

ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

HOUSING AUTHORITY

(A Component Unit of the City of Palmdale)



For the Fiscal Year Ended

June 30, 2018

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**CITY OF PALMDALE HOUSING AUTHORITY
(A Component Unit of the City of Palmdale)**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2018**

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palmdale Housing Authority (Authority), a component unit of the City of Palmdale, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2018, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and each of the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the Authority's proportionate share of the City's net pension liability and the schedule of contributions on pages 3-8 and 53-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the City's internal control over financial reporting as it relates to the Authority and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Authority.

Vavrinick, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 16, 2018

City of Palmdale Housing Authority

Management's Discussion and Analysis

As management of the City of Palmdale Housing Authority (Authority), a component unit of the City of Palmdale, 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, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$70,082,492.
- The Authority's total net position increased in the current year by \$1,157,469. Details of the increase can be found on page 6.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$44,293,787, a decrease of \$84,068 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 position presents information on all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the differences reported as net position. Over time, increases or decreases in net position 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 Authority's net position changed during the most recent fiscal year. All changes in net position 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 10 - 11 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 four 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

City of Palmdale Housing Authority

Management's Discussion and Analysis

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 14-17. Budget and actual statements can be found on pages 20-23.

The Authority maintains four 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, Housing Asset Fund Special Revenue Fund, and Housing Facilities Fund Special Revenue Fund all of which are considered to be major funds. The Authority does not have any non-major governmental funds.

The Mobile Home Parks Fund is used to account for revenues and expenditures related to the operation of three mobile home parks. The funds are distributed under the terms of various agreements. Revenues received by the Housing Authority in its capacity as the owner of the mobile home parks are restricted to be used in accordance with California's Housing Authorities Law. Revenues received by the Housing Authority in its capacity as housing successor to the former Community Redevelopment Agency are restricted to be used in accordance with the affordable housing provisions of California's Community Redevelopment Law, as amended by Health and Safety Code section 34176.1. The total fund balance was at a deficit of \$11,947,384.

The Housing Asset Fund is used to account for the restricted housing assets of the former Community Redevelopment Agency Housing Development Fund. Revenues received from assets previously held by the former CRA Housing Development Fund are restricted to be used in accordance with the affordable housing provisions of California's Community Redevelopment Law, as amended by Health and Safety Code section 34176.1, added by Senate Bill 341 (2013-2014 Regular Session). The Housing Asset Fund has a fund balance of \$54,984,081.

The Housing Facilities Fund is used to account for the revenues and expenditures related to the operations of Impressions, La Quinta, Park Vista and Summerwood Multifamily Apartments acquired by the Authority during fiscal year 2015-16. Net revenues derived from the operations of the Housing Facilities Fund will be reserved for repair and replacements, payment of debt service, bond reserve amounts, and operating reserves. Any revenues net of the operations and reserves may be used for any lawful purpose of the Housing Authority. Housing Revenue Bonds were issued on September 3, 2015 to finance the acquisition of the four apartment facilities. The Housing Facilities Fund has a fund balance of \$1,104,008.

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

City of Palmdale Housing Authority

Management’s Discussion and Analysis

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 25-51 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$70,082,492 as of June 30, 2018.

Housing Authority's Net Position

	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 51,731,109	\$ 50,816,819
Capital Assets	<u>27,923,993</u>	<u>27,237,888</u>
Total Assets	<u>79,655,102</u>	<u>78,054,707</u>
Deferred Outflows of Resources	<u>210,920</u>	<u>223,857</u>
Other Liabilities	4,675,310	4,191,771
Long-Term Liabilities	4,218,760	4,300,129
Net Pension Liability	<u>845,340</u>	<u>824,554</u>
Total Liabilities	<u>9,739,410</u>	<u>9,316,454</u>
Deferred Inflows of Resources	<u>44,120</u>	<u>37,087</u>
Net Position:		
Net Investment in Capital Assets	23,823,993	23,052,888
Restricted:		
Community Development	45,893,911	45,514,918
Debt Service	330,266	328,454
Unrestricted	<u>34,322</u>	<u>28,763</u>
Total Net Position	<u>\$ 70,082,492</u>	<u>\$ 68,925,023</u>

The Authority’s net investment in capital assets reflects a balance of \$23,823,993. Investment in capital assets is defined as land, buildings, machinery and equipment, infrastructure, and construction in progress, net of depreciation and less any related debt used to acquire these assets that is still outstanding. The Authority’s restricted net position of \$46,224,177 represent resources that are subject to the affordable housing provisions of California Redevelopment Law, health and safety code and debt service.

The Authority’s Long-term Liabilities reflect a balance of \$5,064,100, consisting of \$4,100,000 of Multifamily Housing Revenue Bonds used to finance the acquisition of the Housing Facility Apartments

City of Palmdale Housing Authority

Management’s Discussion and Analysis

on September 3, 2015. The remaining balance consists of unpaid compensated absences of \$118,760 and Net Pension Liability of \$845,340.

The Authority’s Other Liabilities reflect a balance of \$4,675,310. Other Liabilities consists of short term liabilities totaling \$700,809 that are considered payable within a year and consist of accounts payable, accrued interest and accrued salaries. The remaining balance consists of \$268,565 due to other funds and \$3,705,936 of refundable deposits and unearned revenue.

Housing Authority's Changes in Net Position

	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 7,009,291	\$ 6,617,156
Operating Grants and Contributions	514,633	352,002
General Revenues:		
Investment Income	168,337	162,350
Land Sale Proceeds	133,981	
Total Revenues	<u>7,826,242</u>	<u>7,131,508</u>
Expenses:		
Community Development	6,476,477	7,516,609
Interest on Long-Term Debt	192,297	193,686
Total Expenses	<u>6,668,774</u>	<u>7,710,295</u>
Increase (Decrease) in Net Postion	1,157,469	(578,787)
Net Position - Beginning of Year	<u>68,925,023</u>	<u>69,503,810</u>
Net Position - End of Year	<u>\$ 70,082,492</u>	<u>\$ 68,925,023</u>

Governmental Activities. Governmental activities increased the Authority’s net position by \$1,157,469. The increase is primarily the result of increased Community Development program activities during the year. Key elements of the governmental activities net position current increase are as follows:

- Charges for services increased by \$392,135, or 5.9 percent primarily due to an increase in rents collected as higher occupancy levels were achieved at the four Multifamily Housing Facility Apartments.
- Operating Grants and contributions increased \$162,631, or 46.2 percent as the result of an increase in the unavailable revenue recognized on the government wide statements, and the recognition of proceeds received from the sale of land.

City of Palmdale Housing Authority

Management's Discussion and Analysis

- Community Development expenses decreased by \$1,040,132 or 13.8% due to decreases in operating and renovation costs at the four Multifamily Housing Facility Apartments.

