \$17,445,000 due to the City of Palmdale Community Redevelopment Agency (Agency). The Housing Authority and the Agency have entered into loan and repayment agreements whereby the Agency has loaned the proceeds of Tax Allocation Bond debt issuances to the Housing Authority. The proceeds of the Bonds were used to finance the acquisition, sale and improvement of three mobile home parks in the City.

The Authority also has advances due to the Agency and the City classified as long-term debt, as a result of the Authority's acquisition of three mobile home parks during fiscal year 2002-2003. The outstanding balance on these advances total \$2,633,885.

**Housing Authority's Outstanding Debt  
Loans Payable and Long-Term Advances Payable**

	Governmental Activities 2010	Governmental Activities 2009
Loan Payable related to:		
Tax Allocation Bonds	\$ 17,445,000	\$ 18,055,000
Deferred Loss on Refinancing	(1,626,400)	(1,721,140)
Advances Due to the Agency and City	<u>2,633,885</u>	<u>2,463,094</u>
Total	<u>\$ 18,452,485</u>	<u>\$ 18,796,954</u>

Additional information on the Authority's debt can be found on pages 27 - 28, Note 6.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Palmdale Housing Authority, Office of the Finance Director, 38300 Sierra Highway, Suite D, Palmdale, California, 93550.

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# **Government-Wide Financial Statements**

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**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and Investments	\$ 1,068,647
Accounts Receivable	1,246,478
Interest Receivable	2,592
Deferred Charges - Cost of Issuance	552,297
Capital Assets:	
Not Being Depreciated:	
Land	2,982,052
Being Depreciated, Net of Accumulated Depreciation:	
Buildings and Structures	1,294,703
Infrastructure	<u>11,124,098</u>
 Total Assets	 <u>18,270,867</u>
<b>Liabilities:</b>	
Accounts Payable	125,962
Due to Bank - Overnight Sweep	29,841
Due to Other Governmental Units	80,387
Deposits	174,795
Accrued Interest Payable	245,784
Noncurrent Liabilities:	
Due Within One Year	530,258
Due in More than One Year	<u>17,922,227</u>
 Total Liabilities	 <u>19,109,254</u>
<b>Net assets (Deficit):</b>	
Invested in Capital Assets, Net of Related Debt	(417,748)
Restricted for:	
Community Development	138,453
Debt Service	1,178,578
Unrestricted	<u>(1,737,670)</u>
 Total Net Assets (Deficit)	 <u>\$ (838,387)</u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental Activities:					
Community Development	\$ 3,879,322	4,147,145	9,100	724,409	1,001,332
Interest on Long-Term Debt	883,058	-	-	-	(883,058)
Total Governmental Activities	<u>\$ 4,762,380</u>	<u>4,147,145</u>	<u>9,100</u>	<u>724,409</u>	<u>118,274</u>
General Revenues:					
Unrestricted Investment Earnings					1,960
Change in Net Assets					120,234
Net Assets - Beginning of Year					(958,621)
Net Assets - End of Year					<u>\$ (838,387)</u>

See Accompanying Notes to the Financial Statements

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# Governmental Fund Financial Statements

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**The General Fund** is the Housing Authority's primary operating fund and has been classified as a major fund. It accounts for compliance monitoring expenditures and bond issuer's fees collected for the Housing Authority.

**Special Revenue Funds** are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following fund has been classified as a major fund:

- **The Mobile Home Parks Fund** accounts for revenues and expenditures related to the operations of the three mobile home parks.

**Debt Service Funds** are used to account for the accumulation of resources for and the payment of principal and interest on bonded debt and other long-term obligations. The following fund has been classified as a major fund:

- **The Debt Service Fund** accounts for resources accumulated and payments made for principal and interest on Tax Allocation Bonds issued to finance the acquisition, sale and improvement of the mobile home parks.

