

# **ANNUAL FINANCIAL REPORT**

**CITY OF PALMDALE, CALIFORNIA**

**HOUSING AUTHORITY**

**(A Component Unit of the City of Palmdale)**



*For the Fiscal Year Ended*

*June 30, 2015*

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

**ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2015**

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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, 2015, 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, 2015, 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.

## ***Emphasis of Matters***

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

## ***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 49-50 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 24, 2015, on our consideration of the City'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 City's internal control over financial reporting and compliance.

*Vavrinick, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
November 24, 2015

## 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, 2015.

### 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 \$69,952,641.
- The Authority's total net position increased in the current year by \$234,184 but overall total net position decreased as compared to prior year by \$589,470 primarily as the result of implementing GASB Statement No. 68-*Accounting and Financial Reporting for Pensions, an amendment of GASB 27* and restatement to the beginning net position on the statement of activities. Details of the restatement can be found at Note 11 and 15 of the Notes to the Financial Statements.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$49,261,196, an increase of \$284,572 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 11 - 12 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 14-18. Budget and actual statements can be found on pages 21-23.

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 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 \$13,573,279. The deficit was reduced by \$696,188 as the result of a decline in a decline in operating expenditures as compared to prior year.

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 \$62,735,450.

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-47 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 \$69,952,641 as of June 30, 2015.

| <b><u>Housing Authority's Net Position</u></b> |                                    |                                    |
|--|------------------------------------|------------------------------------|
|  | Governmental<br>Activities<br>2015 | Governmental<br>Activities<br>2014 |
|  | <u>2015</u>                        | <u>2014</u>                        |
| Current and Other Assets                       | \$ 52,710,021                      | \$ 51,960,149                      |
| Capital Assets                                 | 20,097,501                         | 20,534,784                         |
| Total Assets                                   | <u>72,807,522</u>                  | <u>72,494,933</u>                  |
| Deferred Outflows of Resources                 | <u>81,237</u>                      | <u>-</u>                           |
| Other Liabilities                              | 2,781,526                          | 1,952,822                          |
| Total Liabilities                              | <u>2,781,526</u>                   | <u>1,952,822</u>                   |
| Deferred Inflows of Resources                  | <u>154,592</u>                     | <u>-</u>                           |
| Net Position:                                  |                                    |                                    |
| Net Investment in Capital Assets               | 20,097,501                         | 20,534,784                         |
| Restricted:                                    |                                    |                                    |
| Community Development                          | 49,868,793                         | 50,051,210                         |
| Unrestricted                                   | (13,653)                           | (43,883)                           |
| Total Net Position                             | <u>\$ 69,952,641</u>               | <u>\$ 70,542,111</u>               |

The Authority's net investment in capital assets, reflects a balance of \$20,097,501. 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 \$49,868,793 represent resources that are subject to the affordable housing provisions of California Redevelopment Law and health and safety code.

The Authority's Other Liabilities reflect a balance of \$2,781,526. Other Liabilities consists of short term liabilities totaling \$353,141 that are considered payable within a year and consist of accounts payable, accrued salaries and unpaid compensated absences. Included in Other Liabilities is Net Pension Liability in the amount \$728,131 and recorded in the Authority's Financial Statements as the result of implementing GASB 68. Additional detailed information can be found at Note 11 and 15 of the Notes to the Financial Statements. The remaining balance in the amount of \$1,700,254 consists of refundable deposits and unearned revenue.

**Housing Authority's Changes in Net Position**

|   | Governmental<br>Activities<br>2015 | Governmental<br>Activities<br>2014 |
|---|------------------------------------|------------------------------------|
| Revenues:                                     |                                    |                                    |
| Program Revenues:                             |                                    |                                    |
| Charges for Services                          | \$ 4,739,256                       | \$ 4,736,378                       |
| Operating Grants and Contributions            | 372,115                            | 698,556                            |
| General Revenues:                             |                                    |                                    |
| Investment Income                             | 23,314                             | 67,000                             |
| Total Revenues                                | 5,134,685                          | 5,501,934                          |
| <br>Extraordinary Item                        | -                                  | 6,433,741                          |
| Total General Revenues & Extraordinary Items  | 5,134,685                          | 11,935,675                         |
| <br>Expenses:                                 |                                    |                                    |
| Community Development                         | 4,900,761                          | 4,328,030                          |
| Total Expenses                                | 4,900,761                          | 4,328,030                          |
| <br>Increase (Decrease) in Net Position       | 234,184                            | 7,607,645                          |
| Net Position - Beginning of Year, as restated | 69,718,457                         | 62,934,466                         |
| Net Position - End of Year                    | \$ 69,952,641                      | \$ 70,542,111                      |

**Governmental Activities.** Governmental activities increased the Authority's net position by \$234,184 during the current fiscal year and overall decreased by \$589,470. The decrease is primarily the result of implementing GASB Statement No. 68-*Accounting and Financial Reporting for Pensions* and restatement to the beginning net position by \$823,654 on the statement of activities. Details of the restatement can be found at Note 11 and 15 of the Notes to the Financial Statements. Key elements of the governmental activities net position current increase are as follows:

