

ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

HOUSING AUTHORITY

(A Component Unit of the City of Palmdale)



For the Fiscal Year Ended

June 30, 2014

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

**ANNUAL FINANCIAL REPORT
JUNE 30, 2014**

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INDEPENDENT AUDITORS' REPORT

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, as of and for the year ended June 30, 2014, 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 auditors' 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, 2013, and the respective changes in financial position thereof 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of July 1, 2013. In addition, as described in Note 12, the Authority recognized an extraordinary gain for the recognition of allowable asset transfers due to the dissolution of the former Community Redevelopment Agency. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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 25, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority's internal control over financial reporting and compliance.

Vavrinick, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 25, 2014

Management's Discussion and Analysis

As management of the City of Palmdale Housing 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, 2014.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$70,542,111.
- The Authority's total net position increased by \$7,607,645. Details are discussed on page 6.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$48,976,624, an increase of \$1,386,995 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 and liabilities, with the difference between the two 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 three of the funds of the Authority are governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The basic governmental fund financial statements can be found on pages 13-17. Budget and actual statements can be found on pages 20-22.

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

The Housing Authority – Mobile Home Park 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 \$14,269,467. The deficit was reduced by \$1,338,165 as the result of a combination of increases in rental revenues and an increase in cost recorded as Land Held for Resale for the Mobile Home Rehab program as compared to prior year.

The Housing Authority - 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 \$63,184,685.

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

Dissolution of Redevelopment Agency

As of January 31, 2012, the City of Palmdale Community Redevelopment Agency ceased to exist. The statewide dissolution of redevelopment agencies, per AB1X26 which was upheld by the State Supreme Court in December 2011, has changed the way in which redevelopment activity is presented in the City's financial statements, as well as in the Authority's financial statements. Also, 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 Authority-Housing Asset Fund. As of February 1, 2012, the Housing Authority received assets that were previously held by the Community Redevelopment Agency Low and Moderate Income Housing Fund, which may be used in accordance with affordable housing provisions of California's Community Redevelopment Law, as amended by Health and Safety Code section 34176.1. The remaining assets held by the Successor Agency and that was approved to be transferred to the Housing Authority Housing Asset fund was transferred during fiscal year 2013-14.

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 23-40 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 \$70,542,111 as of June 30, 2014.

	Governmental Activities 2014	Governmental Activities 2013
Current and Other Assets	\$ 51,960,149	\$ 50,481,218
Capital Assets	<u>20,534,784</u>	<u>14,631,313</u>
Total Assets	<u>72,494,933</u>	<u>65,112,531</u>
Other Liabilities	<u>1,952,822</u>	<u>6,633,065</u>
Total Liabilities	<u>1,952,822</u>	<u>6,633,065</u>
Net Position:		
Net Investment in Capital Assets	20,534,784	14,631,313
Restricted:		
Community Development	50,051,210	59,595,196
Unrestricted	<u>(43,883)</u>	<u>(15,747,043)</u>
Total Net Position	<u>\$ 70,542,111</u>	<u>\$ 58,479,466</u>

The Authority's net investment in capital assets, reflects a balance of \$20,534,784. 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 \$50,051,210 represent resources that are subject to the affordable housing provisions of California Redevelopment Law and health and safety code.

Housing Authority's Changes in Net Position

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 4,736,378	\$ 4,653,501
Operating Grants and Contributions	698,556	1,376,453
General Revenues:		
Investment Income	<u>67,000</u>	<u>11,265</u>
Total Revenues	5,501,934	6,041,219
Extraordinary Item	<u>6,433,741</u>	<u>-</u>
Total General Revenues & Extraordinary Items	<u>11,935,675</u>	<u>6,041,219</u>
Expenses:		
Community Development	<u>4,328,030</u>	<u>4,267,466</u>
Total Expenses	<u>4,328,030</u>	<u>4,267,466</u>
Net Position - Beginning of Year	62,934,466	56,705,713
Increase (Decrease) in Net Postion	<u>7,607,645</u>	<u>1,773,753</u>
Net Position - End of Year	<u>\$ 70,542,111</u>	<u>\$ 58,479,466</u>

Governmental Activities. Governmental activities increased the Authority's net position by \$7,607,645 during the current fiscal year. The increase is primarily due to the transfer of Assets from the Successor Agency to the Housing Asset Fund of \$6,433,741. The remaining increase is due to increases in rents collected as higher occupancy levels were achieved at the Mobile Home Parks and the capitalization of Mobile Home Rehab costs. Key elements of the governmental activities net position increase are as follows:

- Charges for services increased \$82,877 primarily due to an increase in rents collected as higher occupancy levels were achieved at the mobile home parks.
- Operating Grants and contributions decreased \$677,897 as the result of a decline in the unavailable revenue recognized on the government wide statements.
- Community Development expenditures increased by \$60,564 due to an increase in program expenses.