**CITY OF PALMDALE HOUSING AUTHORITY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General Fund</u>	<u>Special Revenue Fund Mobile Home Parks Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Assets:				
Cash and Investments	\$ -	235,888	832,759	1,068,647
Receivables:				
Accounts and Interest Receivable	-	1,187,049	62,021	1,249,070
Due from Other Funds	<u>220,783</u>	<u>-</u>	<u>572</u>	<u>221,355</u>
Total Assets	<u><u>220,783</u></u>	<u><u>1,422,937</u></u>	<u><u>895,352</u></u>	<u><u>2,539,072</u></u>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts Payable	943	125,019	-	125,962
Due to Bank - Overnight Sweep	-	6,554	23,287	29,841
Due to Other Funds	-	221,355	-	221,355
Due to City of Palmdale	80,387	-	-	80,387
Deposits	<u>1,000</u>	<u>173,795</u>	<u>-</u>	<u>174,795</u>
Total Liabilities	<u>82,330</u>	<u>526,723</u>	<u>23,287</u>	<u>632,340</u>
 Fund Balances:				
Reserved for Debt Service	-	-	872,065	872,065
Reserved for Encumbrances	1,090	-	-	1,090
Unreserved:				
Unreserved, Undesignated	<u>137,363</u>	<u>896,214</u>	<u>-</u>	<u>1,033,577</u>
Total Fund Balances	<u>138,453</u>	<u>896,214</u>	<u>872,065</u>	<u>1,906,732</u>
Total Liabilities and Fund Balances	<u><u>\$ 220,783</u></u>	<u><u>1,422,937</u></u>	<u><u>895,352</u></u>	<u><u>2,539,072</u></u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010**

**Total Fund Balances - Total Governmental Funds (page 12)** \$ 1,906,732

Amounts reported for Governmental Activities in the Statement of  
Net Assets (page 8) are different because:

Capital Assets used in governmental activities are not current financial resources  
and therefore are not reported in the Governmental Funds Balance Sheet.

Governmental Capital Assets	\$ 19,050,094	
Less Accumulated Depreciation	<u>(3,649,241)</u>	15,400,853

Current portions of interest due on long-term debt do not require current financial  
resources and therefore are not reported as a liability in the Governmental  
Funds Balance Sheet.

Interest Payable	(245,784)
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Long-Term Liabilities are not due and payable in the current period and therefore  
are not reported as a liability in the Governmental Funds Balance Sheet.

Tax Allocation Bonds Payable	\$ 17,445,000	
Less Deferred Loss on Refinance	(1,626,400)	
Less Deferred Charge - Cost of Issuance	(552,297)	
Advances due to the City of Palmdale	<u>2,633,885</u>	<u>(17,900,188)</u>

**Net Assets of Governmental Activities (page 8)** \$ (838,387)

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>General Fund</b>	<b>Special Revenue Fund Mobile Home Parks Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
Revenues:				
Charges for Current Services	\$ 36,023	-	-	36,023
Use of Property	-	4,111,122	-	4,111,122
Interest	-	1,395	13,453	14,848
Net Decrease in Fair Value of Investments	-	(858)	(2,929)	(3,787)
<b>Total Revenues</b>	<b>36,023</b>	<b>4,111,659</b>	<b>10,524</b>	<b>4,158,206</b>
Expenditures:				
Current:				
Community Development	55,113	3,273,208	-	3,328,321
Debt Service				
Principal	-	-	610,000	610,000
Interest	-	47,915	746,501	794,416
<b>Total Expenditures</b>	<b>55,113</b>	<b>3,321,123</b>	<b>1,356,501</b>	<b>4,732,737</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(19,090)	790,536	(1,345,977)	(574,531)
Other Financing Sources (Uses):				
Issuance of Long Term Advances	-	170,791	-	170,791
Transfers In	-	-	1,642,630	1,642,630
Transfers Out	-	(1,642,630)	-	(1,642,630)
Transfers from Community Redevelopment	-	724,408	-	724,408
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(747,431)</b>	<b>1,642,630</b>	<b>895,199</b>
Net Change in Fund Balances	(19,090)	43,105	296,653	320,668
Fund Balances, Beginning of Year	157,543	853,109	575,412	1,586,064
Fund Balances, End of Year	\$ 138,453	896,214	872,065	1,906,732

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Net Change in Fund Balances - Total Governmental Funds (page 14)** \$ 320,668

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets (page 9) are different because:

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense.

Cost of Assets Capitalized - Current Year	\$ -	
Depreciation Expense	<u>(519,396)</u>	(519,396)

Long-Term Debt Proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Principal repayments of long-term debt and escrow agent payments are expenditures/uses in the Governmental Funds, but they reduce long-term liabilities in the Government-Wide Statement of Net Assets. Also, issuance costs and refinancing losses are recognized in the current period in the Governmental Funds, whereas these amounts are deferred and amortized in the Government-Wide Statement of Activities. This is the amount by which repayments exceeded proceeds.