- Charges for services increased slightly by \$2,878 primarily due to an increase in rents collected as higher occupancy levels were achieved at the mobile home parks.
- Operating Grants and contributions decreased \$326,441 as the result of a decline in the unavailable revenue recognized on the government wide statements.
- Community Development expenditures increased by \$572,731 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 \$49,261,196, an increase of \$284,572 in comparison with the prior year. The fund balances were classified as follows:

- \$62,805,043 is "Restricted" due to the existence of externally enforceable legal restrictions that are related primarily to special revenue funding sources.
- (\$13,543,847) is "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 \$15,030 as the result of additional savings anticipated throughout the budget. Differences between the final amended budget and actual resulted in a \$14,599 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, 2015, amounts to \$20,097,501 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. A \$437,283 decrease in the Authority's investment in capital assets as compared to prior year is primarily the result of current year depreciation.

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

|                          | Governmental<br>Activities<br>2015 | Governmental<br>Activities<br>2014 |
|--------------------------|------------------------------------|------------------------------------|
| Land                     | \$ 9,415,793                       | \$ 9,415,793                       |
| Construction in Progress | -                                  | 8,750                              |
| Buildings & Structures   | 1,149,555                          | 1,171,655                          |
| Infrastructure           | 9,532,153                          | 9,938,586                          |
| Total                    | \$ 20,097,501                      | \$ 20,534,784                      |

Additional information on the Authority's capital assets can be found on page 38, 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 2015-16 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.

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# **Government-Wide Financial Statements**

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**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>Assets:</b>                                      |                            |
| Cash and Investments                                | \$ 5,282,459               |
| Accounts Receivable                                 | 1,855,455                  |
| Interest Receivable                                 | 1,500,276                  |
| Land Held for Resale                                | 1,999,940                  |
| Advances Due from Successor Agency                  | 15,857,215                 |
| Notes and Liens                                     | 22,783,680                 |
| Restricted Assets:                                  |                            |
| Cash and Investments                                | 3,430,932                  |
| Interest Receivable                                 | 64                         |
| Capital Assets:                                     |                            |
| Not Being Depreciated:                              |                            |
| Land  | 9,415,793                  |
| Being Depreciated, Net of Accumulated Depreciation: |                            |
| Buildings and Structures                            | 1,149,555                  |
| Infrastructure                                      | 9,532,153                  |
| Total Assets  | 72,807,522                 |
| <b>Deferred Outflows of Resources:</b>              |                            |
| Deferred Outflows Related to Pensions               | 81,237                     |
| Total Deferred Outflows of Resources                | 81,237                     |
| <b>Liabilities:</b>                                 |                            |
| Accounts Payable                                    | 223,131                    |
| Accrued Salaries and Employee Benefits              | 17,331                     |
| Deposits  | 218,254                    |
| Unearned Revenue                                    | 1,482,000                  |
| Net Pension Liability                               | 728,131                    |
| Noncurrent Liabilities:                             |                            |
| Due Within One Year                                 | 60,313                     |
| Due in More than One Year                           | 52,366                     |
| Total Liabilities                                   | 2,781,526                  |
| <b>Deferred Inflows of Resources:</b>               |                            |
| Deferred Inflows Related to Pensions                | 154,592                    |
| Total Deferred Outflows of Resources                | 154,592                    |
| <b>Net Position:</b>                                |                            |
| Net Investment in Capital Assets                    | 20,097,501                 |
| Restricted for:                                     |                            |
| Community Development                               | 49,868,793                 |
| Unrestricted  | (13,653)                   |
| Total Net Position                                  | \$ 69,952,641              |

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

|                                  |              | Program Revenues        |  |   |
|----------------------------------|--------------|-------------------------|--|---|
|                                  | Expenses     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Net (Expense)<br>and Changes in<br>Net Position |
| Governmental Activities:         |              |                         |  |   |
| Community Development            | \$ 4,900,761 | 4,739,256               | 372,115                                  | 210,610   |
| Total Governmental Activities    | \$ 4,900,761 | 4,739,256               | 372,115                                  | 210,610   |
| General Revenues:                |              |                         |  |   |
| Unrestricted Investment Earnings |              |                         |  | 23,574  |
|                                  |              |                         |  | 234,184   |
|                                  |              |                         |  | 69,718,457                                      |
|                                  |              |                         |  | \$ 69,952,641                                   |

See Accompanying Notes to the Financial Statements

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# Governmental Fund Financial Statements