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, 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 \$44,293,786, a decrease of \$84,068 in comparison with the prior year. The fund balances were classified as follows:

- \$56,167,352 is "Restricted" due to the existence of externally enforceable legal restrictions that are related primarily to special revenue funding sources.
- (\$11,873,566) is "Unassigned" and represents negative residual resources.

The General Fund has a fund balance of \$153,082, which was an increase of \$9,190 from the prior fiscal year. The increase is primarily due to a decline in operating expenditures.

The Mobile Home Parks Fund's total fund balance was at a deficit of \$11,947,384. The deficit was reduced by \$180,972, primarily as the result of a decline in operating expenditures.

The Housing Asset Fund has a fund balance of \$54,984,081 which was an increase of \$102,582 from the prior fiscal year. The increase is attributable to a decline in operating expenditures.

The Housing Facilities Fund has a fund balance of \$1,104,008, which was a decrease of \$376,812 from the prior fiscal year. The decrease is primarily due to a decline in operating and renovation costs of the four apartment facilities, offset by an increase in rental revenues at the apartments.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a decrease of appropriations by \$3,130 as the result of additional savings anticipated throughout the budget. Differences between the final amended budget and actual resulted in a \$24,419 decrease in appropriations due to expenditures coming in less than anticipated.

Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$27,923,993 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. A \$686,105 increase in the Authority's investment in capital assets as compared to prior year is primarily the result of current year additions.

City of Palmdale Housing Authority
Management's Discussion and Analysis

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

	Governmental Activities 2018	Governmental Activities 2017
Land	\$ 10,827,404	\$ 10,827,404
Buildings & Structures	8,200,322	7,902,542
Infrastructure	8,896,267	8,507,942
Total	\$ 27,923,993	\$ 27,237,888

Additional information on the Authority's capital assets can be found on page 42, Note 7.

Long-Term Debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$4,100,000. The Mortgage Revenue Bonds are secured by pledges of the net revenue received from the operations of the Housing Facilities.

**Housing Authority's Outstanding Debt
Revenue Bonds**

	Governmental Activities 2018	Governmental Activities 2017
2015 Mortgage Revenue Bonds	\$ 4,100,000	\$ 4,185,000
Total	\$ 4,100,000	\$ 4,185,000

The Housing Authority's total debt was \$5,064,100 of which \$4,100,000 was Revenue Bonds. The remainder of the debt was comprised of \$118,760 in compensated absences and \$845,340 in Net Pension Liability. The total debt increased primarily as the result of issuing Note Payable, offset by regularly scheduled debt service on the Multi-Family Housing Bond. See Note 12.

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.

Government-Wide Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 570,319
Investments	13,503,724
Accounts Receivable	144,006
Interest Receivable	2,825,679
Advances Due from Successor Agency	8,809,422
Due from Other Governmental	87,513
Notes and Liens	19,510,031
Deposits and Prepaids	9,670
Land Held for Resale	2,166,860
Restricted Assets:	
Cash and Investments	4,103,885
Capital Assets:	
Not Being Depreciated:	
Land	10,827,404
Being Depreciated, Net of Accumulated Depreciation:	
Buildings, Structures, and Improvements	8,200,322
Infrastructure	8,896,267
Total Assets	<u>79,655,102</u>
Deferred Outflows of Resources:	
Deferred Outflows Related to Pensions	210,920
Liabilities:	
Accounts Payable	675,497
Accrued Salaries and Employee Benefits	9,458
Due to Other Funds	268,565
Deposits	394,936
Accrued Interest Payable	15,854
Unearned Revenue	3,311,000
Noncurrent Liabilities:	
Due Within One Year	153,247
Due in More than One Year	4,065,513
Net Pension Liability	845,340
Total Liabilities	<u>9,739,410</u>
Deferred Inflows of Resources:	
Deferred Inflows Related to Pensions	44,120
Net Position:	
Net Investment in Capital Assets	23,823,993
Restricted for:	
Community Development	45,893,911
Debt Service	330,266
Unrestricted	34,322
Total Net Position	<u>\$ 70,082,492</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Expenses	Program Revenues		Total
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
Governmental Activities:				
Community Development	\$ 6,476,477	\$ 7,009,291	\$ 514,633	\$ 1,047,447
Interest on Long-Term Debt	<u>192,297</u>	-	-	<u>(192,297)</u>
Total Governmental Activities	<u>\$ 6,668,774</u>	<u>\$ 7,009,291</u>	<u>\$ 514,633</u>	<u>855,150</u>
General Revenues:				
Unrestricted Investment Earnings				168,337
Land Sale Proceeds				<u>133,981</u>
				302,318
Change in Net Position				1,157,469
Net Position- Beginning of Year				<u>68,925,023</u>
Net Position - End of Year				<u>\$ 70,082,492</u>

See Accompanying Notes to the Financial Statements

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Governmental Fund Financial Statements

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

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

The Mobile Home Parks Fund – Used to account for revenues and expenditures related to the operations of the three mobile home parks. The funds are distributed under the terms of various agreements. Revenues received by the Housing Authority in its capacity as the owner of the mobile home parks are restricted to be used in accordance with California's Housing Authorities Law. Revenues received by the Housing Authority in its capacity as housing successor to the former Community Redevelopment Agency are restricted to be used in accordance with the affordable housing provisions of California's Community Redevelopment Law, as amended by Health and Safety Code section 34176.1, added by Senate Bill 341 (2013-2014 Regular Session.)

Housing Asset Fund – Used to account for the restricted housing assets of the former Community Redevelopment Agency Housing Development Fund, which were transferred to the Successor Agency Fund and then transferred to the Housing Asset Fund upon acceptance of the Housing Successor role by the Housing Authority. Revenues received from assets previously held by the former CRA Housing Development Fund are restricted to be used in accordance with the affordable housing provisions of California's Community Redevelopment Law, as amended by Health and Safety Code section 34176.1, added by Senate Bill 341.

Housing Facilities Fund – Used to account for the revenues and expenditures related to the operations of four apartment buildings. The Housing Authority of the City of Palmdale owns and operates the Impressions, La Quinta, Park Vista and Summerwood Multifamily Apartments. Net revenues derived from the operations of the Housing Facilities Fund will be restricted for repair and replacements, payment of debt service, bond reserve amounts, and operating reserves. Any revenues net of the operations and reserves may be used for any lawful purpose (i.e. assigned) of the Housing Authority.

