

# **ANNUAL FINANCIAL REPORT**

**CITY OF PALMDALE, CALIFORNIA**

**HOUSING AUTHORITY**

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



***For the Fiscal Year Ended***

***June 30, 2021***

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**Independent Auditor's Report.....1**

**MANAGEMENT DISCUSSION AND ANALYSIS.....3**

**BASIC FINANCIAL STATEMENTS**

Government-Wide Financial Statements.....10

    Statement of Net Position.....10

    Statement of Activities.....11

        Governmental Funds.....13

Fund Financial Statements.....15

    Balance Sheet.....15

    Reconciliation of the Balance Sheet of Governmental Funds  
    to the Statement of Net Position .....16

    Statement of Revenues, Expenditures and Changes in Fund Balances.....17

    Reconciliation of the Statement of Revenues, Expenditures and Changes  
    in Fund Balances of Governmental Funds to the Statement of Activities .....18

    Budgetary Comparison Statements Section Page.....20

    Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual  
    General Fund .....21

    Special Revenue Fund-Housing Asset Fund.....22

    Special Revenue Fund-Mobile Home Parks.....23

Notes to the Financial Statements.....26

**REQUIRED SUPPLEMENTARY INFORMATION.....42**

    Schedule of the Authority's Proportionate Share of the City's Net Pension Liability.....44

    Schedules of Contributions.....45

**INDEPENDENT AUDITOR’S 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.....46**

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the Honorable Members of the Board of Commissioners  
of the 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, 2021, 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.

### Auditor's 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, 2021, and the respective changes in financial position, and where applicable, the respective budgetary comparison statements for the General Fund and each of the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the Authority's proportionate share of the City's net pension liability and the schedule of contributions as listed in the table of contents 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 May 24, 2022, on our consideration of the City's internal control over financial reporting as it relates to the Authority and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Authority.



Rancho Cucamonga, California  
May 24, 2022

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, 2021.

### 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 \$72,549,320.
- The Authority's total net position increased in the current year by \$668,887. Details of the increased can be found on page 10.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$45,951,907, an increase of \$390,278 in comparison with the prior year.

### Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 10 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 five of the funds of the Authority are governmental funds.

**Government 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 governmental fund financial statements can be found on pages 15 - 17. 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 Housing Facilities Fund Special Revenue Fund and the Housing Facilities Fund Special Revenue Fund, all of which are considered to be major funds. The Authority does not have any non-major governmental funds.

The Housing Facilities Special Revenue Fund is used to account for revenues and expenditures related to the operation of three mobile home parks, four Multifamily apartments; Impressions, La Quinta, Park Vista and Summerwood, and one apartment building located at See Notes to Financial Statements

507 and 513 East Avenue Q4. The funds are distributed under the terms of various agreements. The Housing Facilities Special Revenue Fund has a deficit fund balance of \$(5,081,605).

Revenues received by the 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 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.

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

The apartment building located at 507 and 513 East Avenue Q4, was acquired by the Authority during fiscal year 2018-19. Net revenues derived from the operations of the Housing Facilities Ave Q4 Fund will be reserved for repair and replacements. Any revenues net of the operations and reserves may be used for any lawful purpose of the Authority.

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 \$50,817,164.

The Authority adopts an annual appropriated budget for its Major Fund, Mobile Home Parks Fund, Housing Asset Fund, Housing Facilities Fund, and Housing Facilities Ave Q4 Fund. A budgetary comparison statement has been provided for General Fund and each of 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 26 - 41 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 \$72,549,320 as of June 30, 2021.

Housing Authority Net Position		
	Governmental Activites 2021	Governmental Activites 2020
Current and Other Assets	\$ 55,359,587	\$ 53,994,461
Capital Assets	<u>27,066,936</u>	<u>27,500,821</u>
Total Assets	<u>82,426,523</u>	<u>81,495,282</u>
Deferred Outflows of Resources	<u>156,738</u>	<u>133,272</u>
Other Liabilities	5,074,462	4,776,594
Long-Term Liabilities Outstanding	3,928,889	4,014,128
Net Pension Liabilities	<u>1,030,590</u>	<u>939,373</u>
Total Liabilities	<u>10,033,941</u>	<u>9,730,095</u>
Deferred Inflows of Resources	<u>-</u>	<u>18,226</u>
Net position		
Net Investment in Capital Assets Restricted	23,581,702	23,575,821
Community development	48,845,159	48,237,042
Unrestricted	<u>122,459</u>	<u>67,570</u>
Total net position	<u>\$ 72,549,320</u>	<u>\$ 71,880,433</u>

The Authority's net investment restricted in capital assets reflects a balance of \$23,581,702. Net 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 \$48,845,159 represent resources that are subject to the affordable housing provisions of California Redevelopment Law, by contract or grant agreement, health and safety code and debt service.

The Authority's Long-term Liabilities reflect a balance of \$3,928,889, consisting of \$3,835,000 of Multifamily Housing Revenue Bonds (2015 Bonds) used to finance the acquisition of the Housing Facility Apartments on September 3, 2015. The remaining balance consists of unpaid compensated absences of \$93,889.

The Authority's Other Liabilities reflect a balance of \$5,074,462. Other Liabilities consists of long-term liabilities totaling \$898,627 that are considered payable within a year and consist of accounts payable, accrued interest and accrued salaries. The remaining balance consists of \$14,771 due to other funds and \$4,307,047 of refundable deposits and unearned revenue.

	Governmental Activities 2021	Governmental Activities 2020
Revenues:		
Program Revenue:		
Charges for Services	\$ 7,886,631	\$ 7,459,191
Operating Grants and Contributions	720,584	591,729
General Revenue:		
Unrestricted investment earnings	17,089	303,282
Other	28,120	-
Gain from sale of land	-	80,795
Total Revenues	8,652,424	8,434,997
Expenses		
Community development	7,798,151	7,167,416
Interest on long-term debt	185,386	187,823
Total Expenses	7,983,537	7,355,239
Change in Net Position	668,887	1,107,980
Net Position - Beginning of Year	71,880,433	70,800,675
Net Position - End of Year	\$ 72,549,320	\$ 71,880,433

**Governmental Activities.** Governmental activities increased the Authority’s net position by \$668,887. The increase is primarily the result of increased Community Development program activities during the year.