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**The General Fund** is the Housing Authority's primary operating fund and has been classified as a major fund. It accounts for compliance, 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 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 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, 2015**

|   | General<br>Fund   | Special Revenue Fund      |                       | Total<br>Governmental<br>Funds |
|---|-------------------|---------------------------|-----------------------|--------------------------------|
|   |                   | Mobile Home<br>Parks Fund | Housing<br>Asset Fund |                                |
| <b>Assets</b>   |                   |                           |                       |                                |
| Assets:   |                   |                           |                       |                                |
| Cash  | \$ -              | \$ 2,000                  | \$ -                  | \$ 2,000                       |
| Investments   | 11,272            | 222,141                   | 5,047,045             | 5,280,458                      |
| Receivables:  |                   |                           |                       |                                |
| Accounts and Interest Receivable  | 156,635           | 1,395,081                 | 1,804,079             | 3,355,795                      |
| Advances Due from Mobile Home Parks Fund                                      | -                 | -                         | 1,411,000             | 1,411,000                      |
| Advances Due from Successor Agency  | -                 | -                         | 15,857,215            | 15,857,215                     |
| Notes and Liens   | -                 | -                         | 22,783,680            | 22,783,680                     |
| Interfund Promissory Note   | -                 | -                         | 13,553,333            | 13,553,333                     |
| Restricted Assets:  |                   |                           |                       |                                |
| Investments   | -                 | -                         | 3,430,932             | 3,430,932                      |
| Land Held for Resale  | -                 | 69,593                    | 1,930,347             | 1,999,940                      |
| <b>Total Assets</b>   | <b>\$ 167,907</b> | <b>\$ 1,688,815</b>       | <b>\$ 65,817,631</b>  | <b>\$ 67,674,353</b>           |
| <b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>           |                   |                           |                       |                                |
| Liabilities:  |                   |                           |                       |                                |
| Accounts Payable  | \$ 67,882         | \$ 80,507                 | \$ 92,075             | \$ 240,464                     |
| Advances Due to Other Funds   | -                 | 1,411,000                 | -                     | 1,411,000                      |
| Interfund Promissory Note   | -                 | 13,553,333                | -                     | 13,553,333                     |
| Deposits  | 1,000             | 217,254                   | -                     | 218,254                        |
| Unearned Revenue  | -                 | -                         | 1,482,000             | 1,482,000                      |
| <b>Total Liabilities</b>  | <b>68,882</b>     | <b>15,262,094</b>         | <b>1,574,075</b>      | <b>16,905,051</b>              |
| Deferred Inflows of Resources:  |                   |                           |                       |                                |
| Unavailable Revenue   | -                 | -                         | 1,508,106             | 1,508,106                      |
| <b>Total Deferred Inflows of Resources</b>                                    | <b>-</b>          | <b>-</b>                  | <b>1,508,106</b>      | <b>1,508,106</b>               |
| Fund Balances:  |                   |                           |                       |                                |
| Restricted  | -                 | 69,593                    | 62,735,450            | 62,805,043                     |
| Unassigned  | 99,025            | (13,642,872)              | -                     | (13,543,847)                   |
| <b>Total Fund Balances</b>  | <b>99,025</b>     | <b>(13,573,279)</b>       | <b>62,735,450</b>     | <b>49,261,196</b>              |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b> | <b>\$ 167,907</b> | <b>\$ 1,688,815</b>       | <b>\$ 65,817,631</b>  | <b>\$ 67,674,353</b>           |

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, 2015**

**Total Fund Balances - Total Governmental Funds (page 15)** \$ 49,261,196

Amounts reported for Governmental Activities in the Statement of  
Net Position (page 11) 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   | \$ 26,378,461      |            |
| Less Accumulated Depreciation | <u>(6,280,960)</u> | 20,097,501 |

Accounts receivable not available to pay for current-period expenditures  
are reported as deferred inflows of resources in the funds. 1,508,106

Payments made on the pension liability were made subsequent to the measurement  
date and not reported as expense in the governmental activity.

|                                       |        |
|---------------------------------------|--------|
| Deferred Outflows related to pensions | 81,237 |
|---------------------------------------|--------|

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 | \$ (112,676)     |           |
| Pension Liability    | <u>(728,131)</u> | (840,807) |

Deferred earnings on pension plan investments are deferred inflows of  
resources and are not reported in the Governmental Funds Balance Sheet. (154,592)