CITY OF PALMDALE HOUSING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Special Revenue Fund			Total Governmental Funds
		Mobile Home Parks Fund	Housing Asset Fund	Housing Facilities Fund	
Assets					
Assets:					
Cash	\$ -	\$ 482,274	\$ -	\$ 88,045	\$ 570,319
Investments	152,504	244,215	12,789,248	317,757	13,503,724
Receivables:					
Accounts and Interest Receivable	10,531	8,021	2,941,705	8,596	2,968,853
Due from Other Funds	-	-	87,513	-	87,513
Advances Due from Other Fund	-	-	1,186,001	-	1,186,001
Advances Due from Successor Agency	-	-	8,809,422	-	8,809,422
Deposits and Prepays	-	9,670	-	-	9,670
Notes and Liens	-	-	19,510,031	-	19,510,031
Interfund Promissory Note	-	-	11,115,000	-	11,115,000
Restricted Assets:					
Investments	-	-	3,019,140	1,084,746	4,103,886
Interest Receivable	-	-	613	220	833
Land Held for Resale	-	69,593	2,097,267	-	2,166,860
Total Assets	\$ 163,035	\$ 813,773	\$ 61,555,940	\$ 1,499,364	\$ 64,032,112
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts Payable	\$ 8,953	\$ 229,422	\$ 214,428	\$ 232,154	\$ 684,956
Advances Due to Other Funds	-	1,186,001	-	-	1,186,001
Due to Other Funds	-	-	268,565	-	268,565
Interfund Promissory Note	-	11,115,000	-	-	11,115,000
Deposits	1,000	230,735	-	163,201	394,936
Unearned Revenue	-	-	3,311,000	-	3,311,000
Total Liabilities	9,953	12,761,157	3,793,993	395,355	16,960,458
Deferred Inflows of Resources:					
Unavailable Revenue	-	-	2,777,866	-	2,777,866
Fund Balances:					
Restricted	-	79,263	54,984,081	1,104,008	56,167,352
Unassigned	153,082	(12,026,647)	-	-	(11,873,566)
Total Fund Balances (Deficit)	153,082	(11,947,384)	54,984,081	1,104,008	44,293,786
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 163,035	\$ 813,773	\$ 61,555,940	\$ 1,499,363	\$ 64,032,110

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Total Governmental Funds (page 14)		\$ 44,293,786
Amounts reported for Governmental Activities in the Statement of Net Position (page 10) 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	\$ 35,520,295	
Less Accumulated Depreciation	<u>(7,596,302)</u>	27,923,993
Accounts receivable not available to pay for current-period expenditures are reported as deferred inflows of resources in the funds.		
		2,777,866
Deferred outflows to pensions are deferred outflows of resources and not reported in the Governmental Fund Balance Sheet.		
Deferred Outflows related to pensions		210,920
Interest due on long-term debt does not require current financial resources and therefore is not reported as a liability on the Governmental Funds Balance Sheet.		
Interest Payable		(15,854)
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.		
Compensated Absences	\$ (118,760)	
Net Pension Liability	(845,340)	
Bonds Payable	<u>(4,100,000)</u>	(5,064,100)
Deferred inflows of resources related to pensions are deferred inflows of resources and are not reported in the Governmental Funds Balance Sheet.		
Deferred Inflows related to pensions		<u>(44,120)</u>
Net Position of Governmental Activities (page 10)		<u><u>\$ 70,082,492</u></u>

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, 2018**

	General Fund	Special Revenue Funds			Total Governmental Funds
		Mobile Home Parks Fund	Housing Asset Fund	Housing Facilities Fund	
Revenues:					
Charges for Current Services	\$ 47,530	\$ -	\$ 208,327	\$ -	\$ 255,857
Use of Property	-	4,584,108	-	2,175,480	6,759,588
Interest	1,889	3,258	222,742	7,290	235,179
Interfund Interest	-	-	516,103	-	516,103
Net Decrease in Fair Value of Investments	(828)	(1,320)	(69,199)	(1,648)	(72,995)
Total Revenues	48,591	4,586,046	877,973	2,181,122	7,693,732
Expenditures:					
Current:					
Community Development	39,401	2,965,128	871,856	1,582,152	5,458,537
Capital Outlay	-	925,995	-	698,299	1,624,294
Debt Service:					
Principal	-	-	-	85,000	85,000
Interest	-	-	-	192,483	192,483
Interfund Interest	-	516,103	-	-	516,103
Total Expenditures	39,401	4,407,226	871,856	2,557,934	7,876,417
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,190	178,820	6,117	(376,812)	(182,685)
Other Financing Sources (Uses):					
Sale of Land	-	-	133,981	-	133,981
Transfers to City's General Fund	-	-	(35,364)	-	(35,364)
Transfers In	-	2,152	-	-	2,152
Transfers Out	-	-	(2,152)	-	(2,152)
Total Other Financing Sources (Uses)	-	2,152	96,465	-	98,617
Net Change in Fund Balances	9,190	180,972	102,582	(376,812)	(84,068)
Fund Balances (Deficit), Beginning of Year	143,892	(12,128,356)	54,881,499	1,480,820	44,377,855
Fund Balances (Deficit), End of Year	\$ 153,082	\$ (11,947,384)	\$ 54,984,081	\$ 1,104,008	\$ 44,293,787

See Accompanying Notes to 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 POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds (page 16) \$ (84,068)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position (page 11) are different because:

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

Capital Asset Additions - Current Year	\$ 1,436,670	
Less Depreciation Expense	<u>(750,565)</u>	686,105

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Grant Interest Revenues Earned, but not received within the 60-day Availability Period		514,633
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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 Position. 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 Position. Also premiums are recognized in the current period in the Governmental Funds, whereas these amounts are amortized in the Government-Wide Statement of Activities. This is the amount by which repayments exceeded proceeds.

Principal Repayments:		
Bonds Payable		85,000

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

Compensated Absences	\$ (3,631)	
Accrued Interest on Debt	187	
Pension Expense	<u>(40,757)</u>	<u>(44,201)</u>

Changes in Net Position of Governmental Activities (page 11)		<u><u>\$ 1,157,469</u></u>
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See Accompanying Notes to the Financial Statements

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Budgetary Comparison Statements

CITY OF PALMDALE HOUSING AUTHORITY
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Charges for Current Services	\$ 47,520	\$ 67,520	\$ 47,530	\$ (19,990)
Interest	500	500	1,889	1,389
Net Increase in the Fair Value of Investmetns	-	-	(828)	(828)
Total Revenues	48,020	68,020	48,591	(19,429)
Expenditures:				
Current:				
Community Development	66,950	63,820	39,401	24,419
Total Expenditures	66,950	63,820	39,401	24,419
Excess (Deficiency) of Revenues Over (Under) Expenditures	(18,930)	4,200	9,190	4,990
Net Change in Fund Balance	(18,930)	4,200	9,190	4,990
Fund Balance - Beginning of Year	143,892	143,892	143,892	-
Fund Balance - End of Year	\$ 124,962	\$ 148,092	\$ 153,082	\$ 4,990