- Charges for services increased by \$427,440, or 5.73 percent primarily due to asset, program and project management fees collected during the year, as well as an increase in rents collected as higher occupancy levels were achieved at the four Multifamily Housing Facility Apartments.
- Operating Grants and contributions increased by \$128,855, or 21.78 percent.
- Community Development expenses increased by \$630,735 or 8.80 due to increases in bad debt expense as a result of compliance monitoring for Mobile Homes, and operating costs at the four Multifamily Housing Facility Apartments.

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

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

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

As of the end of the current fiscal year, the Authority’s governmental funds reported combined ending fund balances of \$45,951,907, an increase of \$390,278 in comparison with the prior year. The fund balances were classified as follows:

- \$50,817,164 is “Restricted” due to the existence of externally enforceable legal restrictions that are related primarily to special revenue funding sources.
- \$(4,865,257) is “Unassigned” and represents negative residual resources.

The General Fund has a fund balance of \$216,348, which was an increase of \$59,649 from the prior fiscal year. The increase is primarily due to a decline in operating expenditures.

The Housing Asset Fund has a fund balance of \$50,817,164 which was a decrease of \$1,233,369 from the prior fiscal year. The decrease is attributable to an increase in operating expenditures

The Housing Facilities Fund has a fund balance of \$(5,081,605), which was an increase of \$1,563,998 from the prior fiscal year. The increase is primarily due to consolidation of Mobile Home Parks Fund, Housing Facilities Ave Q4 Fund into this fund.

See Notes to Financial Statements

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget resulted in an increase of appropriations by \$16,840 as the result of anticipated decreased in expenditures for contract and professional services throughout the budget. Differences between the final amended budget and actual resulted in a \$50,230 decrease in appropriations due to expenditures for salaries and benefits coming in less than anticipated. Differences between the final amended budget and actual revenues received resulted in a \$3,620 increase in appropriations due to the Asset Management Fees coming in higher than anticipated.

**Capital Asset and Debt Administration**

**Capital Assets.** The Authority's investment in capital assets for its governmental activities as of June 30, 2021, amounts to \$27,066,936 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. A \$433,886 decrease in the Authority's investment in capital assets as compared to prior year is primarily the result of current year depreciation. There were additions of \$366,246 and no disposals in the current year.

Housing Authority's Capital Assets (Net of Depreciation)		
	Governmental Activities 2021	Governmental Activities 2020
Land	\$ 11,962,311	\$ 11,758,761
Buildings & Structures	7,268,447	7,348,120
Improvements Other than Buildings	565,694	581,251
Infrastructure	7,270,484	7,812,690
Total	<u>\$ 27,066,936</u>	<u>\$ 27,500,822</u>

Additional information on the Authority's capital assets can be found on page 25, Note 7.

**Long-Term Debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$3,835,000. The 2015 Bonds are secured by pledges of the net revenue received from the operations of the Housing Facilities.

Housing Authority's Outstanding Debt Revenue Bonds		
	Governmental Activities 2021	Governmental Activities 2020
2015 Multifamily Housing Revenue bonds	<u>\$ 3,835,000</u>	<u>\$ 3,925,000</u>

The Authority's total long-term liability was \$3,835,000, which is the amount of Revenue Bonds. The total debt decreased primarily as the result regularly scheduled debt service payments on the Multi-Family Housing Bond. The Authority did not apply for a rating on the bonds. No such rating should be assumed based upon any other Authority or City rating that may be obtained. See Note 13.

**Request 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 Manager, 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, 2021

	Governmental Activities
Assets	
Cash	\$ 2,505,509
Investments	12,603,007
Accounts Receivable	251,545
Interest receivable	4,344,528
Due from other governmental units	5,409,777
Notes and liens	23,793,653
Deposits and prepaids	9,670
Land held for development	2,070,652
Restricted assets:	
Cash and Investments	4,371,246
Capital assets:	
Not being depreciated:	
Land and improvements	11,962,311
Being depreciated, net of accumulated depreciation:	
Buildings and structures	7,268,447
Improvements other than buildings	565,694
Infrastructure	7,270,484
Total assets	<u>82,426,523</u>
Deferred outflows of resources	
Pension related amounts	<u>156,738</u>
Liabilities	
Accounts payable	737,444
Accrued interest payable	15,200
Due to City	14,771
Deposits	375,047
Unearned Revenue	<u>3,932,000</u>
	5,074,462
Noncurrent liabilities:	
Due within one year	145,983
Due In more than one year	3,782,906
Net pension liability	<u>1,030,590</u>
Total liabilities	<u>10,033,941</u>
Net Position	
Net investment in capital assets	23,581,702
Restricted	
Community development	48,845,159
Unrestricted	<u>122,459</u>
Total net position	<u>\$ 72,549,320</u>

City of Palmdale Housing Authority

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021

	Program Revenues			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
Governmental activities:				
Community development	\$ 7,798,151	\$ 7,886,631	\$ 720,584	\$ 809,064
Interest on long-term debt	185,386	-	-	(185,386)
Total governmental activities	<u>\$ 7,983,537</u>	<u>\$ 7,886,631</u>	<u>\$ 720,584</u>	<u>\$ 623,678</u>
General Revenue:				
Unrestricted investment earnings				\$ 17,092
Other				28,117
Total general revenues				<u>45,209</u>
Change in Net Position				668,887
Net Position - Beginning of Year				<u>71,880,433</u>
Net Position - End of Year				<u>\$ 72,549,320</u>

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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:

Housing Facilities Fund – Used to account for the revenues and expenditures related to the operations of four apartment buildings, mobile home parks and two apartment buildings, consisting of eight units.

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

The mobile home Parks 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).

The Housing Authority of the City of Palmdale acquired two apartment buildings with eight units from new Beginnings Outreach in 2018. The Housing Authority of the City of Palmdale owns and operates the apartments located at 507 and 513 East Avenue Q4. Net revenues derived from the operations of the Housing Facilities Ave. Q4 Fund will be restricted for repair and replacements. Any revenues net of the operations and reserves may be used for any lawful purpose (i.e. assigned) of the Housing Authority.