**Net Position of Governmental Activities (page 11)** \$ 69,952,641

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, 2015**

|  | General<br>Fund  | Special Revenue Funds     |                       | Total<br>Governmental<br>Funds |
|--|------------------|---------------------------|-----------------------|--------------------------------|
|  |                  | Mobile Home<br>Parks Fund | Housing<br>Asset Fund |                                |
| <b>Revenues:</b>   |                  |                           |                       |                                |
| Charges for Current Services   | \$ 54,370        | \$ -                      | \$ 123,945            | \$ 178,315                     |
| Use of Property  | -                | 4,562,028                 | -                     | 4,562,028                      |
| Interest   | 255              | 1,493                     | 19,828                | 21,576                         |
| Interfund Interest   | -                | -                         | 606,114               | 606,114                        |
| Net Increase in Fair Value of Investments                            | 5                | 40                        | 867                   | 912                            |
| <b>Total Revenues</b>  | <b>54,630</b>    | <b>4,563,561</b>          | <b>750,754</b>        | <b>5,368,945</b>               |
| <b>Expenditures:</b>   |                  |                           |                       |                                |
| <b>Current:</b>  |                  |                           |                       |                                |
| Community Development  | 17,011           | 3,269,055                 | 1,179,791             | 4,465,857                      |
| <b>Debt Service:</b>   |                  |                           |                       |                                |
| Interfund Interest   | -                | 606,114                   | -                     | 606,114                        |
| <b>Total Expenditures</b>  | <b>17,011</b>    | <b>3,875,169</b>          | <b>1,179,791</b>      | <b>5,071,971</b>               |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>37,619</b>    | <b>688,392</b>            | <b>(429,037)</b>      | <b>296,974</b>                 |
| <b>Other Financing Sources (Uses):</b>                               |                  |                           |                       |                                |
| Transfers to City's General Fund                                     | -                | -                         | (12,402)              | (12,402)                       |
| Transfers In   | -                | 7,796                     | -                     | 7,796                          |
| Transfers Out  | -                | -                         | (7,796)               | (7,796)                        |
| <b>Total Other Financing Sources (Uses)</b>                          | <b>-</b>         | <b>7,796</b>              | <b>(20,198)</b>       | <b>(12,402)</b>                |
| <b>Net Change in Fund Balances</b>                                   | <b>37,619</b>    | <b>696,188</b>            | <b>(449,235)</b>      | <b>284,572</b>                 |
| <b>Fund Balances, Beginning of Year</b>                              | <b>61,406</b>    | <b>(14,269,467)</b>       | <b>63,184,685</b>     | <b>48,976,624</b>              |
| <b>Fund Balances, End of Year</b>                                    | <b>\$ 99,025</b> | <b>\$ (13,573,279)</b>    | <b>\$ 62,735,450</b>  | <b>\$ 49,261,196</b>           |

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, 2015**

**Net Change in Fund Balances - Total Governmental Funds (page 17)** \$ 284,572

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position (page 12) 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 | \$ 103,551       |           |
| Less Depreciation Expense              | <u>(540,834)</u> | (437,283) |

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 | 372,115 |
|--|---------|

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 | (7,388)       |               |
| Pension Expense      | <u>22,168</u> | <u>14,780</u> |

**Changes in Net Position of Governmental Activities (page 12)** \$ 234,184

See Accompanying Notes to the Financial Statements

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# **Budgetary Comparison Statements**

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**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, 2015

|  | Budgeted Amounts        |                      | Actual Amounts       | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|-------------------------|----------------------|----------------------|---|
|  | Original                | Final                |                      |   |
| <b>Revenues:</b>   |                         |                      |                      |   |
| Charges for Current Services                                 | \$ 49,350               | 49,350               | 54,370               | 5,020   |
| Interest   | -                       | -                    | 255                  | 255   |
| Net Increase in the Fair Value<br>of Investmetns             | -                       | -                    | 5                    | 5   |
| <b>Total Revenues</b>  | <u>49,350</u>           | <u>49,350</u>        | <u>54,630</u>        | <u>5,280</u>  |
| <b>Expenditures:</b>   |                         |                      |                      |   |
| Current:   |                         |                      |                      |   |
| Community Development  | <u>46,640</u>           | <u>31,610</u>        | <u>17,011</u>        | <u>14,599</u>   |
| <b>Total Expenditures</b>                                    | <u>46,640</u>           | <u>31,610</u>        | <u>17,011</u>        | <u>14,599</u>   |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>2,710</u>            | <u>17,740</u>        | <u>37,619</u>        | <u>19,879</u>   |
| Net Change in Fund Balance                                   | 2,710                   | 17,740               | 37,619               | 19,879  |
| Fund Balance - Beginning of Year                             | <u>61,406</u>           | <u>61,406</u>        | <u>61,406</u>        | <u>-</u>  |
| Fund Balance - End of Year                                   | <u><u>\$ 64,116</u></u> | <u><u>79,146</u></u> | <u><u>99,025</u></u> | <u><u>19,879</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, 2015