Debt Issued or Incurred:		
Long Term Advances	\$ (170,791)	
Principal Repayments		
Tax Allocation Bonds Payable	<u>610,000</u>	439,209

Some expenses reported in the Government-Wide Statement of Activities and Changes in Net Assets do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental Funds.

Accrued Interest on Debt	\$ 6,100	
Amortization of Deferred Loss on Refinancing	(94,740)	
Amortization of Issuance Costs	<u>(31,607)</u>	<u>(120,247)</u>

**Change in Net Assets of Governmental Activities (page 9)** \$ 120,234

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Charges for Current Services	\$ 36,020	36,020	36,023	3
Interest	80	-	-	-
Total Revenues	<u>36,100</u>	<u>36,020</u>	<u>36,023</u>	<u>3</u>
<b>Expenditures:</b>				
Current:				
Community Development	<u>57,000</u>	<u>64,200</u>	<u>55,113</u>	<u>9,087</u>
Total Expenditures	<u>57,000</u>	<u>64,200</u>	<u>55,113</u>	<u>9,087</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(20,900)</u>	<u>(28,180)</u>	<u>(19,090)</u>	<u>9,090</u>
Net Change in Fund Balance	(20,900)	(28,180)	(19,090)	9,090
Fund Balance - Beginning of Year	<u>157,543</u>	<u>157,543</u>	<u>157,543</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 136,643</u>	<u>129,363</u>	<u>138,453</u>	<u>9,090</u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
MOBILE HOME PARKS - SPECIAL REVENUE FUND  
FOR YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Variance with</b>
	<u>Original</u>	<u>Final</u>		<b>Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Use of Property	\$ 3,993,160	4,074,500	4,111,122	36,622
Interest	3,670	2,750	1,395	(1,355)
Net Increase (Decrease) in the Fair Value of Investments	-	-	(858)	(858)
<b>Total Revenues</b>	<b>3,996,830</b>	<b>4,077,250</b>	<b>4,111,659</b>	<b>34,409</b>
<b>Expenditures:</b>				
Current:				
Community Development	3,248,940	3,339,230	3,273,208	66,022
Debt Service:				
Interest	77,000	77,000	47,915	29,085
<b>Total Expenditures</b>	<b>3,325,940</b>	<b>3,416,230</b>	<b>3,321,123</b>	<b>95,107</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	670,890	661,020	790,536	129,516
<b>Other Financing Sources (Uses):</b>				
Issuance of Long Term Advances	-	-	170,791	(170,791)
Transfers Out	(1,356,500)	(1,356,500)	(1,642,630)	(286,130)
Transfers from Community Redevelopment	-	-	724,408	724,408
<b>Total Other Financing Sources (Uses)</b>	<b>(1,356,500)</b>	<b>(1,356,500)</b>	<b>(747,431)</b>	<b>267,487</b>
<b>Net Change in Fund Balance</b>	<b>(685,610)</b>	<b>(695,480)</b>	<b>43,105</b>	<b>738,585</b>
Fund Balance - Beginning of Year	853,109	853,109	853,109	-
Fund Balance - End of Year	<u>\$ 167,499</u>	<u>157,629</u>	<u>896,214</u>	<u>738,585</u>

See Accompanying Notes to the Financial Statements

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**CITY OF PALMDALE HOUSING AUTHORITY  
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FOR THE YEAR ENDED JUNE 30, 2010**

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# CITY OF PALMDALE HOUSING AUTHORITY

## ANNUAL FINANCIAL REPORT

JUNE 30, 2010

### **(1) Summary of Significant Accounting Policies**

#### **A. Description of the Reporting Entity**

The Housing Authority of the City of Palmdale, California was established on April 9, 1997, pursuant to provisions of the State of California Housing Authorities Law. The Housing Authority is subject to the financial accountability of the City Council of the City of Palmdale, California (the "City") and, accordingly, is a component unit of the City although it is a separate legal entity. The Housing Authority's primary purpose is to address the shortage of multi-family housing in the City of Palmdale with respect to which long-term affordability for low-income persons is ensured as the result of recorded agreements or covenants.