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.

City of Palmdale Housing Authority  
Balance Sheet  
Governmental Funds  
June 30, 2021

	<u>Special Revenue Funds</u>			Total Governmental Funds
	<u>General Fund</u>	<u>Housing Authority Facilities Fund</u>	<u>HA Housing Asset Fund</u>	
<b>Assets:</b>				
Cash	\$ -	\$ 2,505,509	\$ -	\$ 2,505,509
Investments	207,158	1,548,073	10,847,776	12,603,007
<b>Receivables:</b>				
Accounts and interest receivable	10,190	129,822	4,456,061	4,596,073
Advances due from other funds	-	-	1,186,001	1,186,001
Deposits and prepaid	-	9,670	-	9,670
Interfund promissory note	-	-	8,376,667	8,376,667
Notes and Liens	-	-	23,793,653	23,793,653
Advances due from fiduciary funds	-	-	5,409,777	5,409,777
<b>Restricted Assets:</b>				
Investments	-	-	3,018,542	3,018,542
Cash and Cash Equivalents	-	1,352,704	-	1,352,704
Land held for development	-	-	2,070,652	2,070,652
Total assets	<u>\$ 217,348</u>	<u>\$ 5,545,778</u>	<u>\$ 59,159,129</u>	<u>\$ 64,922,255</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	-	690,668	46,776	737,444
Deposits	1,000	374,047	-	375,047
Unearned revenue	-	-	3,932,000	3,932,000
Advances due to other funds	-	1,186,001	-	1,186,001
Due to City	-	-	14,771	14,771
Interfund promissory note	-	8,376,667	-	8,376,667
Total liabilities	<u>1,000</u>	<u>10,627,383</u>	<u>3,993,547</u>	<u>14,621,930</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	-	-	4,348,418	4,348,418
<b>Fund Balances</b>				
Restricted	-	-	50,817,164	50,817,164
Unassigned	216,348	(5,081,605)	-	(4,865,257)
Total fund balances (Deficit)	<u>216,348</u>	<u>(5,081,605)</u>	<u>50,817,164</u>	<u>45,951,907</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 217,348</u>	<u>\$ 5,545,778</u>	<u>\$ 59,159,129</u>	<u>\$ 64,922,255</u>

City of Palmdale Housing Authority  
 Reconciliation of the Balance Sheet of the Governmental Funds  
 to the Statement of Net Position  
 June 30, 2021

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Total Fund Balances - Total Governmental Funds (page 15)		\$ 45,951,907
Amounts reported for governmental activities in the Statement of Net Position (page 10) are different because:		
Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		
Governmental capital assets	37,799,785	
Less accumulated depreciation	<u>(10,732,849)</u>	27,066,936
Accounts receivable not available to pay for current-period expenditures are reported as deferred inflows of resources in the funds.		
		4,348,418
Deferred outflows related to pensions are not reported in the Governmental Fund Balance Sheet.		
Deferred outflows related to pensions		156,738
Interest due on long-term debt does not require current financial resources and therefore is not reported as a liability on the Governmental Funds Balance Sheet.		
Interest payable		(15,200)
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	(93,889)	
Net pension liability	(1,030,590)	
Bonds Payable	<u>(3,835,000)</u>	(4,959,479)
Net Position of Governmental Activities (page 10)		<u>\$ 72,549,320</u>

City of Palmdale Housing Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2021

	<u>Special Revenue Funds</u>			Total Governmental Funds
	<u>General Fund</u>	<u>Housing Authority Facilities Fund</u>	<u>HA Housing Asset Fund</u>	
Revenues:				
Charges for current services	\$ 93,552	\$ -	\$ 296,969	\$ 390,521
Use of property	-	7,496,262	-	7,496,262
Interest	1,129	8,471	95,401	105,001
Interfund interest	-	-	403,797	403,797
Net increase (decrease) in fair value of investments	(761)	(5,738)	(37,489)	(43,988)
Other	-	-	28,117	28,117
Total revenues	<u>93,920</u>	<u>7,498,995</u>	<u>786,795</u>	<u>8,379,710</u>
Expenditures:				
Current:				
Community development	34,270	4,979,122	1,924,663	6,938,055
Capital Outlay	-	331,081	5,321	336,402
Debt service:				
Principal	-	90,000	-	90,000
Interest	-	185,658	-	185,658
Interfund interest	-	403,797	-	403,797
Total expenditures	<u>34,270</u>	<u>5,989,658</u>	<u>1,929,984</u>	<u>7,953,912</u>
Excess (deficiency) of revenues over (under) expenditures	<u>59,650</u>	<u>1,509,337</u>	<u>(1,143,189)</u>	<u>425,798</u>
Other Financing Sources (Uses)				
Transfers In	-	60,000	5,339	65,339
Transfers Out	-	(5,339)	(60,000)	(65,339)
Transfers to City's General Fund	-	-	(35,520)	(35,520)
Total other financing sources (uses)	<u>-</u>	<u>54,661</u>	<u>(90,181)</u>	<u>(35,520)</u>
Net Change in Fund Balances	59,650	1,563,998	(1,233,370)	390,278
Fund Balances (Deficit) - Beginning of Year	<u>156,698</u>	<u>(6,645,603)</u>	<u>52,050,534</u>	<u>45,561,629</u>
Fund Balances (Deficit) - End of Year	<u>\$ 216,348</u>	<u>\$ (5,081,605)</u>	<u>\$ 50,817,164</u>	<u>\$ 45,951,907</u>

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  
 Year Ended June 30, 2021

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Net Change in Fund Balances - Total Governmental Funds (page 17)	\$	390,278
<p>Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position (page 11) are different because:</p> <p>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.</p>		
Capital Asset Additions - Current Year	366,246	
Less Depreciation Expense	<u>(800,132)</u>	(433,886)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		676,508
<p>Long-term debt issuance provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Position. Principal repayments of long-term debt and escrow agent payments are expenditures/uses in the Governmental Funds, but they reduce long-term liabilities in the Government-Wide Statement of Net Position. Also premiums are recognized in the current period in the Governmental Funds, whereas these amounts are amortized in the Government-Wide Statement of Activities. This is the amount by which repayments exceeded proceeds.</p>		
Bonds & Certificates of Participation payable		90,000
<p>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.</p>		
Compensated absences	(4,760)	
Accrued interest on debt	272	
Pension expense	<u>(49,525)</u>	<u>(54,013)</u>
Net change in net position - governmental activities (page 11)	\$	<u><u>668,887</u></u>

