

ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

HOUSING AUTHORITY



For the Fiscal Year Ended

June 30, 2011

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CITY OF PALMDALE HOUSING AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palmdale Housing Authority (the Authority), a component unit of the City of Palmdale, California, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Palmdale Housing Authority as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, and Mobile Home Parks Special Revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7 the Authority and the Palmdale Redevelopment Agency (Agency) have entered into agreements whereby the Agency has loaned the proceeds of Tax Allocation Bond debt issuances to the Authority. The loan agreements between the Authority and Agency require the Authority to pay the Agency under the same terms as the bonds were issued. In addition the Authority has advances due to the City of Palmdale (City) and the Agency as a result of the acquisition of three mobile home parks. The operating agreements establish priorities of the use of revenues from the operation of the mobile home parks. These agreements provide that debt service shortfalls, program management fees and project administration fees, will continue to accrue to the long-term advances due to the Agency.

As described in Note 8 to the financial statements, the California State Legislature enacted two Assembly Bills impacting the Agency; the first, AB X1 26, provided for the dissolution of redevelopment agencies, and the second, AB X1 27 provided a mechanism for the continuance of redevelopment agencies. On December 29, 2011 the California Supreme Court upheld that AB X1 26 was constitutional and that AB X1 27 was unconstitutional. This action causes substantial doubt regarding the Palmdale Redevelopment Agency's ability to continue as a going concern. In accordance with the terms of AB X1 26 the City adopted a resolution designating the City as successor agency and will oversee the enforceable contractual obligations of the Agency. The full impact of complying with the provisions of AB X1 26 is uncertain.

As described in Note 1 to the financial statements, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Housing Debt Service Fund budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Housing Debt Service Fund budgetary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Rancho Cucamonga, California
January 24, 2012

Management's Discussion and Analysis

As management of the City of Palmdale Housing Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011.

Financial Highlights

- The liabilities of the Authority exceeded its assets at the close of the most recent fiscal year by \$535,575.
- The government's total net assets increased by \$302,812. Details are discussed on page 4 & 5.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,266,081 a decrease of \$640,651 in comparison with the prior year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 30 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$535,575 as of June 30, 2011.

Housing Authority's Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
Current and Other Assets	\$ 2,247,749	\$ 2,870,014
Capital Assets	<u>14,887,911</u>	<u>15,400,853</u>
Total Assets	<u>17,135,660</u>	<u>18,270,867</u>
Long-Term Liabilities Outstanding	16,972,998	17,922,227
Other Liabilities	<u>698,237</u>	<u>1,187,027</u>
Total Liabilities	<u>17,671,235</u>	<u>19,109,254</u>

	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	120,259	134,549
Restricted	817,826	764,734
Unrestricted	<u>(1,473,660)</u>	<u>(1,737,670)</u>
Total Net Assets	<u>\$ (535,575)</u>	<u>\$ (838,387)</u>

The Authority's investment in capital assets, net of related debt reflects a balance of \$120,259. 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. As improvements to the mobile home parks are completed and the debt related to the capital assets is paid, this negative amount should be eliminated.

The Authority's restricted net assets of \$817,826 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net asset deficit of \$1,473,660 should be brought to a positive number as occupancy levels and revenues continue to increase.

Housing Authority's Changes in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 4,294,769	\$ 4,147,145
Operating Grants and Contributions	897,818	9,100
Capital Grants and Contributions	-	724,409
General Revenues:		
Investment Income	<u>5,110</u>	<u>1,960</u>
Total Revenues	<u>5,197,697</u>	<u>4,882,614</u>
Expenses:		
Community Development	4,045,576	3,879,322
Interest on Long-Term Debt	<u>849,309</u>	<u>883,058</u>
Total Expenses	<u>4,894,885</u>	<u>4,762,380</u>
Increase in Net Assets	302,812	120,234
Net Assets – Beginning of Year	<u>(838,387)</u>	<u>(958,621)</u>
Net Assets – End of Year	<u>\$ (535,575)</u>	<u>\$ (838,387)</u>