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Mobile Home Parks - Special Revenue Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Use of Property	\$ 4,564,430	\$ 4,596,860	\$ 4,584,108	\$ (12,752)
Interest	1,500	1,000	3,258	2,258
Net Increase in the Fair Value of Investments	-	-	(1,320)	(1,320)
Total Revenues	4,565,930	4,597,860	4,586,046	(11,814)
Expenditures:				
Current:				
Community Development	3,713,550	3,100,520	2,965,128	135,392
Capital Outlay		949,000	925,995	23,005
Debt Service:				
Interfund Interest	515,090	577,070	516,103	60,967
Total Expenditures	4,228,640	4,626,590	4,407,226	219,364
Excess (Deficiency) of Revenues: Over (Under) Expenditures	337,290	(28,730)	178,820	207,550
Other Financing Sources (Uses):				
Transfers In	-	-	2,152	2,152
Transfers Out	(845,000)	(779,990)	-	779,990
Total Other Financing Sources (Uses)	(845,000)	(779,990)	2,152	782,142
Net Change in Fund Balance	(507,710)	(808,720)	180,972	989,692
Fund Balance (Deficit) - Beginning of Year	(12,128,356)	(12,128,356)	(12,128,356)	-
Fund Balance (Deficit) - End of Year	<u>\$ (12,636,066)</u>	<u>\$ (12,937,076)</u>	<u>\$ (11,947,384)</u>	<u>\$ 989,692</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Housing Asset Fund - Special Revenue Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Current Services	\$ 126,550	\$ 205,390	\$ 208,327	\$ 2,937
Interest	577,270	617,210	222,742	(394,468)
Interfund Interest	515,090	577,070	516,103	(60,967)
Net Increase in the Fair Value of Investments	-	-	(69,199)	(69,199)
Other Agency Contributions	1,500,000	1,500,000	-	(1,500,000)
 Total Revenues	 <u>2,718,910</u>	 <u>2,899,670</u>	 <u>877,973</u>	 <u>(2,021,697)</u>
Expenditures:				
Current:				
General Government			-	-
Community Development	3,178,150	9,942,530	871,856	9,070,674
 Total Expenditures	 <u>3,178,150</u>	 <u>9,942,530</u>	 <u>871,856</u>	 <u>9,070,674</u>
 Excess (Deficiency) of Revenues: Over (Under) Expenditures	 <u>(459,240)</u>	 <u>(7,042,860)</u>	 <u>6,117</u>	 <u>7,048,977</u>
Other Financing Sources (Uses):				
Land Sale Proceeds		133,980	133,981	1
Transfers In	845,000	779,990	-	(779,990)
Transfers Out	(462,210)	(483,900)	(2,152)	481,748
Transfers to City's General Fund	(35,370)	(35,370)	(35,364)	
 Total Other Financing Sources (Uses)	 <u>347,420</u>	 <u>394,700</u>	 <u>96,465</u>	 <u>(298,241)</u>
 Net Change in Fund Balance	 <u>(111,820)</u>	 <u>(6,648,160)</u>	 <u>102,582</u>	 <u>6,750,736</u>
 Fund Balance - Beginning of Year	 <u>54,881,499</u>	 <u>54,881,499</u>	 <u>54,881,499</u>	 <u>-</u>
 Fund Balance - End of Year	 <u>\$ 54,769,679</u>	 <u>\$ 48,233,339</u>	 <u>\$ 54,984,081</u>	 <u>\$ 6,750,742</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Housing Facilities Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Use of Property	\$ 2,121,300	\$ 2,178,520	\$ 2,175,480	\$ (3,040)
Interest	15,000	10,000	7,290	(2,710)
Net Increase in the Fair Value of Investments:	-	-	(1,648)	(1,648)
Total Revenues	<u>2,136,300</u>	<u>2,188,520</u>	<u>2,181,122</u>	<u>(7,398)</u>
Expenditures:				
Current:				
Community Development	1,921,910	1,797,360	1,582,152	215,208
Capital Outlay	399,300	693,120	698,299	(5,179)
Debt Service				
Principal	85,000	85,000	85,000	-
Interest	192,300	179,000	192,483	(13,483)
Total Expenditures	<u>2,598,510</u>	<u>2,754,480</u>	<u>2,557,934</u>	<u>196,546</u>
Excess (Deficiency) of Revenues: Over (Under) Expenditures	<u>(462,210)</u>	<u>(565,960)</u>	<u>(376,812)</u>	<u>189,148</u>
Other Financing Sources (Uses):				
Transfers In	462,210	483,900	-	(483,900)
Total Other Financing Sources (Uses)	<u>462,210</u>	<u>483,900</u>	<u>-</u>	<u>(483,900)</u>
Net Change in Fund Balance	-	(82,060)	(376,812)	(294,752)
Fund Balance - Beginning of Year	<u>1,480,820</u>	<u>1,480,820</u>	<u>1,480,820</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,480,820</u>	<u>\$ 1,398,760</u>	<u>\$ 1,104,008</u>	<u>\$ (294,752)</u>

See Accompanying Notes to the Financial Statements

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CITY OF PALMDALE HOUSING AUTHORITY

Notes to the Financial Statements



For the Fiscal Year Ended

June 30, 2018

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City of Palmdale Housing Authority
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For the Year Ended June 30, 2018

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CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

(1) Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The Housing Authority of the City of Palmdale, California (Authority) 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 (City) and, accordingly, is a blended 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.

As the result of the dissolution of the former Community Redevelopment Agency, and under the provision of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Successor Agency Housing Asset Fund and later transferred to the Housing Authority. The Housing Authority assumed the authority to perform housing functions previously performed by the dissolved Community Redevelopment Agency and all rights, powers, duties, obligations, and housing assets were transferred to the Housing Authority during fiscal year 2011-12.

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 Government 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 equity. 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 Position and a Statement of Activities. 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 Position.

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

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, deferred outflows of resources, liabilities (including long-term liabilities), and deferred inflows of resources are reported in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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.

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 position as presented in these statements to the net position 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, current liabilities, and deferred inflows of resources 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 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 13.

C. Budgets and Budgetary Accounting

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

CITY OF PALMDALE HOUSING AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

D. Cash and Investments

Cash includes amounts in demand deposits and petty cash on hand. Investments include amounts invested in the City of Palmdale Investment Pool and Investments held by trustees. See Note 2 for additional detail.

E. Land Held for Resale

Abandoned and Foreclosed Mobile Home Rehabilitation

Abandoned and Foreclosed Mobile Homes for resale are capitalized in the special revenue funds at the lower of cost or market. To preserve the occupancy, maximize the monthly space rent revenues and minimize vacant lot potential at the mobile home parks, the Authority will purchase and rehabilitate mobile homes for resale to a qualified applicant in need of an affordable home. Fund balances are classified as restricted. At the end of the current fiscal year, the Authority reported \$69,593 in land held for resale.