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## **Budgetary Comparison Statements**

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City of Palmdale Housing Authority  
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund  
Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for current services	\$ 89,820	\$ 89,800	\$ 93,552	\$ 3,752
Interest	500	500	1,129	629
Net increase (decrease) in fair value of investments	-	-	(761)	(761)
Total revenues	<u>90,320</u>	<u>90,300</u>	<u>93,920</u>	<u>3,620</u>
Expenditures:				
Current:				
Community development	<u>67,660</u>	<u>84,500</u>	<u>34,270</u>	<u>50,230</u>
Total expenditures	<u>67,660</u>	<u>84,500</u>	<u>34,270</u>	<u>50,230</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,660</u>	<u>5,800</u>	<u>59,650</u>	<u>53,850</u>
Net Changes in Fund Balance	22,660	5,800	59,650	53,850
Fund Balance (Deficit) - Beginning of Year	<u>156,698</u>	<u>156,698</u>	<u>156,698</u>	<u>-</u>
Fund Balance (Deficit) - End of Year	<u>\$ 179,358</u>	<u>\$ 162,498</u>	<u>\$ 216,348</u>	<u>\$ 53,850</u>

City of Palmdale Housing Authority  
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
Housing Asset Fund -Special Revenue Fund  
Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Charges for current services	\$ 167,430	\$ 225,600	\$ 296,969	\$ 71,369
Interest	750,210	750,300	95,401	(654,899)
Interfund interest	406,960	407,100	403,797	(3,303)
Net increase (decrease) in fair value of investments	-	-	(37,489)	(37,489)
Other Revenue	250,000	2,501,100	28,117	(2,472,983)
Total revenues	<u>1,574,600</u>	<u>3,884,100</u>	<u>786,795</u>	<u>(3,097,305)</u>
<b>Expenditures:</b>				
Current:				
Community development	2,036,020	6,327,130	1,924,663	4,402,467
Capital Outlay	1,000	6,700	5,321	1,379
Debt service:				
Total expenditures	<u>2,037,020</u>	<u>6,333,830</u>	<u>1,929,984</u>	<u>4,403,846</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(462,420)</u>	<u>(2,449,730)</u>	<u>(1,143,189)</u>	<u>1,306,541</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	957,170	957,200	5,339	(951,861)
Transfers Out	(55,370)	(55,400)	(60,000)	(4,600)
Transfers to City's General Fund	<u>(35,370)</u>	<u>(35,400)</u>	<u>(35,520)</u>	<u>(120)</u>
Total other financing sources (uses)	<u>866,430</u>	<u>866,400</u>	<u>(90,181)</u>	<u>(956,581)</u>
Net Changes in Fund Balance	404,010	(1,583,330)	(1,233,370)	349,960
Fund Balance (Deficit) - Beginning of Year	52,050,534	52,050,534	52,050,534	-
Fund Balance (Deficit) - End of Year	<u>\$ 52,454,544</u>	<u>\$ 50,467,204</u>	<u>\$ 50,817,164</u>	<u>\$ 349,960</u>

City of Palmdale Housing Authority  
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
Housing Facilities - Special Revenue Fund  
Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Use of property	\$ 7,311,280	\$ 7,522,800	\$ 7,496,262	\$ (26,538)
Interest	4,060	4,000	8,471	4,471
Net increase (decrease) in fair value of investments	-	-	(5,738)	(5,738)
Total revenues	<u>7,315,340</u>	<u>7,526,800</u>	<u>7,498,995</u>	<u>(27,805)</u>
Expenditures:				
Current:				
Community development	5,133,220	5,576,900	4,979,122	597,778
Capital Outlay	428,000	322,000	331,081	(9,081)
Debt service:				
Interfund interest	406,970	407,100	403,797	3,303
Principal	90,000	90,100	90,000	100
Interest	185,650	185,700	185,658	42
Total expenditures	<u>6,243,840</u>	<u>6,581,800</u>	<u>5,989,658</u>	<u>592,142</u>
Excess (deficiency) of Revenues: Over (Under) Expenditures	<u>1,071,500</u>	<u>945,000</u>	<u>1,509,337</u>	<u>564,337</u>
Other Financing Sources (Uses):				
Transfers In	-	-	60,000	60,000
Transfers Out	(957,170)	(957,200)	(5,339)	951,861
Total other financing sources (uses)	<u>(957,170)</u>	<u>(957,200)</u>	<u>54,661</u>	<u>1,011,861</u>
Net Changes in Fund Balance	114,330	(12,200)	1,563,998	1,576,198
Fund Balance (Deficit) - Beginning of Year	<u>(6,645,603)</u>	<u>(6,645,603)</u>	<u>(6,645,603)</u>	<u>-</u>
Fund Balance (Deficit) - End of Year	<u>\$ (6,531,273)</u>	<u>\$ (6,657,803)</u>	<u>\$ (5,081,605)</u>	<u>\$ 1,576,198</u>