|   | Budgeted Amounts       |                     | Actual Amounts      | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|---|------------------------|---------------------|---------------------|---|
|   | Original               | Final               |                     |   |
| <b>Revenues:</b>  |                        |                     |                     |   |
| Use of Property   | \$ 4,386,650           | 4,560,580           | 4,562,028           | 1,448   |
| Interest  | -                      | -                   | 1,493               | 1,493   |
| Net Increase in the Fair Value<br>of Investments              | -                      | -                   | 40                  | 40  |
| <b>Total Revenues</b>   | <b>4,386,650</b>       | <b>4,560,580</b>    | <b>4,563,561</b>    | <b>2,981</b>  |
| <b>Expenditures:</b>  |                        |                     |                     |   |
| Current:  |                        |                     |                     |   |
| Community Development   | 2,990,330              | 3,390,320           | 3,269,055           | 121,265   |
| Debt Service:   |                        |                     |                     |   |
| Interfund Interest  | 606,120                | 606,120             | 606,114             | 6   |
| <b>Total Expenditures</b>                                     | <b>3,596,450</b>       | <b>3,996,440</b>    | <b>3,875,169</b>    | <b>121,271</b>  |
| Excess (Deficiency) of Revenues:<br>Over (Under) Expenditures | 790,200                | 564,140             | 688,392             | 124,252   |
| <b>Other Financing Sources (Uses):</b>                        |                        |                     |                     |   |
| Transfers Out   | (750,000)              | (750,000)           | 7,796               | 757,796   |
| <b>Total Other Financing Sources (Uses)</b>                   | <b>(750,000)</b>       | <b>(750,000)</b>    | <b>7,796</b>        | <b>757,796</b>  |
| <b>Net Change in Fund Balance</b>                             | <b>40,200</b>          | <b>(185,860)</b>    | <b>696,188</b>      | <b>882,048</b>  |
| Fund Balance - Beginning of Year                              | (14,269,467)           | (14,269,467)        | (14,269,467)        | -   |
| <b>Fund Balance - End of Year</b>                             | <b>\$ (14,229,267)</b> | <b>(14,455,327)</b> | <b>(13,573,279)</b> | <b>882,048</b>  |

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, 2015

|   | Budgeted Amounts     |                    | Actual Amounts    | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|---|----------------------|--------------------|-------------------|---|
|   | Original             | Final              |                   |   |
| <b>Revenues:</b>  |                      |                    |                   |   |
| Charges for Current Services                                  | \$ 242,030           | 92,030             | 123,945           | 31,915  |
| Interest  | 246,820              | 342,990            | 19,828            | (323,162)   |
| Elim Combined Funds Int Rev                                   | 606,120              | 606,120            | 606,114           | (6)   |
| Net Increase in the Fair Value<br>of Investments              | -                    | -                  | 867               | 867   |
| <b>Total Revenues</b>   | <b>1,094,970</b>     | <b>1,041,140</b>   | <b>750,754</b>    | <b>(290,386)</b>  |
| <b>Expenditures:</b>  |                      |                    |                   |   |
| Current:  |                      |                    |                   |   |
| Community Development   | 1,427,800            | 3,562,440          | 1,179,791         | 2,382,649   |
| <b>Total Expenditures</b>                                     | <b>1,427,800</b>     | <b>3,562,440</b>   | <b>1,179,791</b>  | <b>2,382,649</b>  |
| Excess (Deficiency) of Revenues:<br>Over (Under) Expenditures | (332,830)            | (2,521,300)        | (429,037)         | 2,092,263   |
| <b>Other Financing Sources (Uses):</b>                        |                      |                    |                   |   |
| Transfers In  | 750,000              | 750,000            | -                 | (750,000)   |
| Transfers Out   | (12,400)             | (12,400)           | (20,198)          | (7,798)   |
| <b>Total Other Financing Sources (Uses)</b>                   | <b>737,600</b>       | <b>737,600</b>     | <b>(20,198)</b>   | <b>(757,798)</b>  |
| <b>Net Change in Fund Balance</b>                             | <b>404,770</b>       | <b>(1,783,700)</b> | <b>(449,235)</b>  | <b>1,334,465</b>  |
| Fund Balance - Beginning of Year                              | 63,184,686           | 63,184,686         | 63,184,685        | -   |
| <b>Fund Balance - End of Year</b>                             | <b>\$ 63,589,456</b> | <b>61,400,986</b>  | <b>62,735,450</b> | <b>1,334,464</b>  |

See Accompanying Notes to the Financial Statements

# **CITY OF PALMDALE HOUSING AUTHORITY**

## **Notes to the Financial Statements**



*For the Fiscal Year Ended*

*June 30, 2015*

**City of Palmdale Housing Authority**  
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**City of Palmdale Housing Authority**  
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# CITY OF PALMDALE HOUSING AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

### **(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, 2015

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 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, 2015

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 14 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 \$69,593 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 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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

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           |
| Infrastructure           | 5-10         |

**G. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of 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 government only has one item that qualifies for reporting in this category. It is the contributions made against the pension liability subsequent to the measurement date. This amount is deferred and will be recognized in the subsequent measurement period of the pension liability.

In addition to liabilities, the statement of financial 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 or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government 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 accrued interest earned on loans but not yet received. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The government-wide Statement of Net Position reports deferred inflows resulting from actual earnings on the pension fiduciary net position that were in excess of the projected earnings. This amount is deferred and recognized as a reduction of pension expense over a defined amortization period of five years.

**H. Compensated Absences**

It is the City'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.

# CITY OF PALMDALE HOUSING AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

### 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 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

### 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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**K. Deficit Fund Equity**

The following fund had a deficit fund balance at June 30, 2015 in the amount indicated:

Major Special Revenue Fund:

|   |                      |
|---|----------------------|
| Housing Authority Mobile Home Park Fund | <u>\$ 13,573,279</u> |
|---|----------------------|

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**

During fiscal year 2014-15, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary 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 effected the periods beginning after June 15, 2014. The Authority recognized a restatement to beginning net position on the statement of activities. See footnote 15 for more information.