The financial statements of the Palmdale Housing Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. The more significant of the Housing Authority's accounting policies are described below.

#### **B. Financial Statement Presentation, Basis of Accounting and Measurement Focus**

The accounts of the Housing Authority are organized on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are to be controlled.

#### **Government-Wide Financial Statements**

The Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements report information on all of the activities of the Housing Authority. Interfund activity, including payables and receivables, have been eliminated in the Statement of Activities and the Statement of Net Assets as prescribed by GASB Statement No. 34.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges for services to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function. Unrestricted investment earnings are reported as general revenues.

The Government-Wide Financial Statements are presented using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Housing Authority's assets and liabilities (including long-term liabilities) are reported in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash flows.

# CITY OF PALMDALE HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### **Governmental Fund Financial Statements**

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major funds individually. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements.

Governmental Fund Financial Statements are presented using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Housing Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Charges for current services and interest revenue are considered susceptible to accrual. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The Housing Authority has presented all funds as major funds because the Housing Authority believes the financial position and activities of these funds are significant to the Housing Authority as a whole. Specific fund descriptions can be found on page 11 for these funds.

### **C. Budgets and Budgetary Accounting**

An annual budget is adopted on a basis consistent with generally accepted accounting principles. Unexpended appropriations at year-end may be added to the subsequent year's adopted budget by the Director of Finance with the approval of the City Manager.

Encumbrance accounting is employed in governmental funds. Encumbrances (i.e., purchase orders, contracts and other commitments) outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities and are added to the subsequent year's adopted appropriations.

### **D. Cash and Investments**

Cash includes amounts in demand deposits and petty cash on hand.

Investments include amounts in U.S. Treasury Securities and money market funds. The U.S. Treasury was adjusted to fair value based on market prices on June 30, 2010. Amounts invested in money market funds are reported at fair value, which is the same as the carrying amount as of June 30, 2010.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**E. Restricted Assets**

Restricted assets represent bond reserve amounts and interest earnings thereon related to the Tax Allocation Bonds. The bond resolutions and indentures require that the bond reserves be maintained in amounts equal to the maximum amount of principal and interest to be paid in any single future fiscal year for each issue. The bond reserves are restricted to community development debt payments.

**F. Capital Assets**

Capital assets, which include property, plant, equipment and public domain infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental columns in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at cost where historical costs are available and at an estimated original cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the Government-Wide Financial Statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the balance sheet. The range of lives used for depreciation purposes for each capital asset class are as follows:

<u>Assets</u>	<u>Years</u>
Buildings and Structures	50
Improvements Other than Buildings	5-10
Machinery and Equipment	5-15
Infrastructure	20-50

The retroactive historical value of the Housing Authority's infrastructure assets (roads, bridges, sewers and traffic signals that were completed prior to July 1, 2001) has been included in the Government-Wide Financial Statements. The Housing Authority's infrastructure assets are recorded at historical cost or at estimated historical cost in the Government-Wide Financial Statements as required by GASB Statement No. 34. All current year additions to infrastructure assets are depreciated.

**G. Long-Term Obligations**

In the Government-Wide Financial Statements long-term debt and other long-term obligations are reported as liabilities.

**H. Fund Equity**

In the Fund Financial Statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**I. Use of Estimates**

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

**(2) Cash and Investments**

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 1,068,647
Cash overdraft	<u>(29,841)</u>
Total cash and investments	<u>\$ 1,038,806</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash and investments with City of Palmdale pool	<u>\$ 1,038,806</u>
Total cash and investments	<u>\$ 1,038,806</u>

Cash and investments of the Housing Authority are pooled with funds of the City for deposit and investment purposes, except for funds required to be held by outside fiscal agents. Interest earned on pooled cash and investments is credited to the funds based on each respective fund's month-end cash balance.

Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2010.

**A. Investments Authorized by the California Government Code and the Authority's Investment Policy**

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The table following identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements with the Authority, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	2%

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	15%	10%
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

\*Excludes amounts held by bond trustees that are not subject to California Government Code restrictions.

The City's investment policy also authorizes Demand Deposits of up to \$2,000,000 (and \$2,500,000 in the aggregate) with Bank of America or Wells Fargo Bank.