# **CITY OF PALMDALE HOUSING AUTHORITY**

## **Notes to the Financial Statements**



***For the Fiscal Year Ended***

***June 30, 2021***

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(1) Summary of Significant Accounting Policies.....	27
A. Description of the Reporting Entity.....	27
B. Financial Statement Presentation, Basis of Accounting, and Measurement Focus.....	27
C. Budgets and Budgetary Accounting.....	28
D. Cash and Investments .....	28
E. Land Held for Resale.....	28
F. Capital Assets.....	28
G. Deferred Outflows/Inflows of Resources.....	29
H. Compensated Absences.....	29
I. Pensions.....	29
J. Fund Equity.....	29
K. Deficit Fund Equity.....	30
L. Use of Estimates.....	30
M. Implemented Accounting Pronouncements.....	30
(2) Cash and Investments.....	30
A. Investments Authorized by the California Government Code and the Authority's Investment Policy.....	31
B. Disclosures Relating to Interest Rate Risk.....	31
C. Disclosures Relating to Credit Risk.....	32
D. Custodial Credit Risk.....	32
E. Disclosures relating to Fair Value of Investments.....	32
(3) Notes Receivable.....	32
(4) Fund Balance Classification.....	32
(5) Interfund Transfers.....	33
(6) Interfund Due To/From and Advances Due To/From.....	33
A. Advances and Due To/From Other Funds.....	33
B. Interfund Promissory Note Between the Housing Facilities Fund and the Housing Asset Fund.....	33
C. Advances Due from Successor Agency at June 30, .....	34
(7) Capital Assets.....	35
(8) Deposits and Prepays.....	35
(9) Due to City.....	35
(10) Risk Management.....	36
(11) Unearned Revenue/Unavailable Revenues.....	36
(12) Public Employee's Retirement System (PERS) Pension Plan.....	36
A. General Information about the Pension Plan.....	36
B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions.....	37
(13) Long-Term Debt.....	39
A. Revenue Bonds.....	39
B. Changes in Long-Term Liabilities.....	40
(14) Contingencies.....	40
(15) New Accounting Pronouncements.....	41

## **(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 Authority is subject to the financial accountability of the City Council of the City of Palmdale, California (City) and, accordingly, is a blended component unit of the City although it is a separate legal entity. The 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 Authority. The 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 Authority during fiscal year 2011-12.

The financial statements of the 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 Authority's accounting policies are described below.

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

The accounts of the 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 Authority. Interfund activity, including payables and receivables, have been eliminated in the Statement of Activities and the Statement of Net Position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific 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 Authority's assets, deferred outflows of resources, liabilities (including long-term liabilities), and deferred inflows of resources are reported in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash flows.

#### Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds individually. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in the Statements of 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 fund balance. 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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Charges for current services and interest revenue are considered susceptible to accrual. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The Authority has presented all funds as major funds because the Authority believes the financial position and activities of these funds are significant to the Authority as a whole. Specific fund descriptions can be found on page 15.

**C. Budgets and Budgetary Accounting**

An annual budget is adopted on a basis consistent with generally accepted accounting principles. Encumbrance accounting is employed in governmental funds. Encumbrances (i.e., purchase orders, contracts, and other commitments) outstanding at year-end are reported as assigned fund balance since they do not constitute expenditures or liabilities and are added to the subsequent year’s adopted appropriations.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the category level. The category level includes personnel, training and meetings, operating expenditures, contingency, debt service, and capital outlay. Supplemental appropriations during the year must be approved by the City Council if they are over \$100,000 or between funds, except for shifts in appropriations relating to personnel changes that may be done administratively by the City Manager. The City Manager can approve budget transfers up to \$100,000 within a fund. Supplemental appropriations were made during the year and are reflected in the budgeted numbers contained in the accompanying financial statements. 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 per Council Resolution 2021-058, Section 8.

**D. Cash and Investments**

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

**E. Land Held for Resale**

Abandoned and Foreclosed Mobile Home Rehabilitation

Abandoned and Foreclosed Mobile Homes for resale are capitalized in the special revenue funds at the lower of cost or market. To preserve the occupancy, maximize the monthly space rent revenues and minimize vacant lot potential at the mobile home parks, the Authority will purchase and rehabilitate mobile homes for resale to a qualified applicant in need of an affordable home. Fund balances are classified as restricted. At the end of the current fiscal year, the Authority did not hold any abandoned and foreclosed mobile homes for resale.

Low and Moderate Affordable Housing-Land Held for Resale

Land Held for resale is capitalized in the special revenue funds at the lower of cost or market. The land held by the Authority was purchased with either low moderate housing funds or housing asset funds and is being held for resale or development in order to benefit qualified or eligible households with affordable housing. At the end of the current fiscal year, the Authority reported \$2,070,652 in land held for resale.

**F. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at cost where historical costs are available and at an estimated original cost where no historical records exist. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

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

Asset	Years
Buildings and structures	50
Infrastructure	5-10

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. 1) Changes of assumptions, and 4) the difference between actual earnings and the projected earnings on the pension fiduciary net position.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. The government-wide Statement of Net Position reports deferred inflows resulting from changes of assumptions and net difference between actual earnings and projected earnings on the pension fiduciary net position. These amounts are deferred and recognized over a defined amortization period of five years.

### **H. Compensated Absences**

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

### **I. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Palmdale Housing Authority's proportionate share of the City of Palmdale Pension's Plan, which is administered by the California Public Employees Retirement System (CalPERS) 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.

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

### **J. Fund Equity**

In the Fund Financial Statements, governmental funds may 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 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 Authority's Board. The Authority's Board action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.

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

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

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

**K. Deficit Fund Equity**

The following funds had a deficit fund balance at June 30, 2021 in the amount indicated:

Major Special Revenue Funds:		
Housing Facilities Fund	\$	(5,081,605)

Management anticipates that these deficits will be resolved in future years as additional operating revenues become available. It is anticipated occupancy levels at the Mobile Home Parks will continue to remain high and consistent and continue to reduce the deficit in the Housing Authority Mobile Home Park Fund to positive levels once the Mobile Home Park loan is paid off.

**L. Use of Estimates**

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

**M. Implemented Accounting Pronouncements**

GASB Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The implementation had no material impact.

GASB Statement No. 90, Majority Equity Interests – (an amendment of GASB Statements No. 14 and No. 61). The primary objective of this Statement is to improve consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The implementation had no material impact.

**(2) Cash and Investments**

Cash and investments as of June 30, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:		
Cash	\$	2,505,509
Investments		12,603,007
Restricted cash and investments		4,371,246
Total cash and investments	\$	19,479,762

Cash and investments as of June 30, 2021 consist of the following:

Cash held by third party	\$	2,505,509
Cash and investments with City of Palmdale investment pool		12,603,007
Cash and Investments held by Trustee		4,371,246
Total cash and investments	\$	19,479,762

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

Detailed information concerning the City's pooled cash and investments can be found in the City's Annual Comprehensive Financial Report for the year ended June 30, 2021.