Governmental Activities. Governmental activities increased the Authority's net assets by \$302,812 during the current fiscal year. The June 30, 2011 negative balance should be brought to a positive number in subsequent years from increased operating revenues from the mobile home parks. Key elements of the governmental activities net asset increase are as follows:

- Charges for services grew \$147,624 primarily due to an increase in rents collected as higher occupancy levels were achieved at the mobile home parks.
- Capital grants and contributions decreased \$724,409 and Operating Grants and Contributions increased \$888,718 as the result of a change in classifying contributions from the Housing Development Fund from Capital grants and contributions in 2009-10 to Operating grants and contributions in FY2010-11. The Housing Development Fund contributions were made to cover expenses for law enforcement costs and administrative fees.
- Community Development expenditures increased \$166,254 due to increases in contract for law enforcement and additional prior year administrative fees.

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 \$1,266,081, a decrease of \$640,651 in comparison with the prior year. Since the full amount of the fund balances are subject to externally enforceable legal restrictions, the fund balances are restricted and must be used for the following purposes:

- \$124,714 for Housing Authority Operations
- \$210,995 for Mobile Home Park Operations
- \$930,372 for Debt Service Reserve

Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$14,887,911 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. The \$519,396 decrease in the Authority's investment in capital assets for the current fiscal year was 3.3 percent as compared to prior year. The decrease is due to current year depreciation.

Housing Authority's Capital Assets (Net of Depreciation)

	Governmental Activities 2011	Governmental Activities 2010
Land	\$ 2,982,052	\$ 2,982,052
Buildings and Structures	1,263,941	1,294,703
Infrastructure	<u>10,641,918</u>	<u>11,124,098</u>
Total	<u>\$ 14,887,911</u>	<u>\$ 15,400,853</u>

Additional information on the Authority's capital assets can be found on page 27, Note 6.

Long-Term Debt. At the end of the current fiscal year, the Housing Authority had a loan payable outstanding of \$16,820,000 due to the City of Palmdale Community Redevelopment Agency (Agency). The Housing Authority and the Agency have entered into loan and repayment agreements whereby the Agency has loaned the proceeds of Tax Allocation Bond debt issuances to the Housing Authority. The proceeds of the Bonds were used to finance the acquisition, sale and improvement of three mobile home parks in the City.

The Authority also has advances due to the Agency and the City classified as long-term debt, as a result of the Authority's acquisition of three mobile home parks during fiscal year 2002-2003. The outstanding balance on these advances total \$1,684,656.

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

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
Loan Payable:		
City of Palmdale Community Redevelopment Agency	\$ 16,820,000	\$ 17,445,000
City of Palmdale Community Redevelopment Agency (Deferred Loss on Refinancing)	(1,531,658)	(1,626,400)
Advances Due to the Agency and City	<u>1,684,656</u>	<u>2,633,885</u>
Total	<u>\$ 16,972,998</u>	<u>\$ 18,452,485</u>

Additional information on the Authority's debt can be found on pages 27 - 29, Note 7.

Economic Factors and Next Year's Budgets and Rates

The Authority took into consideration the following factors in preparing the budget for the 2011-12 fiscal Year:

- Housing funds impacted by State budget actions.
- Housing funds impacted by Assembly Bills X1 26 and 27. Additional information can be found at Note 8.

Requests for Information

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

Government-Wide Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Governmental Activities</u>
Assets:	
Cash and Investments	\$ 1,129,846
Accounts Receivable	595,993
Interest Receivable	1,219
Deferred Charges - Cost of Issuance	520,691
Capital Assets:	
Not Being Depreciated:	
Land	2,982,052
Being Depreciated, Net of Accumulated Depreciation:	
Buildings and Structures	1,263,941
Infrastructure	<u>10,641,918</u>
 Total Assets	 <u>17,135,660</u>
Liabilities:	
Accounts Payable	103,166
Due to Bank - Overnight Sweep	44,249
Due to the City of Palmdale	131,647
Deposits	181,915
Accrued Interest Payable	237,260
Noncurrent Liabilities:	
Due Within One Year	555,258
Due in More than One Year	<u>16,417,740</u>
 Total Liabilities	 <u>17,671,235</u>
Net assets (Deficit):	
Invested in Capital Assets, Net of Related Debt	120,259
Restricted for:	
Community Development	124,714
Debt Service	693,112
Unrestricted	<u>(1,473,660)</u>
 Total Net Assets (Deficit)	 <u><u>\$ (535,575)</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental Activities:					
Community Development	\$ 4,045,576	4,294,769	897,818	-	1,147,011
Interest on Long-Term Debt	849,309	-	-	-	(849,309)
Total Governmental Activities	\$ 4,894,885	4,294,769	897,818	-	297,702
General Revenues:					
Unrestricted Investment Earnings					5,110
Change in Net Assets					302,812
Net Assets - Beginning of Year					(838,387)
Net Assets - End of Year					\$ (535,575)