During fiscal year 2014-15, the Authority adopted GASB 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. The implementation did not have any significant impact on the Authority’s financial statements.

During fiscal year 2014-15, the Authority adopted GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.. The Authority recognized a restatement to beginning net position on the statement of activities. See footnote 15 for more information.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
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Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:

|                                 |                           |
|---------------------------------|---------------------------|
| Cash and Investments            | \$5,282,458               |
| Restricted Cash and Investments | <u>3,430,932</u>          |
| Total Cash and Investments      | <u><u>\$8,713,390</u></u> |

Cash and investments as of June 30, 2015 consist of the following:

|  |                           |
|--|---------------------------|
| Cash and Investments with City of Palmdale Investment Pool | \$5,282,458               |
| Cash and Investments Held by Trustee                       | <u>3,430,932</u>          |
| Total Cash and Investments                                 | <u><u>\$8,713,390</u></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, 2015.

**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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

| <u>Authorized<br/>Investment Type</u> | <u>Maximum<br/>Security</u> | <u>Maximum<br/>Percentage<br/>of Portfolio*</u> | <u>Maximum<br/>Investment<br/>in One<br/>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                           | \$ 3,430,932   |

## CITY OF PALMDALE HOUSING AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

#### **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, 2015, 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, 2015 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 \$22,783,680, 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  
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**(4) Fund Balance Classification**

The Governmental Fund Balances at June 30, 2015 were classified as follows:

|                       | HA<br>General<br>Fund | Special<br>Revenue Fund<br>Mobile Home<br>Parks Fund | Special<br>Revenue<br>Housing<br>Asset Fund | Total<br>Governmental<br>Funds |
|-----------------------|-----------------------|--|---|--------------------------------|
| Restricted:           |                       |  |   |                                |
| Community Development | \$ -                  | \$ 69,593  | \$ 62,735,452                               | \$ 62,805,045                  |
| Unassigned            | 99,025                | (13,642,871)   | -   | (13,543,846)                   |
| Total Fund Balance    | <u>\$ 99,025</u>      | <u>\$ (13,573,278)</u>                               | <u>\$ 62,735,452</u>                        | <u>\$ 49,261,199</u>           |

**(5) Interfund Transfers**

Transfers between funds for the year ended June 30, 2015, consisted of the following:

| <u>Transfer To:</u>                    | <u>Transfer From:</u> | <u>Amount</u>    |
|--|-----------------------|------------------|
| Mobile Home Parks Fund                 | Housing Asset Fund    | <u>\$ 7,796</u>  |
| Total Interfund Transfers              |                       | <u>\$ 7,796</u>  |
| City of Palmdale                       | Housing Asset Fund    | <u>\$ 12,402</u> |
| Total Transfers to City's General Fund |                       | <u>\$ 12,402</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 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 City of Palmdale Community Redevelopment Agency. The advance 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 under the conditions of an Operating Agreement. As of June 30, 2015, the balance of these liabilities was \$1,411,000.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
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Advances Due To/From Other Funds for the year ended June 30, 2015 were as follows:

|  |                        |                            |
|--|------------------------|----------------------------|
| Housing Asset Fund                     | Mobile Home Parks Fund | <u>\$ 1,411,000</u>        |
| Advances Total Due From/To Other Funds |                        | <u><u>\$ 1,411,000</u></u> |

The balances are expected to be paid in 2016.

**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 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 which is now

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
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repayment of the note must be used in accordance with applicable housing related provisions of Community Redevelopment Law. During FY 2014-15, the Boulder Mobile Home parks paid \$750,000 principal and \$606,114 interest for a total \$1,356,114 to the Housing Asset Fund. The balance of the Note as of June 30, 2014 is \$13,553,333. 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<br>Ending | Principal           | Interest           | Total               |
|----------------|---------------------|--------------------|---------------------|
| 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           | 911,667             | 445,072            | 1,356,739           |
| 2021-2024      | 4,050,000           | 1,374,604          | 5,424,604           |
| 2025-2029      | 5,278,333           | 622,704            | 5,901,037           |
|                | <u>\$13,553,333</u> | <u>\$4,562,818</u> | <u>\$18,116,151</u> |