**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.

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

\*Excluding amounts held by bond trustees that are not subject to California Government Code Restrictions

\*\*Per account

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

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

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

**C. Disclosures Relating to Credit Risk**

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

Investment Type:	Total	Minimum Legal Rating	Not Required To Be Rated	AAA/Aaa*
Cash and Investments with City of Palmdale Investment Pool	\$ 12,603,007	N/A	\$ 12,603,007	-
Held by bond trustees:				
Money market funds	4,371,246	A	-	4,371,246
Total	<u>\$ 16,974,253</u>		<u>\$ 12,603,007</u>	<u>\$ 4,371,246</u>

**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, 2021, City investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

**E. Disclosures relating to Fair Value of Investments**

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

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

**(3) Notes Receivable**

Notes Receivable in the amount of \$23,793,653, 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.

**(4) Fund Balance Classification**

The Governmental Fund Balances at June 30, 2021 were classified as follows:

	HA General Fund	Special Revenue Fund HA Facilities Fund	Special Revenue Fund Housing Asset Fund	Total Governmental Funds
Restricted:				
Low and moderate income housing	\$ -	\$ -	\$ 50,817,164	\$ 50,817,164
Unassigned Fund Balance	216,348	(5,081,605)	-	(4,865,257)
Total fund balance (deficit)	<u>\$ 216,348</u>	<u>\$ (5,081,605)</u>	<u>\$ 50,817,164</u>	<u>\$ 45,951,907</u>

**(5) Interfund Transfers**

Transfers between funds for the year ended June 30, 2021, consisted of the following:

Transfer to:	Transfer From:	Amount
Housing Asset Fund	Housing Facilities Fund	\$ 5,339
Housing Facilities Fund	Housing Asset Fund	60,000
Total Interfund Transfers		<u>\$ 65,339</u>
City of Palmdale	Housing Asset Fund	\$ 35,520
Total Transfers to City's General Fund		<u>\$ 35,520</u>

The transfers resulted from changes in security deposits held by the Housing Facilities that were reimbursed by the Housing Asset Fund. Transfers to the Housing Facilities in the amount of \$60,000 were a result of consolidating of funds this fiscal year.

**(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 Housing Facilities Fund as a result of the dissolution of the former Community Redevelopment Agency of the City of Palmdale resulting from the acquisition of three mobile home parks purchased during fiscal year 2002-2003. Upon acquisition, the Authority assumed the prior park owner's liabilities which were payable to the former CRA Low and Moderate Income Housing fund and City under the terms of an operating agreement. The operating agreement establishes priorities for the use of revenues from operation of the parks and provides for repayment of the advances from net income once expenses, debt service, operating, and capital reserve requirements are met. In the interim, additional liabilities and program/project management fees will continue to accrue to the long-term advances due the Authority - Housing Asset Fund if there are shortfalls in expected payment. These advances will be repaid when net income is sufficient under the operating agreement. As of June 30, 2021, the balance of these liabilities was \$1,186,001.

Advances Due To/From Other Funds for the year ended June 30, 2021 were as follows:

Payable To:	Payable From:	Amount
Housing Asset Fund	Housing Facilities Fund	\$ 1,186,001
Advances Total Due From/To Other Funds		<u>\$ 1,186,001</u>

**B. Interfund Promissory Note Between the Housing Facilities Fund and the Housing Asset Fund**

The 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 Authority.

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

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

Repayment agreements between the former Community Redevelopment Agency and the Authority require the 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 Authority.

As the result of the dissolution of the former Community Redevelopment Agency and the Authority assuming the duties of the former Community Redevelopment Housing Development Fund, the agreement will be maintained by the Housing Asset Fund which is now classified as an Interfund Promissory Note effective February 1, 2012. All proceeds from repayment of the note must be used in accordance with applicable housing related provisions of Community Redevelopment Law. During FY 2020-21, the Boulder Mobile Home parks paid \$951,666 of principal and \$406,972 interest for a total \$1,358,638 to the Housing Asset Fund. The balance of the Note as of June 30, 2021 is \$8,376,667. The remaining debt service schedule below uses a blended interest rate ranging from 3.7% to 4.75% due to the note’s variable interest rate.

Year Ending	Principal	Interest	Total
2022	\$ 991,667	\$ 366,173	\$ 1,357,840
2023	1,031,667	323,471	1,355,138
2024	1,075,000	277,989	1,352,989
2025	1,123,333	230,356	1,353,689
2026	1,170,000	180,331	1,350,331
2027-2030	2,985,000	212,017	3,197,017
Total	<u>\$ 8,376,667</u>	<u>\$ 1,590,337</u>	<u>\$ 9,967,004</u>

**C. Advances Due from Successor Agency at June 30, 2021**

Payable To:	Payable From:	Amount
Housing Asset Fund	City of Palmdale - Successor Agency	\$ 5,409,777

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

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

In fiscal year 2010-11, the State required the former Community Redevelopment Agency (CRA) to shift tax increment of \$2,389,286

to the Supplemental Education Revenue Augmentation Fund (SERAF). To assist in funding this shift, the former CRA Housing Development fund advanced \$521,581 and \$1,867,705 (100% of the total requirement) to the former CRA Project Area No. 1 and 2A Debt Service funds, respectively.

The Successor Agency Private 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 the Authority described above are approved enforceable obligations in existence at the date of dissolution and will be repaid by the Successor Agency from future property tax revenues. The repayment amount cannot exceed one-half of the increase between the amount distributed to the taxing entities and the 2012-13 base year (or residuals). During FY 2020-21, the Authority received \$250,000 from the Successor Agency during the Recognized Obligations Payment Schedule (ROPS) period of July-December 2021 or ROPS 20-21A. The Authority received \$2,500,000 the ROPS period of January-June 2021 or ROPS 20-21B.