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 \$48,976,624, an increase of \$1,386,995 in comparison with the prior year. The fund balances were classified as follows:

- \$63,415,146 is "Restricted" due to the existence of externally enforceable legal restrictions that are related primarily to special revenue funding sources.
- (\$14,438,522) "Unassigned" and represents negative residual resources.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a decrease of appropriations by \$880 as the result of additional savings anticipated throughout the budget. Differences between the final amended budget and actual resulted in a \$10,194 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, 2014, amounts to \$20,534,784 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. The \$5,903,471 increase in the Authority's investment in capital assets for the current fiscal year was 40.4 percent higher as compared to prior year. The increase is primarily due to the transfer of assets from the Successor Agency to the Housing Asset Fund valued at \$6,433,741 offset by current year depreciation.

Housing Authority's Capital Assets (Net of Depreciation)

	Governmental Activities 2014	Governmental Activities 2013
Land	\$ 9,415,793	\$ 2,982,052
Construction in Progress	8,750	-
Buildings and Structures	1,171,655	1,202,417
Infrastructure	9,938,586	10,446,844
Total	<u>\$ 20,534,784</u>	<u>\$ 14,631,313</u>

Additional information on the Authority's capital assets can be found on page 37, Note 7.

Economic Factors and Next Year's Budgets and Rates

The Authority took into consideration the following factors in preparing the budget for the 2014-2015 fiscal year:

- Housing funds impacted by State budget actions.
- Housing funds impacted by Assembly Bills 1X26, 1484 and SB 341.

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, 2014**

	<u>Governmental Activities</u>
Assets:	
Cash and Investments	\$ 4,953,709
Accounts Receivable	1,516,447
Interest Receivable	1,139,234
Deposits and Prepaids	750
Land Held for Resale	2,160,808
Advances Due from Successor Agency	15,857,215
Notes and Liens	20,976,088
Restricted Assets:	
Cash and Investments	5,355,805
Interest Receivable	93
Capital Assets:	
Not Being Depreciated:	
Land	9,415,793
Construction in Progress	8,750
Being Depreciated, Net of Accumulated Depreciation:	
Buildings and Structures	1,171,655
Infrastructure	9,938,586
Total Assets	<u>72,494,933</u>
Liabilities:	
Accounts Payable	111,334
Accrued Salaries and Employee Benefits	17,743
Deposits	210,457
Unearned Revenue	1,508,000
Noncurrent Liabilities:	
Due Within One Year	72,746
Due in More than One Year	32,542
Total Liabilities	<u>1,952,822</u>
Net Position:	
Net Investment in Capital Assets	20,534,784
Restricted for:	
Community Development	50,051,210
Unrestricted	(43,883)
Total Net Position	<u><u>\$ 70,542,111</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) and Changes in Net Position
Governmental Activities:				
Community Development	\$ 4,328,030	4,736,378	698,556	1,106,904
Total Governmental Activities	\$ 4,328,030	4,736,378	698,556	1,106,904
General Revenues:				
Unrestricted Investment Earnings				67,000
Extraordinary Items:				
Assets Transferred from the Successor Agency				6,433,741
				7,607,645
				62,934,466
				\$ 70,542,111

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, monitoring expenditures and bond issuer's fees 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 accounts 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 Authority – 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 (2013-2014 Regular Session.)