**C. Advances Due from Successor Agency at June 30, 2015**

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

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**NOTES TO THE FINANCIAL STATEMENTS  
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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, 2015 consisted of the following:

|  | Beginning<br>Balance | Additions        | Deletions | Ending<br>Balance |
|--|----------------------|------------------|-----------|-------------------|
| Capital Assets, Not Being Depreciated        |                      |                  |           |                   |
| Land   | \$ 9,415,793         | -                | -         | 9,415,793         |
| Construction in Progress                     | 8,750                | -                | (8,750)   | -                 |
| Total Capital Assets, Not Being Depreciated  | <u>9,424,543</u>     | <u>-</u>         | <u>-</u>  | <u>9,415,793</u>  |
| Capital Assets, Being Depreciated            |                      |                  |           |                   |
| Buildings and Structures                     | 1,538,100            | 8,750            | -         | 1,546,850         |
| Infrastructure                               | 15,312,267           | 103,551          | -         | 15,415,818        |
| Total Capital Assets, Being Depreciated      | <u>16,850,367</u>    | <u>112,301</u>   | <u>-</u>  | <u>16,962,668</u> |
| Less Accumulated Depreciation For:           |                      |                  |           |                   |
| Buildings and Structures                     | 366,445              | 30,850           | -         | 397,295           |
| Infrastructure                               | 5,373,681            | 509,984          | -         | 5,883,665         |
| Total Accumulated Depreciation               | <u>5,740,126</u>     | <u>540,834</u>   | <u>-</u>  | <u>6,280,960</u>  |
| Total Capital Assets, Being Depreciated, Net | <u>11,110,241</u>    | <u>(428,533)</u> | <u>-</u>  | <u>10,681,708</u> |
| Total Capital Assets, Net                    | <u>\$ 20,534,784</u> | <u>(428,533)</u> | <u>-</u>  | <u>20,097,501</u> |

For the year ended June 30, 2015, depreciation expense on capital assets was charged to the Community Development function in the amount of \$540,834.

**(8) Deposits**

For the year ended June 30, 2015, deposits in the amount of \$218,254 are reported on the governmental fund statements and government-wide statements and consist of \$217,254 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.

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

(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 \$ 1,482,000

**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 \$ 1,508,106

(11) Public Employees' Retirement System (PERS) Pension Plan

A. **General Information about the Pension Plan**

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

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
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The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

|   | <b>Miscellaneous</b>             |   |                                   |
|---|----------------------------------|---|-----------------------------------|
|   | On or Prior to<br>April 10, 2011 | Between April<br>11, 2011<br>and December<br>31, 2012 | On or after<br>January<br>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   | 52-62                             |
| Monthly benefits, as a % of annual salary | 2.0% to 2.7%                     | 1.092% to 2.418%                                      | 1.0% to 2.0%                      |
| Required employee contribution rates      | 8.00%                            | 7.00%   | 6.25%                             |
| Required employer contribution rates      | 30.445%                          | 30.445%   | 30.445%                           |

**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, 2015, the Authority's proportionate share of the City's contribution to the Plan was \$81,237.

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

As of June 30, 2015, the Authority reported a liability of \$728,131 for its proportionate share of the City's net pension liability.

The net pension liability of the Plan is measured as of June 30, 2014 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, 2013. The Authority's proportion of the City's net pension liability was based on the Authority's FY2014 actual contributions to the City's pension plan relative to the total contribution of the City as a whole.

At June 30, 2014, the Authority's proportion was 2.1% which is an increase of 0.60% from its proportion measured as of June 30, 2013.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

For the year ended June 30, 2015, the Authority's recognized pension expense of \$59,069. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|---|--------------------------------------|-------------------------------------|
| Pension Contributions subsequent to measurement date                      | \$ 81,237                            |                                     |
| Net differences between projected and actual earnings on plan investments |                                      | \$ 154,592                          |
| Total   | <u>\$ 81,237</u>                     | <u>\$ 154,592</u>                   |

The amount of \$81,237 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Year ended June 30</u> |          |
|---------------------------|----------|
| 2016                      | (30,920) |
| 2017                      | (30,918) |
| 2018                      | (30,918) |
| 2019                      | (30,918) |

**Actuarial Assumptions** – The Authority's proportion of the City's total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions applied to all pension included in the measurement.

|                           |                                   |
|---------------------------|-----------------------------------|
| Actuarial Valuation Date  | June 30, 2013                     |
| Actuarial Cost Method     | Entry-Age Normal Cost Method      |
| Actuarial Assumptions:    |                                   |
| Discount Rate             | 7.5%                              |
| Inflation                 | 2.75%                             |
| Payroll Growth            | 3.0%                              |
| Projected Salary Increase | 3.3% - 14.2% (1)                  |
| Investment Rate of Return | 7.5% (2)                          |
| Mortality                 | Society of Actuaries Scale BB (3) |

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

(2) Net of pension plan investment expenses, including inflation

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>

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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

| <u>Asset Class</u>            | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10<sup>1</sup></u> | <u>Real Return Years 11+<sup>2</sup></u> |
|-------------------------------|---------------------------------|---|--|
| Global Equity                 | 47.00%                          | 5.25%                                     | 5.71%                                    |
| Global Fixed Income           | 19.00%                          | 0.99%                                     | 2.43%                                    |
| Inflation Sensitive           | 6.00%                           | 45.00%                                    | 3.36%                                    |
| Private Equity                | 12.00%                          | 6.83%                                     | 6.95%                                    |
| Real Estate                   | 11.00%                          | 4.50%                                     | 5.13%                                    |
| Infrastructure and Forestland | 3.00%                           | 4.50%                                     | 5.09%                                    |
| Liquidity                     | 2.00%                           | -0.55%                                    | -1.05%                                   |
| Total                         | <u>100%</u>                     |   |  |