**(7) Capital Assets**

Capital Assets of the Housing Authority for the year ended June 30, 2021 consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and improvements	\$ 11,758,761	\$ 203,550	\$ -	\$ 11,962,311
Total capital assets not being depreciated	<u>11,758,761</u>	<u>203,550</u>	<u>-</u>	<u>11,962,311</u>
Capital assets being depreciated:				
Buildings and structures	8,510,457	91,450	-	8,601,907
Improvements other than buildings	832,409	71,246	-	903,655
Infrastructure	16,331,912	-	-	16,331,912
Total capital assets being depreciated	<u>25,674,778</u>	<u>162,696</u>	<u>-</u>	<u>25,837,474</u>
Less: accumulated depreciation for:				
Buildings and Improvements	1,162,336	171,124	-	1,333,460
Improvements other than buildings	251,158	86,803	-	337,961
Infrastructure	8,519,223	542,205	-	9,061,428
Total accumulated depreciation	<u>9,932,717</u>	<u>800,132</u>	<u>-</u>	<u>10,732,849</u>
Total capital assets being depreciated, net	<u>15,742,061</u>	<u>(637,436)</u>	<u>-</u>	<u>15,104,625</u>
Governmental activities capital assets, net	<u>\$ 27,500,822</u>	<u>\$ (433,886)</u>	<u>\$ -</u>	<u>\$ 27,066,936</u>

For the year ended June 30, 2021, depreciation expense on capital assets was charged to the Community Development function in the amount of \$800,132.

**(8) Deposits and Prepaids**

For the year ended June 30, 2021, deposits in the amount of \$9,670 are reported on the governmental fund statements and government-wide statements and consist of \$9,670 from security deposits held for the mobile home renters.

**(9) Due to City**

**2018 Habitat for Heroes Development Loan**

A Cooperative Agreement, dated as of September 3, 2014, was entered into by and between the City of Palmdale and the Housing Authority of the City of Palmdale. The City of Palmdale is the owner of certain real property located at the northeast corner of Division Street and Avenue R (“Property”). Habitat for Humanity of San Fernando/Santa Clarita, Inc., a California nonprofit public benefit corporation (the “Developer”) proposes to develop on the Property 50 units of single-family housing to be sold at affordable cost to income qualified military veterans (“Project”) with financial assistance from the Authority.

The Authority, the City, and Developer concurrently entered into a Memorandum of Understanding by which the Authority and

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

To implement the Affordable Housing Agreement and facilitate the Project, the Authority agrees to pay the City the fair market value of the Property at \$25,000 per acre ("Purchase Price"). The Authority agrees to pay the Purchase Price and the Project Fees to the City in ten equal installments at zero interest, commencing on a date that is one year after the closing of the Authority's sale of the Property to Developer. As a condition of the City's sale of Property to the Authority, the Authority executed a promissory note the City, in a form approved by the City, setting forth the payment terms in this Agreement. The amount due will be in an original principal amount equal to the Purchase Price of the Property plus the final amount of the Project Fees determined by the City. During the Fiscal Year 2020-21, the City incurred costs in the amount of \$14,771.

**(10) Risk Management**

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

**(11) Unearned Revenue/Unavailable Revenues**

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

Housing Asset Fund: Lease Revenues Received in Advance	\$	3,932,000
Total Housing Authority Unearned Revenue	\$	3,932,000

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		\$ 4,348,418
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**(12) Public Employee's Retirement System (PERS) Pension Plan**

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

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

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

Benefits Provided - CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan

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

The Plans' provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Plan		
	On or Prior to April 10, 2011	Between April 11, 2011 and December 31, 2012	On or after January 1, 2013
Hire Date	<u>2.7 Percent @ Age 55</u>	<u>2.0 Percent @ Age 60</u>	<u>2.0 Percent @ Age 62</u>
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	Age 50 to 55	Age 50 to 63	Age 50 to 67
Monthly benefits, as a % of annual salary	2.0 to 2.7 percent	1.092 to 2.418 percent	1.0 to 2.5 percent
Required employee contribution rates	8.0 percent	7.0 percent	6.75 percent
Required employer contribution rates	11.816 percent	11.816 percent	11.816 percent

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, 2021, the Authority's proportionate share of the City's contribution to the Plan was \$105,686.

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

As of June 30, 2021, the Authority reported a liability of \$1,030,590 for its proportionate share of the City's net pension liability.

The net pension liability of the Plan was measured as of June 30, 2020 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, 2019 rolled forward to June 30, 2020. The Authority's proportion of the City's net pension liability was based on the Authority's Fiscal Year 2020 actual contributions to the City's pension plan relative to the total contribution of the City as a whole.

At June 30, 2020, the Authority's proportion was 2.00% which is flat to its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Authority's recognized pension expense was \$155,318. At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	\$ 105,686	\$ -
Difference between expected and actual experience	28,263	-
Net difference between projected and actual earnings on plan investments	22,789	-
Total	<u>\$ 156,738</u>	<u>\$ -</u>

The amount of \$105,686 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, 2022. 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>		
2022	\$	10,273
2023		15,290
2024		14,073
2025		11,279
	<u>\$</u>	<u>50,915</u>

Actuarial Assumptions - The Authority's proportion of the City's total pension liability was derived from the June 30, 2019 valuation being rolled forward to determine the June 30, 2020 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Valuation Date	June 30, 2019
Actuarial Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
<b>Actuarial Assumptions:</b>	
Discount Rate	7.15%
Inflation Rate	2.50%
Investment Rate of Return	7.50%
Projected Salary Increase Rate	3.2% - 12.2% (1)
Mortality	Society of Actuaries Scale BB (2)

- (1) Depending on age, service and type of employment.
- (2) The mortality table used was developed based on CalPERS' specific data.

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2017 experience study report.

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the 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 periods of projected benefit payments to determine the total pension liability.

In determining the long-term expected 7.15 percent rate of return on pension plan investments, CalPERS took into account both short 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 pension funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 adjusted to the account for assumed

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.