CITY OF PALMDALE HOUSING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Special Revenue Fund		Total Governmental Funds
		Mobile Home Parks Fund	Housing Asset Fund	
Assets				
Assets:				
Cash	-	2,000	-	2,000
Investments	48,485	212,897	4,690,327	4,951,709
Receivables:				
Accounts and Interest Receivable	14,038	1,383,435	1,258,208	2,655,681
Advances Due from Mobile Home Parks Fund	-	-	1,510,985	1,510,985
Advances Due from Successor Agency	-	-	15,857,215	15,857,215
Deposits and Prepays	-	-	750	750
Notes and Liens	-	-	20,976,088	20,976,088
Interfund Promissory Note	-	-	14,303,333	14,303,333
Restricted Assets:				
Investments	-	-	5,355,805	5,355,805
Interest Receivable	-	-	93	93
Land Held for Resale	-	230,461	1,930,347	2,160,808
Total Assets	<u>62,523</u>	<u>1,828,793</u>	<u>65,883,151</u>	<u>67,774,467</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts Payable	117	74,485	54,475	129,077
Advances Due to Other Funds	-	1,510,985	-	1,510,985
Interfund Promissory Note	-	14,303,333	-	14,303,333
Deposits	1,000	209,457	-	210,457
Unearned Revenue	-	-	1,508,000	1,508,000
Total Liabilities	<u>1,117</u>	<u>16,098,260</u>	<u>1,562,475</u>	<u>17,661,852</u>
Deferred Inflows of Resources:				
Unavailable Revenue	-	-	1,135,991	1,135,991
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>1,135,991</u>	<u>1,135,991</u>
Fund Balances:				
Restricted	-	230,461	63,184,685	63,415,146
Unassigned	61,406	(14,499,928)	-	(14,438,522)
Total Fund Balances	<u>61,406</u>	<u>(14,269,467)</u>	<u>63,184,685</u>	<u>48,976,624</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 62,523</u>	<u>1,828,793</u>	<u>65,883,151</u>	<u>67,774,467</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Total Governmental Funds (page 14) \$ 48,976,624

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	\$ 26,274,910	
Less Accumulated Depreciation	<u>(5,740,126)</u>	20,534,784

Accounts receivable not available to pay for current-period expenditures
are reported as deferred inflows of resources in the funds 1,135,991

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	<u>(105,288)</u>
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Net Position of Governmental Activities (page 10) \$ 70,542,111

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, 2014**

	General Fund	Special Revenue Funds		Total Governmental Funds
		Mobile Home Parks Fund	Housing Asset Fund	
Revenues:				
Charges for Current Services	48,670	-	97,194	145,864
Use of Property	-	4,563,695	26,816	4,590,511
Successor Agency Contributions	-	-	415,096	415,096
Interest	192	1,149	44,585	45,926
Interfund Interest	-	-	636,401	636,401
Net Increase in Fair Value of Investments	213	934	20,333	21,480
Other	-	-	1	1
Total Revenues	49,075	4,565,778	1,240,426	5,855,279
Expenditures:				
Current:				
Community Development	39,476	2,600,048	1,171,397	3,810,921
Capital Outlay	-	-	8,750	8,750
Debt Service:				
Interfund Interest	-	636,401	-	636,401
Total Expenditures	39,476	3,236,449	1,180,147	4,456,072
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,599	1,329,329	60,279	1,399,207
Other Financing Sources (Uses):				
Transfers to City's General Fund	-	-	(12,212)	(12,212)
Transfers In	-	8,836	-	8,836
Transfers Out	-	-	(8,836)	(8,836)
Total Other Financing Sources (Uses)	-	8,836	(21,048)	(12,212)
Net Change in Fund Balances	9,599	1,338,165	39,231	1,386,995
Fund Balances, Beginning of Year	51,807	(15,607,632)	63,145,454	47,589,629
Fund Balances, End of Year	61,406	(14,269,467)	63,184,685	48,976,624

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Funds (page 16) \$ 1,386,995

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	\$ 6,442,491	
Less Depreciation Expense	<u>(539,020)</u>	5,903,471

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	283,056
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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	<u>34,123</u>
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Change in Net Position of Governmental Activities (page 11)	<u><u>\$ 7,607,645</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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Charges for Current Services	\$ 48,660	48,660	48,670	10
Interest	-	-	192	192
Net Increase in the Fair Value of Investmetns	-	-	213	213
Total Revenues	<u>48,660</u>	<u>48,660</u>	<u>49,075</u>	<u>415</u>
Expenditures:				
Current:				
Community Development	<u>50,550</u>	<u>49,670</u>	<u>39,476</u>	<u>10,194</u>
Total Expenditures	<u>50,550</u>	<u>49,670</u>	<u>39,476</u>	<u>10,194</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,890)</u>	<u>(1,010)</u>	<u>9,599</u>	<u>10,609</u>
Net Change in Fund Balance	(1,890)	(1,010)	9,599	10,609
Fund Balance - Beginning of Year	<u>51,807</u>	<u>51,807</u>	<u>51,807</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ 49,917</u></u>	<u><u>50,797</u></u>	<u><u>61,406</u></u>	<u><u>10,609</u></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
Mobile Home Parks - Special Revenue Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Use of Property	\$ 4,326,350	4,468,300	4,563,695	95,395
Interest	-	-	1,149	1,149
Net Increase in the Fair Value of Investments	-	-	934	934
Total Revenues	4,326,350	4,468,300	4,565,778	97,478
Expenditures:				
Current:				
Community Development	2,758,380	2,858,780	2,600,048	258,732
Debt Service:				
Interfund Interest	636,400	636,400	636,401	(1)
Total Expenditures	3,394,780	3,495,180	3,236,449	258,731
Excess (Deficiency) of Revenues: Over (Under) Expenditures	931,570	973,120	1,329,329	356,209
Other Financing Sources (Uses):				
Transfers In	-	-	8,836	8,836
Transfers Out	(721,680)	(721,680)	-	721,680
Total Other Financing Sources (Uses)	(721,680)	(721,680)	8,836	730,516
Net Change in Fund Balance	209,890	251,440	1,338,165	1,086,725
Fund Balance - Beginning of Year	(15,607,632)	(15,607,632)	(15,607,632)	-
Fund Balance - End of Year	\$ (15,397,742)	(15,356,192)	(14,269,467)	1,086,725