Low and Moderate Affordable Housing-Land Held for Resale

Land Held for resale is capitalized in the special revenue funds at the lower of cost or market. The land held by the Authority was purchased with either low moderate housing funds or housing asset funds and is being held for resale or development in order to benefit qualified or eligible households with affordable housing. At the end of the current fiscal year, the Authority reported \$2,166,860 in land held for resale.

F. Capital Assets

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 acquisition 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 is as follows:

<u>Assets</u>	<u>Years</u>
Buildings and Structures	50
Infrastructure	5-10

G. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of*

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

resources, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. 1) The contributions made against the pension liability subsequent to the measurement date. 2) The results from actual earnings on the pension net position that were in excess of the projected earnings. These amounts are deferred and recognized as an addition of pension expense over a defined, closed amortization period.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from Grant Reimbursements. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The government-wide Statement of Net Position reports deferred inflows resulting from changes of assumptions and differences between expected and actual experiences. These amounts are deferred and recognized as a reduction of pension expense over a defined amortization period of five years.

H. Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and administrative leave, and compensatory and floating holiday time. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation and administrative leave, compensatory and floating holiday time, and associated employer-related salary costs are accrued when incurred in the Government-Wide Financial Statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the general fund and various special revenue funds.

I. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Palmdale Housing Authority's proportionate share of the City of Palmdale Miscellaneous Plan California Public Employees Retirement System (CalPERS) plans and additions to/deductions from the Plan's fiduciary net position have been determined as an allocation of the City of Palmdale's net pension liability, pension expense, and deferred inflows and outflows based on contributions paid by Authority employees. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

J. Fund Equity

In the Fund Financial Statements, governmental funds classify fund balances into five components whereby each component identifies the extent to which the Authority is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The five components of the fund balance are as follows:

Nonspendable: Resources that 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.

Restricted: Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Committed: Revenues that are constrained to specific purposes by a formal action of the Housing Authority's Board, which constitutes the most binding constraint such as an ordinance. The constraint remains binding unless removed in the same formal manner by the Housing Authority's Board. The Housing Authority's Board action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.

Assigned: Resources that are constrained by the Authority's intent to be used for specific purposes, but that neither restricted nor committed. This policy delegates to the Finance Manager the authority to assign unrestricted fund balance amounts where the Authority's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

Unassigned: Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Within all other governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the Authority's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Authority's policy is to first apply committed fund balance, then assigned fund balances, and finally unassigned fund balance.

K. Deficit Fund Equity

The following fund had a deficit fund balance at June 30, 2018 in the amount indicated:

Major Special Revenue Fund:	
Housing Authority Mobile Home Park Fund	<u>\$ 11,947,384</u>

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Management anticipates that a deficit will be resolved in future fiscal years as additional operating revenues become available and the mobile home parks occupancy levels remain high and consistent each year at the three mobile home parks and as the long-term promissory note is paid off.

L. 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.

M. Implemented Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. This statement was not applicable to the Authority.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016.

GASB Statement No. 85 - In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017.

GASB Statement No. 86 - In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017.

(2) Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash	\$ 570,319
Investments	13,503,724
Restricted Investments	4,103,885
Total Cash and Investments	\$ 18,177,928

Cash and investments as of June 30, 2018 consist of the following:

Cash Held By Third Party	\$ 570,319
Cash and Investments with City of Palmdale Investment Pool	13,503,724
Investments Held by Trustee	4,103,885
Total Cash and Investments	\$ 18,177,928

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 third parties for the operations of the mobile home parks and apartment facilities or 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, 2018.

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 following table 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, 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.

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Authorized Investment Type	Maximum Security	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer**
U.S. Treasury Obligations	5 years	None	None
U.S. Federal Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	2%
Municipal Obligations	5 years	10%	15%
Medium Term Corporate Notes	3 years	10%	None
Negotiable Certificates of Deposit	5 years	30%	None
Overnight Bank Investment Pool	N/A	10%	None
Mutual Funds	N/A	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$65,000,000
California Asset Management Program (CAMP)	N/A	None	\$65,000,000

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

**Per Account

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. 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 of Palmdale, Sections 4.1 and 4.2, provide guidelines for managing risk. One of the ways that the City of Palmdale 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.

C. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations 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 of Palmdale's Investment Policy, or the Authority's debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Legal Rating	Not Required to be Rated	AAA/Aaa
Cash and Investments with City of Palmdale Investment Pool	\$ 13,503,724	N/A	\$ 13,503,724	-
Held by bond trustee:				
Money market funds	4,103,885	A	-	4,103,885
Total	<u>\$ 17,607,609</u>		<u>\$ 13,503,724</u>	<u>\$ 4,103,885</u>

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D. 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 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.

City deposits with financial institutions in excess of federal depository insurance limits of \$250,000 were held in collateralized accounts held with the City of Palmdale. As of June 30, 2018, City investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

E. Disclosures relating to Fair Value of Investments

The Authority categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Deposits and withdrawals in governmental investment pools, such as the City's Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of fair value of these types of investments is based on an uncategorized input not defined as a Level 1, Level 2, or Level 3 input. Money market investments are carried at amortized cost. The Authority does not have any investments classified with Level 1, 2 or 3.

(3) Notes Receivable

Notes Receivable in the amount of \$19,510,031, are reported on the governmental fund financial statements and the government-wide financial statements. The balances consist of Affordable Housing Project loans made through various grants for low to moderate-income homeowners seeking to improve their homes. As the Notes are repaid, proceeds are used to continue the Affordable Housing Programs.

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(4) Fund Balance Classification

The Governmental Fund Balances at June 30, 2018 were classified as follows:

	HA General Fund	Special Revenue Fund Mobile Home Parks Fund	Special Revenue Housing Asset Fund	Special Revenue Housing Facilities Fund	Total Governmental Funds
Restricted:					
Community Development	\$ -	\$ 79,263	\$ 54,984,081	\$ 1,104,008	\$ 56,167,352
Unassigned	153,082	(12,026,647)	-	-	(11,873,566)
Total Fund Balance (Deficit)	<u>\$ 153,082</u>	<u>\$ (11,947,384)</u>	<u>\$ 54,984,081</u>	<u>\$ 1,104,008</u>	<u>\$ 44,293,786</u>

(5) Interfund Transfers

Transfers between funds for the year ended June 30, 2018, consisted of the following:

Transfer To:	Transfer From:	Amount
Mobile Home Parks Fund	Housing Asset Fund	<u>\$ 2,152</u>
Total Interfund Transfers		<u>\$ 2,152</u>
City of Palmdale	Housing Asset Fund	<u>\$ 35,364</u>
Total Transfers to City's General Fund		<u>\$ 35,364</u>

The transfers resulted from changes in security deposits held by the Mobile Home Parks Fund that were reimbursed by the Housing Asset Fund, rehabilitation of vacant apartment units in the Housing Facilities Fund that were reimbursed by the Housing Asset Fund, and reimbursements to the City's General Fund for rental of office space.