**B. Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Tax Allocation Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

**C. Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Investment Policy of the City, Sections 4.1 and 4.2, provide guidelines for managing risk. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**D. Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or the Authority's debt agreements, and the actual rating as of year end for each investment type.

**E. Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: Authority deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts held with the City of Palmdale. As of June 30, 2010, Authority investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

**F. Investment in State Investment Pool**

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the City's Comprehensive Annual Financial Report for the year ended June 30, 2010 at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**(3) Interfund Transfers**

Transfers between funds for the year ended June 30, 2010, consisted of the following:

<u>Transfer To:</u>	<u>Transfer From:</u>	<u>Amount</u>
Debt Service Funds	Mobile Home Parks	\$ 1,642,630
Total Interfund Transfers		<u>\$ 1,642,630</u>

The transfers resulted from moving revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(4) Interfund Assets/Liabilities**

**A. Due From/To Other Funds for the year ended June 30, 2010 were as follows:**

<u>Payable To:</u>	<u>Payable From:</u>	Amount
Housing Authority Debt Svc Fund	Housing Authority Special Rev Fund	\$ 572
Housing Authority General Fund	Housing Authority Special Rev Fund	<u>220,783</u>
Total Due From/To Other Funds		<u>\$ 221,355</u>

All balances resulted from the time lag between the dates the:

- 1) Interfund goods and services are provided or reimbursable expenditures occur
- 2) Transactions are recorded in the accounting system and
- 3) Payments between funds are made.

**(5) Capital Assets**

Capital Assets of the Housing Authority for the year ended June 30, 2010 consisted of the following:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 2,982,052	-	-	2,982,052
Total Capital Assets, Not Being Depreciated	<u>2,982,052</u>	<u>-</u>	<u>-</u>	<u>2,982,052</u>
Capital Assets, Being Depreciated				
Buildings and Structures	1,538,100	-	-	1,538,100
Infrastructure	14,529,942	-	-	14,529,942
Total Capital Assets, Being Depreciated	<u>16,068,042</u>	<u>-</u>	<u>-</u>	<u>16,068,042</u>
Less Accumulated Depreciation for:				
Buildings and Structures	212,635	30,762	-	243,397
Infrastructure	2,917,210	488,634	-	3,405,844
Total Accumulated Depreciation	<u>3,129,845</u>	<u>519,396</u>	<u>-</u>	<u>3,649,241</u>
Total Capital Assets, Being Depreciated, Net	<u>12,938,197</u>	<u>(519,396)</u>	<u>-</u>	<u>12,418,801</u>
Total Capital Assets, Net	<u>\$ 15,920,249</u>	<u>(519,396)</u>	<u>-</u>	<u>15,400,853</u>

For the year ended June 30, 2010 depreciation expense on capital assets was charged to the governmental function Community Development in the amount of \$519,396.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(6) Long-Term Debt**

**A. Loans Payable**

The Housing Authority and the City of Palmdale Community Redevelopment Agency (Agency) have entered into loan and repayment agreements whereby the Agency has loaned the proceeds of a 1997 Series A (refunded by 2005 Series E) and Series B (refunded by 2003 Series C) Tax Allocation Bond debt issuances to the Housing Authority.

The proceeds of the Bonds were used to finance the acquisition, sale and improvement of three mobile home parks (“Parks”) in the City. Immediately upon acquiring the Parks, the Agency sold them pursuant to an Affordable Housing Agreement, which reserved an option for the Agency to later designate another entity to take title to the Parks. On March 26, 2003, the Agency exercised this option by entering into a Cooperation Agreement with the Housing Authority of the City of Palmdale. Title to the property transferred from the prior owner of the Parks to the Housing Authority on April 4, 2003.

The liability for the 1997 Series B Bonds was fully defeased in December 2003 in the amount of \$5,090,000 by the Agency’s 2003 Tax Allocation Series C Bonds. The Agency advance refunded the 1997 Series B Bonds to take advantage of the current market and realize economic savings. The liability for the 1997 Series A Bonds was fully defeased in August 2005 in the amount of \$13,170,000 by the Agency’s 2005 Tax Allocation Series E Bonds. The Agency advance refunded the 1997 Series A Bonds to take advantage of the current market and realize economic savings.