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Use of Property	\$ -	-	26,816	26,816
Charges for Current Services	84,790	92,360	97,194	4,834
Interest	246,310	268,160	44,585	(223,575)
Interfund Interest	721,670	636,400	636,401	1
Net Increase in the Fair Value of Investments	-	-	20,333	20,333
Other	-	-	1	1
Successor Agency Contributions	380,000	780,100	415,096	(365,004)
Total Revenues	1,432,770	1,777,020	1,240,426	(536,594)
Expenditures:				
Current:				
Community Development	1,921,290	6,499,740	1,171,397	5,328,343
Capital Outlay	-	8,750	8,750	-
Total Expenditures	1,921,290	6,508,490	1,180,147	5,328,343
Excess (Deficiency) of Revenues: Over (Under) Expenditures	(488,520)	(4,731,470)	60,279	4,791,749
Other Financing Sources (Uses):				
Transfers to City's General Fund	-	-	(12,212)	(12,212)
Transfer In	636,410	721,680	-	(721,680)
Transfers Out	(12,400)	(12,400)	(8,836)	3,564
Total Other Financing Sources (Uses)	624,010	709,280	(21,048)	(730,328)
Net Change in Fund Balance	135,490	(4,022,190)	39,231	4,061,421
Fund Balance - Beginning of Year	56,076,843	56,076,843	63,145,454	-
Fund Balance - End of Year	\$ 56,212,333	52,054,653	63,184,685	11,130,032

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

Notes to the Financial Statements



For the Fiscal Year Ended

June 30, 2014

City of Palmdale Housing Authority
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For the Year Ended June 30, 2014

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CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

(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 (the "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.

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

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

The Government-Wide Financial Statements are presented using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Housing Authority's assets and liabilities (including long-term liabilities) are reported in the accompanying Statement of Net 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, inflows 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.

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

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 for these funds.

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.

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 nonspendable or restricted in amounts equal to the lower of cost or market of the mobile home for resale since such assets are not available to finance the Authority's current operations. At the end of the current fiscal year, the Authority had \$230,461 in Land Held for Resale for Abandoned and Foreclosed Mobile Home cost.

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 low moderate housing funds and housing asset funds for resale or development for benefit of qualified or eligible households for affordable housing. At the end of the current fiscal year, the Authority had \$1,930,347 in Land Held for Resale.

F. Capital Assets

Capital Assets, which include property, are reported in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

at cost where historical costs are available and at an estimated original cost where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and Structures	50
Improvements other than Buildings	5-10

G. Deferred Outflows/Inflows of Resources

In addition to liabilities, the statement of financial position or fund financial statements 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 government has only 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 amounts due from State Mandated Cost Reimbursements and Grant Reimbursements. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

H. 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.

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

I. Deficit Fund Equity

The following fund had a deficit fund balance at June 30, 2014 in the amount indicated:

Major Special Revenue Fund:

Housing Authority Mobile Home Park Fund	\$ 14,269,467
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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.

J. Use of Estimates

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

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

K. Implemented Accounting Pronouncements

Effective July 1, 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The implementation affected the presentation of certain assets and liabilities of the governmental funds.

Effective July 1, 2013, the Authority adopted GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The implementation did not have any significant impact on the Authority's financial statements.

Effective July 1, 2013, the Authority adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this statement and to defined contribution plans that provide postemployment benefits other than pension. The statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The implementation did not have any significant impact on the Authority's financial statements.