Asset Class	Target Allocations	Real Return Years 1 Thru 10 <sup>1</sup>	Real Return Years 11 and Thereafter <sup>2</sup>
Global Equity	50.00%	4.80%	5.98%

Asset Class	Target Allocations	Real Return Years 1 Thru 10 <sup>1</sup>	Real Return Years 11 and Thereafter <sup>2</sup>
Fixed Income	28.00%	1.00%	2.62%
Real Assets	13.00%	3.75%	4.93%
Private Equity	8.00%	6.30%	7.23%
Inflation Assets	0.00%	0.77%	1.81%
Liquidity	1.00%	0.00%	(0.92)%
Total	100%		

**Discount Rate** - The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

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

	Discount Rate -1% 6.15	Current Discount Rate 7.15	Discount Rate +1% 8.15
Authority's proportionate share of the City's Net Pension Liability	\$ 1,522,255	\$ 1,030,590	\$ 621,886

**Pension Plan Fiduciary Net Position** - Detailed information about the City’s collective net pension liability is available in the City separate issued Annual Comprehensive Financial Report (ACFR) or in the separately issued CalPERS financial report which can be obtained from the CalPERS website. The City’s ACFR may be obtained by contacting the City of Palmdale, Office of the Finance Manager, 38300 Sierra Highway, Suite D, Palmdale, California, 93550. Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report which can be obtained from the CalPERS website.

**(13) Long-Term Debt**

**A. Revenue Bonds**

**2015 Multifamily Housing Revenue Bonds Payable (\$4,235,000)** - On September 3, 2015, the Housing Authority of the City of Palmdale issued \$4,235,000 of Multifamily Housing Revenue Bonds (2015 Bonds). The Authority did not apply for a rating on the bonds, and no such rating should be assumed based upon any other Authority or City rating that may be obtained. Interest on the 2015 Bonds is payable semi-annually on December 1 and June 1 at rates ranging from 2.625 percent to 5.25 percent per annum. Principal installments are payable June 1 of each year from 2017 to 2045.

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

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

Redemption Fund, at a redemption price equal to the principal amount of Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium, on any date.

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

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

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

Failure by the Authority to pay debt service on the Bonds constitutes an event of default under the Indenture and the Trustee is permitted to pursue remedies at law or in equity to enforce the Authority's obligation to make such payments. The Trustee has no right to accelerate the total unpaid principal amount of the debt service on the Bonds by reason of the occurrence of an event of default under the Indenture. If there is a default under the Indenture, the primary remedy of the Trustee is to foreclose on the real and personal property security granted pursuant to the Deeds of Trust and related documents. All amounts collected upon foreclosure of the Housing Facilities pursuant to the Deeds of Trust, after payment of costs of foreclosure, will first be used to pay amounts owing under the Indenture, including the payment of the Bonds.

Year Ending	Principal	Interest	Total
2022	\$ 95,000	\$ 182,395	\$ 277,395
2023	100,000	178,951	278,951
2024	100,000	175,326	275,326
2025	105,000	171,701	276,701
2026	110,000	167,895	277,895
2027-2031	615,000	766,815	1,381,815
2032-2036	765,000	621,195	1,386,195
2037-2041	965,000	414,225	1,379,225
2042-2046	980,000	132,038	1,112,038
Totals	<u>\$ 3,835,000</u>	<u>\$ 2,810,541</u>	<u>\$ 6,645,541</u>

**B. Changes in Long-Term Liabilities**

Activity for the year ended June 30, 2021 were as follows:

	Balance at June 30,2020	Additions	Retirements	Balance at June 30,2021	Due Within One Year
Compensated Absences Payable	\$ 89,129	\$ 4,760	\$ -	\$ 93,889	\$ 50,983
2015 Multifamily Housing Revenue Bonds	3,925,000	-	90,000	3,835,000	95,000
Total Long Term Liabilities	<u>\$ 4,014,129</u>	<u>\$ 4,760</u>	<u>\$ 90,000</u>	<u>\$ 3,928,889</u>	<u>\$ 145,983</u>

**(14) Contingencies**

**Obligations of the Successor Agency Private Purpose Trust Fund**

The former Community Redevelopment Agency of the City of Palmdale was dissolved on January 31, 2012. Obligations to be paid out

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

**(15) New Accounting Pronouncements**

The GASB has issued the following pronouncements that have effective dates which may impact future financial statement presentation. The Authority has not determined the effect of the following Statements:

**GASB Statement No. 87** - *Leases*.

**GASB Statement No. 89** - *Accounting for Interest Cost Incurred Before the End of a Construction Period*.

**GASB Statement No. 91** - *Conduit Debt Obligations*.

**GASB Statement No. 92** - *Omnibus 2020*.

**GASB Statement No. 93** - *Replacement of Interbank Offered Rates*.

**GASB Statement No. 94** - *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.

**GASB Statement No. 96** - *Subscription-Based Information Technology Arrangements*.

**GASB Statement No. 97** - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

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## **Required Supplementary Information**

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

	2015	2016	2017	2018	2019	2020	2021
Authority's proportion of the net pension liability	2.10 %	1.96 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %
Authority's proportionate share of the net pension liability	\$ 728,131	\$ 727,471	\$ 824,554	\$ 845,339	\$ 864,469	\$ 939,373	\$ 1,030,590
Authority's covered payroll	\$ 262,490	\$ 260,428	\$ 251,017	\$ 264,742	\$ 295,946	\$ 300,612	\$ 328,991
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	277.39%	279.34%	328.48%	319.31%	292.10%	312.49%	313.26%
Plan fiduciary net position as a percentage of the total pension liability	75.66%	75.86%	72.57%	74.09%	74.74%	75.66%	75.86%
Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020

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

## Schedules of Required Supplementary Information

Last Ten Years\*

Contribution Years	2015	2016	2017	2018	2019	2020	2021
Contribution	\$ 81,237	\$ 83,721	\$ 103,146	\$ 70,190	\$ 82,346	\$ 95,420	\$ 105,686
Contributions in relation to the contractually required contribution	(81,237)	(83,721)	(103,146)	(70,190)	(82,346)	(95,420)	(105,686)
Contribution deficiency	-	-	-	-	-	-	-
Covered payroll	\$ 260,428	\$ 251,017	\$ 264,742	\$ 295,946	\$ 300,612	\$ 328,991	\$ 351,345
Contributions as a percentage of covered payroll	31.19 %	33.35 %	38.96 %	23.72 %	27.39 %	29.00 %	30.08 %

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



CPAs & BUSINESS ADVISORS

**Independent Auditor's 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  
of the 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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 24, 2022.

**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 as a basis for designing 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 financial statements. 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California  
May 24, 2022