Repayment agreements between the Agency and the Housing Authority require the Housing Authority to pay the Agency under the same terms as the Bonds were issued. The 2003 Series C Bonds and 2005 Series E Bonds are secured by Project Area No. 2A’s Housing Set-Aside revenue and certain related reimbursements provided for in the Affordable Housing Agreement. The Housing Authority will use operating income from the Parks to repay the Agency, which will in turn, pay principal and interest with respect to the 2003 Series C Bonds and 2005 Series E Bonds as they become due. The debt service schedule for the loan payable at 6/30/10 is as follows:

Year Ending	Principal	Interest	Total
2011	\$ 625,000	\$ 724,564	\$ 1,349,564
2012	650,000	698,464	1,348,464
2013	675,000	671,057	1,346,057
2014	705,000	644,627	1,349,627
2015	730,000	616,584	1,346,584
2016-2020	4,115,000	2,619,473	6,734,473
2021-2025	5,030,000	1,677,169	6,707,169
2026-2029	4,915,000	466,468	5,381,468
	<u>\$ 17,445,000</u>	<u>\$ 8,118,406</u>	<u>\$ 25,563,406</u>

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**B. Long-Term Advances Payable**

The Authority has advances due to the City of Palmdale Community Redevelopment Agency (Agency) and the City of Palmdale (City) classified as long-term debt, as a result of the acquisition of the three mobile home parks (Parks) during fiscal year 2002-2003. Upon acquisition, the Housing Authority assumed the liabilities of the prior owner of the Parks which were payable to the Agency and the City under the conditions of an Operating Agreement.

The Operating Agreement establishes priorities for the use of revenues from the operation of the Parks, and provides for the repayment of the advances from net income once expenses, debt service, operating and capital reserve requirements are met.

In the interim, additional liabilities for debt service shortfalls, program management fees and project administration fees will continue to accrue to the long-term advances due the Agency, and in-lieu property taxes will also continue to accrue to the long-term advances due both the Agency and the City. Once net income is sufficient under the Operating Agreement, the Parks will begin making payments toward the obligations for these fees and taxes, as well as the \$750,000 in funds advanced by the Agency under the tenant incentive grant program.

Long-Term Advances due to the Agency and the City are detailed as follows:

	City of Palmdale Receivable	Housing Authority Payable
	<hr/>	<hr/>
City of Palmdale:		
General Fund	\$ 36,302	\$ -
CRA Housing Development Fund	2,266,612	-
CRA Project No. 2A Fund	330,971	-
 Housing Authority Mobile Home Parks Fund:		
Special Revenue Fund	<hr/> -	<hr/> <u>2,633,885</u>
 Total Long-Term Advances	 <u>\$ 2,633,885</u>	 <u>\$ 2,633,885</u>

**C. Changes in Long-Term Liabilities** – Activity for the year ended June 30, 2010 was as follows:

	Principal Balance at July 1, 2009	Additions	Retirements	Principal Balance at June 30, 2010	Amounts Due Within One Year
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Loan Payable Related to:					
2003 Tax Allocation Bonds	\$ 5,140,000		(165,000)	4,975,000	170,000
Less Deferred Loss on Refinance	(866,281)		47,685	(818,596)	(47,685)
2005 Tax Allocation Bonds	12,915,000		(445,000)	12,470,000	455,000
Less Deferred Loss on Refinance	(854,859)		47,055	(807,804)	(47,057)
Advances Due the Agency & City	<hr/> 2,463,094	<hr/> 170,791	<hr/> -	<hr/> 2,633,885	<hr/> -
Total	<hr/> <u>\$ 18,796,954</u>	<hr/> <u>170,791</u>	<hr/> <u>(515,260)</u>	<hr/> <u>18,452,485</u>	<hr/> <u>530,258</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the Board of Commissioners  
Palmdale Housing Authority  
City of Palmdale, California

We have audited the financial statements of the governmental activities and each major fund of the Palmdale Housing Authority (the Authority), a component unit of the City of Palmdale, California, as of and for the year ended June 30, 2010, which collectively comprise Authority's basic financial statements and have issued our report thereon dated as of December 15, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and the Board of Commissioners of the Palmdale Housing Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Vawter, Trine, Day, Co., LLP*

Rancho Cucamonga, California  
December 15, 2010