Effective July 1, 2013, the Authority adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve the recognition, measurement, and disclosure for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The implementation did not have any significant impact on the Authority's financial statements.

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

(2) Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 4,953,709
Restricted Cash and Investments	<u>5,355,805</u>
Total Cash and Investments	<u>\$ 10,309,514</u>

Cash and investments as of June 30, 2014 consist of the following:

Cash and Investments with City of Palmdale Investment Pool	\$ 4,953,709
Cash and Investments Held by Trustee	<u>5,355,805</u>
Total Cash and Investments	<u>\$ 10,309,514</u>

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

Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2014.

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

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The table following identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, 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.

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

<u>Authorized Investment Type</u>	<u>Maximum Security</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	2%
Negotiable Certificates of Deposit	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$ 50,000,000

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

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

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Investment Policy of the City, Sections 4.1 and 4.2, provide guidelines for managing risk. One of the ways that the City 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's Investment Policy, or the Authority's debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>AAA/Aaa</u>
Held by Bond Trustees:		
Money Market Funds	A	\$ 5,355,805

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

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, 2014, City investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

E. Investment in State Investment Pool

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the City's Comprehensive Annual Financial Report for the year ended June 30, 2014 at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis

(3) Notes Receivable

Notes Receivable in the amount of \$20,976,088, 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.

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

(4) Fund Balance Classification

The Governmental Fund Balances at June 30, 2014 were classified as follows:

	HA General Fund	Special Revenue Fund Mobile Home Parks Fund	Special Revenue Housing Asset Fund	Total Governmental Funds
Restricted:				
Community Development	\$ -	\$ 230,461	\$ 63,184,685	\$ 63,415,146
Unassigned	61,406	(14,499,928)	-	(14,438,522)
Total Fund Balance	\$ 61,406	\$ (14,269,467)	\$ 63,184,685	\$ 48,976,624

(5) Interfund Transfers

Transfers between funds for the year ended June 30, 2014, consisted of the following:

Transfer To:	Transfer From:	Amount
Mobile Home Parks Fund	Housing Asset Fund	<u>\$ 8,836</u>
Total Interfund Transfers		<u>\$ 8,836</u>
City of Palmdale	Housing Asset Fund	<u>\$ 12,212</u>
Total Transfers to City's General Fund		<u>\$ 12,212</u>

The transfers resulted from changes in security deposits held by the Mobile Home Parks 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 were, in prior fiscal years, classified as long-term debt, and are now reported on the Governmental Fund Balance Sheet of the Housing Asset Fund – Special Revenue Fund and Mobile Home Parks Fund – Special Revenue Fund as a result of the dissolution of the former City of Palmdale Community Redevelopment Agency. The debt was the result of the acquisition of the three mobile home parks (Parks) during fiscal year 2002-2003. Upon acquisition, the Housing Authority assumed the liabilities of the prior owner of the Parks which were payable to the former City of Palmdale Community Redevelopment Agency and the City

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

under the conditions of an Operating Agreement. As of June 30, 2014, the balance of these liabilities was \$1,510,985.

Advances Due To/From Other Funds for the year ended June 30, 2014 were as follows:

<u>Advances Payable To:</u>	<u>Payable From:</u>	<u>Amount</u>
Special Revenue Fund-Housing Asset Fund	Special Revenue Fund-MHP	<u>\$ 1,510,985</u>
Advances Total Due From/To Other Funds		<u><u>\$ 1,510,985</u></u>

All balances resulted from the time lag and are expected to be paid in 2015.

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 to the Parks. On March 26, 2003, the Agency exercised this option by entering into a Cooperation Agreement with the Housing Authority of the City of Palmdale. Title to the property transferred from the prior owner of the Parks to the Housing Authority on April 4, 2003.

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

Repayment agreements between the 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

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
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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.

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 – Special Revenue 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 2013-2014, the Boulder Mobile Home parks paid \$721,667 principal and \$636,401 interest for a total \$1,358,068 to the Housing Asset Fund. The balance of the Note as of June 30, 2014 is \$14,303,333. 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.

Year Ending	Principal	Interest	Total
2015	\$ 750,000	\$ 606,114	\$ 1,356,114
2016	780,000	577,050	1,357,050
2017	813,333	547,105	1,360,438
2018	845,000	515,089	1,360,089
2019	875,000	481,194	1,356,194
2020-2024	4,961,667	1,819,676	6,781,343
2025-2029	5,278,333	622,704	5,901,037
	<u>\$ 14,303,333</u>	<u>\$ 5,168,932</u>	<u>\$ 19,472,265</u>

C. Advances Due from Successor Agency at June 30, 2014

<u>Payable To:</u>	<u>Payable From:</u>	<u>Amount</u>
Housing Authority-Housing Asset Fund	Successor Agency	<u>\$ 15,857,215</u>

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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 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). The first payment is expected to be received during the ROPS period of July-December 2015 or ROPS 15-16A and is estimated to be approximately \$1,316,000.