(6) Interfund Due To/From and Advances Due To/From

A. Advances and Due To/From Other Funds

The advances due to/from are reported on the Governmental Fund Balance Sheet of the Housing Asset Fund and Mobile Home Parks Fund as a result of the dissolution of the former Community Redevelopment Agency of the City of Palmdale resulting from the acquisition of three mobile home parks purchased during fiscal year 2002-2003. Upon acquisition, the Housing Authority assumed the prior park owner's liabilities which were payable to the former CRA Low and Moderate Income Housing fund and City under the terms of an operating agreement. The operating agreement establishes priorities for the use of revenues from operation of the parks, and provides for repayment of the advances from net income once expenses, debt service, operating, and capital reserve

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requirements are met. In the interim, additional liabilities and program/project management fees will continue to accrue to the long-term advances due the Housing Authority - Housing Asset Fund if there are shortfalls in expected payment. These advances will be repaid when net income is sufficient under the operating agreement. As of June 30, 2018, the balance of these liabilities was \$1,186,001.

Advances Due To/From Other Funds for the year ended June 30, 2018 were as follows:

Housing Asset Fund	Mobile Home Parks Fund	<u>\$ 1,186,001</u>
Advances Total Due From/To Other Funds		<u>\$ 1,186,001</u>

B. Interfund Promissory Note Between the Mobile Home Parks Fund and the Housing Asset Fund

The Housing Authority and the City of Palmdale former Community Redevelopment Agency (Agency) previously entered into loan and repayment agreements whereby the Agency 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 of 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 former Community Redevelopment Agency and the Housing Authority require the Housing Authority to pay the former Community Redevelopment Agency under the same terms as the Bonds were issued. The 2003 Series C Bonds and 2005 Series E Bonds were 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 was to use operating income from the Parks to repay the former Agency, which was supposed to in turn, pay principal and interest with respect to the 2003 Series C Bonds and 2005 Series E Bonds as they become due. Under the 2003 amended Indenture, the Bonds were to be paid and secured by the tax increment of the former Community Redevelopment Agency and principal and interest was no longer required to be paid from the Housing Authority.

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As the result of the dissolution of the former Community Redevelopment Agency and the Housing Authority assuming the duties of the former Community Redevelopment Housing Development Fund, the agreement will be maintained by the Housing Asset Fund which is now classified as an Interfund Promissory Note effective February 1, 2012. All proceeds from repayment of the note must be used in accordance with applicable housing related provisions of Community Redevelopment Law. During FY 2017-18, the Boulder Mobile Home parks paid \$845,000 of principal and \$516,103 interest for a total \$1,361,103 to the Housing Asset Fund. The balance of the Note as of June 30, 2018 is \$11,115,000. The remaining debt service schedule below uses a blended interest rate ranging from 3.7% to 4.75% due to the note's variable interest rate.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 875,000	\$ 481,194	\$ 1,356,194
2020	911,666	445,072	1,356,738
2021	951,667	406,972	1,358,639
2022	991,667	366,173	1,357,840
2023-2027	5,621,667	1,140,166	6,761,833
2028-2029	1,763,333	83,998	1,847,331
	<u>\$11,115,000</u>	<u>\$ 2,923,575</u>	<u>\$14,038,575</u>

C. Advances Due from Successor Agency at June 30, 2018

<u>Payable To:</u>	<u>Payable From:</u>	<u>Amount</u>
Housing Asset Fund	City of Palmdale- Successor Agency	<u>\$ 8,809,422</u>

In fiscal years 2004-2005 and 2005-2006, the state required the former Community Redevelopment Agency (CRA) to shift tax increment of \$1,862,827 to the Education Revenue Augmentation Fund (ERAF). To assist in funding this shift, the former CRA Housing Development fund advanced \$355,538 and \$1,507,289 (50% of the total requirements) to the former CRA Project Area No. 1 and 2A Debt Service funds, respectively.

In 2009-2010, the State required the former Community Redevelopment Agency (CRA) to shift tax increment of \$11,605,102 to the Supplemental Education Revenue Augmentation Fund (SERAF). To assist in funding this shift, the former CRA Housing Development fund advanced \$2,533,394 and \$9,071,708 (100% of the total requirement) to the former CRA Project Area No. 1 and 2A Debt Service Fund, respectively.

In fiscal year 2010-11, the State required the former Community Redevelopment Agency (CRA) to shift tax increment of \$2,389,286 to the Supplemental Education Revenue Augmentation Fund (SERAF). To assist in funding this shift, the former CRA Housing Development fund advanced \$521,581 and \$1,867,705 (100% of the total requirement) to the former CRA Project Area No. 1 and 2A Debt Service funds, respectively.

The Successor Agency Trust Fund was formed for the purpose of holding the assets and liabilities of the former Community Redevelopment Agency. All assets and liabilities were transferred to the

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Successor Agency Private Purpose Trust Fund which is used to account for assets and liabilities held by the City for the former Community Redevelopment Agency. The Advances Due to Housing Authority described above are approved enforceable obligations in existence at the date of dissolution and will be repaid by the Successor Agency from future property tax revenues. The repayment amount cannot exceed one-half of the increase between the amount distributed to the taxing entities and the 2012-13 base year (or residuals). During FY 2017-18, the Housing Authority received \$1,500,000 from the Successor Agency during the Recognized Obligations Payment Schedule (ROPS) period of July-December 2017 or ROPS 17-18A. The next payment is expected to be received during the ROPS period of July-December 2018 or ROPS 18-19A and is estimated to be approximately \$429,784.

(7) Capital Assets

Capital Assets of the Housing Authority for the year ended June 30, 2018 consisted of the following:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 10,827,404	\$ -	\$ -	\$ 10,827,404
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>10,827,404</u>	<u>-</u>	<u>-</u>	<u>10,827,404</u>
Capital Assets, Being Depreciated				
Buildings and Structures	8,279,134	-	-	8,279,134
Improvements other than Buildings	311,834	520,575	-	832,409
Infrastructure	15,415,818	916,095	-	16,331,913
Total Capital Assets, Being Depreciated	<u>24,006,786</u>	<u>1,436,670</u>	<u>-</u>	<u>25,443,456</u>
Less Accumulated Depreciation For:				
Buildings and Structures	660,962	165,583	-	826,545
Improvements other than Buildings	27,464	57,212	-	84,676
Infrastructure	6,907,876	527,770	-	7,435,646
Total Accumulated Depreciation	<u>7,596,302</u>	<u>750,565</u>	<u>-</u>	<u>8,346,867</u>
Total Capital Assets, Being Depreciated, Net	<u>16,410,484</u>	<u>686,105</u>	<u>-</u>	<u>17,096,589</u>
Total Capital Assets, Net	<u>\$ 27,237,888</u>	<u>\$ 686,105</u>	<u>\$ -</u>	<u>\$ 27,923,993</u>

For the year ended June 30, 2018, depreciation expense on capital assets was charged to the Community Development function in the amount of \$750,565.