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period

**Discount Rate** – The discount rate used to measure the total pension liability was 7.50% for each Plan. The project of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

**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 net pension liability as of the measurement date, calculated using the discount rate of 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate.

|  | <u>Discount Rate -<br/>1% (6.50%)</u> | <u>Current<br/>Discount Rate<br/>(7.50%)</u> | <u>Discount Rate<br/>+1% (8.50%)</u> |
|--|---------------------------------------|--|--------------------------------------|
| Authority's proportionate share<br>of the City's Net Pension Liability | \$ 1,141,824                          | \$ 728,131                                   | \$ 894,693                           |

**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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(12) Changes in Long-Term Debt**

Activity for the year ended June 30, 2015 were as follows:

|                               | Balance at<br>June 30 | Additions | Retirements | Balance at<br>June 30 | Due Within<br>One Year |
|-------------------------------|-----------------------|-----------|-------------|-----------------------|------------------------|
| Compensated Absences Payable: | \$ 105,288            | \$ 58,438 | \$ 51,047   | \$ 112,679            | \$ 60,313              |
| Total Long Term Debt          | \$ 105,288            | \$ 58,438 | \$ 51,047   | \$ 112,679            | \$ 60,313              |

**(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. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 73**– In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 74** – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined*

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 75** - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 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 75 are effective for fiscal years beginning after June 15, 2017. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 76** – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is not effective until the fiscal year ending June 30, 2016. The Authority has not determined the effect of this statement.

**GASB Statement No. 77** – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. 2. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is not effective until the fiscal year ending June 30, 2017. The Authority has not determined the effect of this statement.

**(15) Restatement of Prior Year Net Position**

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions —an amendment of GASB Statement No. 27*, as of July 1, 2014 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The impact of the implementation on the beginning net position is as follows:

**Governmental Activities Financial Statement Adjustment:**

|  | Governmental<br>Activities |
|--|----------------------------|
| Net Position - Beginning of Year, as previously reported | \$70,542,111               |
| Net Pension Liability                                    | (905,172)                  |
| Deferred Outflows of Resources                           | 81,518                     |
| Net Position - Beginning of Year, as restated            | \$69,718,457               |

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**The following is the pro forma effect of the retroactive application of GASB 68:**

| <u>Governmental Activities</u> | <u>Previously<br/>Reported</u> | <u>Restatement</u> | <u>Restated</u> |
|--------------------------------|--------------------------------|--------------------|-----------------|
| Deferred Outflows              | \$ -                           | \$ 81,518          | \$ 81,518       |
| Net Pension Liability          | -                              | (905,172)          | (905,172)       |
| Net Position                   | 70,542,011                     | (823,654)          | 69,718,357      |

In accordance with GASB 68, the restatement of all deferred inflows and outflows was not practicable and therefore not included in the restatement of beginning balances.

**(16) Subsequent Event**

On September 3, 2015 the City of Palmdale Housing Authority issued \$4,235,000 Multifamily Housing Revenue Bonds to finance the acquisition and a partial renovation of four apartment properties (Housing Facilities) all located within the City Palmdale, California. Also, \$6,288,021 of Housing Authority Notes Receivable secured by the four properties is cancelled as part of the acquisition. The Bonds are payable from a first pledge of all of the net operating income from the Housing Facilities.

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## **Required Supplementary Information**

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City of Palmdale Housing Authority  
Schedules of Required Supplementary Information  
As of the fiscal year ending June 30, 2015  
Last Ten Years\*

Schedule of the Authority's Proportionate Share of the Net Pension Liability

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|  | <b>2015</b> |
|--|-------------|
| Authority's proportion of the net pension liability  | 2.10%       |
| Authority's proportionate share of the net pension liability   | \$ 728,131  |
| Authority's covered-employee payroll   | \$ 386,226  |
| Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 188.52%     |
| Plan fiduciary net position as a percentage of the total pension liability                                   | 75.66%      |

\* - Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

City of Palmdale Housing Authority  
Schedules of Required Supplementary Information  
As of the fiscal year ending June 30, 2015  
Last Ten Years\*  
Schedule of Contributions

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|  | <b>2015</b>     |
|--|-----------------|
| Contributions  | \$ 81,237       |
| Contributions in relation to the contractually required contribution | <u>(81,237)</u> |
| Contribution deficiency  | <u><u>-</u></u> |
| <br>   |                 |
| Covered-employee payroll   | \$ 386,226      |
| <br>   |                 |
| Contributions as a percentage of covered-employee payroll            | 21.03%          |

\* - Fiscal year 2015 was the first year of implementation, therefore, only one year is s



**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, 2015, 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 24, 2015. Our report included an emphasis of matter paragraph regarding the Authority's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68*, effective July 1, 2014.

**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 24, 2015