(7) Capital Assets

Capital Assets of the Housing Authority for the year ended June 30, 2014 consisted of the following:

CITY OF PALMDALE HOUSING AUTHORITY

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	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 2,982,052	6,433,741	-	9,415,793
Construction in Progress	-	8,750	-	8,750
Total Capital Assets, Not Being Depreciated	<u>2,982,052</u>	<u>6,442,491</u>	<u>-</u>	<u>9,424,543</u>
Capital Assets, Being Depreciated				
Buildings and Structures	1,538,100	-	-	1,538,100
Infrastructure	<u>15,312,267</u>	<u>-</u>	<u>-</u>	<u>15,312,267</u>
Total Capital Assets, Being Depreciated	<u>16,850,367</u>	<u>-</u>	<u>-</u>	<u>16,850,367</u>
Less Accumulated Depreciation For:				
Buildings and Structures	335,683	30,762	-	366,445
Infrastructure	<u>4,865,423</u>	<u>508,258</u>	<u>-</u>	<u>5,373,681</u>
Total Accumulated Depreciation	<u>5,201,106</u>	<u>539,020</u>	<u>-</u>	<u>5,740,126</u>
Total Capital Assets, Being Depreciated, Net	<u>11,649,261</u>	<u>(539,020)</u>	<u>-</u>	<u>11,110,241</u>
Total Capital Assets, Net	<u>\$ 14,631,313</u>	<u>5,903,471</u>	<u>-</u>	<u>20,534,784</u>

For the year ended June 30, 2014, depreciation expense on capital assets was charged to the Community Development function in the amount of \$539,020.

(8) Deposits

For the year ended June 30, 2014, deposits in the amount of \$210,457 are reported on the governmental fund statements and government-wide statements and consist of \$209,457 from security deposits held for the mobile home renters and \$1,000 petty cash funds held at the mobile home parks for emergency funds.

(9) Risk Management

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

(10) 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>\$ 1,508,000</u>
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CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
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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 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>\$ 1,135,991</u>
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(11) Change in Long-Term Debt

	Balance at			Balance at	Due Within
	June 30, 2013	Additions	Retirements	June 30, 2014	One Year
Compensated Absences Payable:	\$ 139,411	\$ 14,620	\$ 48,743	\$ 105,288	\$ 72,746
Total Compensated Absences	<u>\$ 139,411</u>	<u>\$ 14,620</u>	<u>\$ 48,743</u>	<u>\$ 105,288</u>	<u>\$ 72,746</u>

(12) Extraordinary Item:

The Successor Agency to the Community Redevelopment Agency of the City of Palmdale transferred certain properties used for a governmental purpose to the Housing Authority as authorized by California Health and Safety Code Section 34181(a). The transfer was approved by the Successor Agency and Oversight Board and by the California State Department of Finance. During FY 2013-14, the transfer consisted of Land totaling \$6,433,741 and is reported as an extraordinary item on the Government Wide Statement of Activities.

(13) 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.

(14) New Accounting Pronouncements

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results form a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to establish reporting standards related to government combinations and disposals of government operations. The statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68. The City has not determined the effect on the financial statements.

(15) Prior Period Adjustment

During the fiscal year, the City made an adjustment for a deposit made into an escrow account that was set aside for a future project. The deposit was reported as a program expenditure in the prior year in error.

The following adjustments were made to the Governmental Activities and Governmental Housing Asset Fund Statements to correct the expenditure adjustment.

Prior Period Adjustment:

	<u>Governmental Activities</u>	<u>Housing Asset Fund</u>
Net Position/Fund Balance - Beginning of Year	\$ 58,479,466	\$ 58,690,454
Adjustments Related to Expenditures	<u>4,455,000</u>	<u>4,455,000</u>
Net Position/Fund Balance - Beginning of Year as Restated	<u>\$ 62,934,466</u>	<u>\$ 63,145,454</u>



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

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, as of and for the year ended June 30, 2014, 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 25, 2014. Our report contained an emphasis of matter regarding the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013, and the reporting of an extraordinarily item.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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 25, 2014