(8) Deposits and Prepaids

For the year ended June 30, 2018, deposits in the amount of \$9,670 are reported on the governmental fund statements and government-wide statements and consist of \$9,670 from security deposits held for the mobile home renters.

(9) Due to Other Funds

2018 Habitat for Heroes Development Loan (\$268,565)

A Cooperative Agreement, dated as of September 3, 2014, was entered into by and between the City of Palmdale and the Housing Authority of the City of Palmdale. The City of Palmdale is the owner of

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certain real property located at the northeast corner of Division Street and Avenue R (“Property”). Habit for Humanity of San Fernando/Santa Clarita, Inc., a California nonprofit public benefit corporation (the “Developer”) proposes to develop on the Property 50 units of single-family housing to be sold at affordable cost to income qualified military veterans (“Project”) with financial assistance from the Authority.

The Authority, the City, and Developer concurrently entered into a Memorandum of Understanding by which the Authority and Developer will negotiate an Affordable Housing Agreement, setting forth the terms and conditions by which the Authority will sell the Property to Developer and carry back the purchase price, and will take a promissory note from Developer for repayment to the Authority of the Project Fees. The City agrees to defer its collection of the Project Fees charged by the City in relation to the Project. The Project Fees include but not limited to park development fee, traffic impact fee, drainage fee, building permit fee, and engineering fee. The total amount of the Project Fees to be paid by the Authority will be determined by the City in accordance with the City’s adopted fee schedules and customary processes.

To implement the Affordable Housing Agreement and facilitate the Project, the Authority agrees to pay the City the fair market value of the Property at \$25,000 per acre (“Purchase Price”). The Authority agrees to pay the Purchase Price and the Project Fees to the City in ten equal installments at zero interest, commencing on a date that is one year after the closing of the Authority’s sale of the Property to Developer. As a condition of the City’s sale of Property to the Authority, the Authority executed a promissory note the City, in a form approved by the City, setting forth the payment terms in this Agreement. The amount due will be in an original principal amount equal to the Purchase Price of the Property plus the final amount of the Project Fees determined by the City. During the Fiscal Year 2017-18, the City incurred costs in the amount of \$268,565.

(10) Risk Management

The Authority is covered under the City of Palmdale’s risk management program for general liability claims, automobile insurance and health plan.

(11) Unearned Revenue/Unavailable Revenues

Unearned Revenue – Governmental funds report unearned revenue on the balance sheet in connection with resources that have been received, but not yet earned. Accordingly, this type of unearned revenue is also reported on the Statement of Net Position. At the end of the current fiscal year, the components of unearned revenue were as follows:

Housing Asset Fund: Lease Revenues Received in Advance	<u>\$ 3,311,000</u>
Total Housing Authority Unearned Revenue	<u>\$ 3,311,000</u>

Unavailable Revenue – Governmental funds also report deferred inflows of resources on the balance sheet in connection with resources that have been earned, but are not yet available to finance expenditures of the current fiscal period. This type of deferred revenue is unique to governmental

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funds, since it is tied to the modified accrual basis of accounting. Accordingly, these unavailable revenues are not reported on the Statement of Net Position. At the end of the current fiscal year, the components of unavailable revenues result from accrued interest revenue not received with the 60-day period were as follows:

Housing Asset Fund	<u>\$ 2,777,866</u>
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(12) Public Employees' Retirement System (PERS) Pension Plan

A. General Information about the Pension Plan

The Authority participates in the City of Palmdale's Miscellaneous pension plan by sharing the costs related to pensions with the City for eligible employees. All plan information described below pertains to the overall plan for the City.

Plan Description –All qualified permanent probationary employees are eligible to participate in the City of Palmdale's Miscellaneous Plan, an agent multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Unused sick leave accumulated at the time of retirement will be converted to credited service at a rate of 0.004 years of service for each day of sick leave. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Basic Death benefit and the 1959 Survivor Benefit. The cost of living adjustments is 2 percent and applied as specified by the Public Employees' Retirement Law.

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The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan		
	On or Prior to April 10, 2011	Between April 11, 2011 and December 31, 2012	On or after January 1, 2013
Hire Date			
Formula	2.7% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-63	52-67
Monthly benefits, as a % of annual salary	2.0% to 2.7%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	10.439%	10.439%	10.439%

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2018, the Authority's proportionate share of the City's contribution to the Plan was \$70,190.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the Authority reported a liability of \$845,340 for its proportionate share of the City's net pension liability.

The net pension liability of the Plan was measured as of June 30, 2017 and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017. The Authority's proportion of the City's net pension liability was based on the Authority's FY2017 actual contributions to the City's pension plan relative to the total contribution of the City as a whole.

At June 30, 2017, the Authority's proportion was 2.00% which is flat to its proportion measured as of June 30, 2016.

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For the year ended June 30, 2018, the Authority’s recognized pension expense was (\$40,756). At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	\$ 70,190	\$ -
Changes in assumptions	108,149	
Differences between expected and actual experiences	-	(44,120)
Net differences between projected and actual earnings on plan investments	32,581	-
Total	\$ 210,920	\$ (44,120)

The amount of \$70,190 reported as deferred outflows of resources related to pensions resulting from the Authority’s contributions to the City’s plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30	
2019	\$ 44,781
2020	55,980
2021	13,485
2022	(17,636)
	\$ 96,610

Actuarial Assumptions – The Authority’s proportion of the City’s total pension liability was derived from the June 30, 2016 valuation being rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Valuation Date	June 30, 2016
Actuarial Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.2% - 12.2% (1)
Mortality	Society of Actuaries Scale BB (2)

(1) Depending on age, service and type of employment

(2) The mortality table used was developed based on CalPERS' specific data

The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The discount rate decreased to 7.15% from 7.65%. All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997

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to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	<u>100%</u>		

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were

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developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

Sensitivity of the Authority’s proportionate share of the City’s Net Pension Liability to Changes in the Discount Rate – The following table presents the Authority’s proportionate share of the City of Palmdale’s Miscellaneous Plan net pension liability as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the Authority’s proportionate share of the City’s net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate.

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Authority's proportionate share of the City's Net Pension Liability	\$ 1,293,916	\$ 845,339	\$ 475,092

Pension Plan Fiduciary Net Position – Detailed information about the City’s collective net pension liability is available in the City separate issued Comprehensive Annual Financial Report (CAFR). The City’s CAFR may be obtained by contacting the City of Palmdale, Office of the Finance Manager, 38300 Sierra Highway, Suite D, Palmdale, California, 93550.

(13) Long-Term Debt

A. Revenue Bonds

2015 Multifamily Housing Revenue Bonds Payable (\$4,235,000) - On September 3, 2015, the Housing Authority of the City of Palmdale issued \$4,235,000 of Multifamily Housing Revenue Bonds (2015 Bonds). Interest on the 2015 Bonds is payable semi-annually on December 1 and June 1 at rates ranging from 2.625% to 5.25% per annum. Principal installments are payable June 1 of each year from 2017 to 2045.

The 2015 Bonds maturing on or after June 1, 2026, may be redeemed on or after June 1, 2025, from moneys deposited in the Redemption Fund from any source of available funds, at a redemption price equal to the principal amount of Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

The 2015 Bonds maturing on or after June 1, 2025, are subject to extraordinary mandatory redemption from proceeds derived from sale or part of any of the Housing Facilities not elected by the Authority to be deposited in the Repair & Replacement Fund and used for the acquisition and/or construction of improvements and extensions to the Housing Facilities, but instead transferred to the Redemption Fund, at a redemption price equal to the principal amount of Bonds called for

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

redemption, together with accrued interest to the date fixed for redemption, without premium, on any date.

The 2015 Bonds maturing on any date, are subject to extraordinary mandatory redemption from insurance proceeds or condemnation proceeds not used for the purpose of repairing or replacing the property damaged, destroyed or taken, and transferred to the Redemption Fund pursuant to the Indenture or from proceeds of any foreclosure action under any of the Deeds of Trust transferred to the Redemption Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

The proceeds of the 2015 Bonds were used to finance the acquisition of the Impressions, La Quinta, Park Vista, and Summerwood Apartments (collectively, the “Housing Facilities”) all located within the City of Palmdale, to finance the costs to renovate portions of the Housing Facilities, pay costs related to the issuance of the bonds, and make a deposit to a Bond Reserve Account for the Bonds.

The 2015 Bonds are limited obligations of the Housing Authority of the City of Palmdale and are secured by a first pledge of all of the Net Revenues of the Housing Facilities and by the Trustee’s interest in a Deed of Trust for each of the Housing Facilities. Net Revenues are derived primarily from rents received by the Authority from the operation of the Housing Facilities, less the costs of the operation and maintenance of the Housing Facilities. The 2015 Bonds are payable solely from the Net Revenues and other assets pledged under the Indenture. The 2015 Bonds do not constitute a debt or liability of the City, the State, or any political subdivision thereof, other than the Authority to the limited extent of the pledge.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 85,000	\$ 190,251	\$ 275,251
2020	90,000	188,020	278,020
2021	90,000	185,658	275,658
2022	95,000	182,395	277,395
2023-2027	530,000	857,149	1,387,149
2028-2032	640,000	740,715	1,380,715
2033-2037	800,000	586,133	1,386,133
2038-2042	1,015,000	363,562	1,378,562
2043-2045	755,000	80,587	835,587
Totals	<u>\$ 4,100,000</u>	<u>\$ 3,374,470</u>	<u>\$ 7,474,470</u>

CITY OF PALMDALE HOUSING AUTHORITY
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JUNE 30, 2018

B. Changes in Long-Term Debt

Activity for the year ended June 30, 2018 were as follows:

	Balance at June 30	Additions	Retirements	Balance at June 30	Due Within One Year
Compensated Absences Payable:	\$ 115,129	\$ 77,183	\$ 73,552	\$ 118,760	\$ 68,247
2015 Mortgage Revenue Bonds	4,185,000	-	85,000	4,100,000	85,000
Total Long Term Debt	<u>\$ 4,300,129</u>	<u>\$ 77,183</u>	<u>\$ 158,552</u>	<u>\$ 4,218,760</u>	<u>\$ 153,247</u>

(14) Contingencies

Obligations of the Successor Agency Private Purpose Trust Fund

The former Community Redevelopment Agency of the City of Palmdale was dissolved on January 31, 2012. Obligations to be paid out to the Successor Agency Private Purpose Trust Fund are included in the Required Obligation Payment Schedules (ROPS) which are subject to approval by the State Department of Finance. All obligations of the Successor Agency have been approved by the State Department of Finance, however, are still subject to audit by the County Auditor-Controller and the State Controller. Additionally, obligations on a future ROPS may be denied even if it was not questioned from a preceding ROPS.

(15) New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government’s ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The Authority not determined the effect of implementing this statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The Authority has not determined the effect of implementing this statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving

CITY OF PALMDALE HOUSING AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The Authority has not determined the effect of implementing this statement.

GASB Statement No. 88 - In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for periods beginning after June 15, 2018. The Authority has not determined the effect of implementing this statement.

GASB Statement No. 89 - In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The Authority has not determined the effect of implementing this statement.

GASB Statement No. 90 - In August 2018, GASB issued Statement No. 90, *Majority Equity Interests-(an amendment of GASB Statements No. 14 and No. 61)*. The primary objectives of this Statement are to improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Authority has not determined the effect of implementing this statement.

Required Supplementary Information

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City of Palmdale Housing Authority
Schedules of Required Supplementary Information
Schedule of the Authority's Proportionate Share of the City's Net Pension Liability
Last Ten Years*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Authority's proportion of the net pension liability	2.10%	1.96%	2.00%	2.00%
Authority's proportionate share of the net pension liability	\$ 728,131	\$ 727,471	\$ 824,554	\$ 845,339
Authority's covered payroll	\$ 279,030	\$ 245,997	\$ 264,742	\$ 295,946
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	260.95%	295.72%	311.46%	285.64%
Plan fiduciary net position as a percentage of the total pension liability	75.66%	75.86%	72.57%	74.09%
Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017

* - Fiscal year 2015 was the first year of implementation, thus only four years are presented.

City of Palmdale Housing Authority
Schedules of Required Supplementary Information
Schedule of Contributions
Last Ten Years*

Contribution Years	2015	2016	2017	2018
Contributions	\$ 81,237	\$ 83,721	\$ 103,146	\$ 70,190
Contributions in relation to the contractually required contribution	(81,237)	(83,721)	(103,146)	(70,190)
Contribution deficiency	-	-	-	-
Covered payroll	\$ 279,030	\$ 245,997	\$ 264,742	\$ 295,946
Contributions as a percentage of covered payroll	29.11%	34.03%	38.96%	23.72%

* - Fiscal year 2015 was the first year of implementation, thus only four years are presented.



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

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**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**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the Palmdale Housing Authority (Authority), a component unit of the City of Palmdale, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the Authority to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control as it relates to the Authority.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 16, 2018