See Accompanying Notes to the Financial Statements

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Governmental Fund Financial Statements

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

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

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

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

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

CITY OF PALMDALE HOUSING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	Special Revenue Fund Mobile Home Parks Fund	Debt Service Fund	Total Governmental Funds
Assets				
Assets:				
Cash and Investments	\$ -	225,201	904,645	1,129,846
Receivables:				
Accounts and Interest Receivable	4,000	532,235	60,977	597,212
Due from Other Funds	253,447	-	242	253,689
Total Assets	<u>257,447</u>	<u>757,436</u>	<u>965,864</u>	<u>1,980,747</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	86	103,080	-	103,166
Due to Bank - Overnight Sweep	-	8,757	35,492	44,249
Due to Other Funds	-	253,689	-	253,689
Due to City of Palmdale	131,647	-	-	131,647
Deposits	1,000	180,915	-	181,915
Total Liabilities	<u>132,733</u>	<u>546,441</u>	<u>35,492</u>	<u>714,666</u>
Fund Balances:				
Restricted	124,714	210,995	930,372	1,266,081
Total Fund Balances	<u>124,714</u>	<u>210,995</u>	<u>930,372</u>	<u>1,266,081</u>
Total Liabilities and Fund Balances	<u>\$ 257,447</u>	<u>757,436</u>	<u>965,864</u>	<u>1,980,747</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Total Governmental Funds (page 12) \$ 1,266,081

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

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

Governmental Capital Assets	\$ 19,050,094	
Less Accumulated Depreciation	<u>(4,162,183)</u>	14,887,911

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

Interest Payable		(237,260)
Deferred Charge - Cost of Issuance		520,691

Long-Term Liabilities are not due and payable in the current period and therefore
are not reported as a liability in the Governmental Funds Balance Sheet.

Tax Allocation Bonds Payable	\$ 16,820,000	
Less Deferred Loss on Refinance	(1,531,658)	
Advances due to the City of Palmdale	<u>1,684,656</u>	<u>(16,972,998)</u>

Net Assets of Governmental Activities (page 8) \$ (535,575)

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Special Revenue Fund Mobile Home Parks Fund	Debt Service Fund	Total Governmental Funds
Revenues:				
Charges for Current Services	\$ 36,664	-	-	36,664
Use of Property	-	4,253,105	-	4,253,105
Interest	-	1,498	4,982	6,480
Net Decrease in Fair Value of Investments	-	(354)	(1,013)	(1,367)
Other	5,000	-	-	5,000
Total Revenues	41,664	4,254,249	3,969	4,299,882
Expenditures:				
Current:				
Community Development	55,403	3,440,325	-	3,495,728
Capital Outlay	-	5,300	-	5,300
Debt Service				
Payments on Long Term Advances	-	1,113,091	-	1,113,091
Principal	-	-	625,000	625,000
Interest	-	38,529	724,563	763,092
Total Expenditures	55,403	4,597,245	1,349,563	6,002,211
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,739)	(342,996)	(1,345,594)	(1,702,329)
Other Financing Sources (Uses):				
Issuance of Long Term Advances	-	163,862	-	163,862
Transfers In	-	-	1,403,901	1,403,901
Transfers Out	-	(1,403,901)	-	(1,403,901)
Transfers from Community Redevelopment	-	897,816	-	897,816
Total Other Financing Sources (Uses)	-	(342,223)	1,403,901	1,061,678
Net Change in Fund Balances	(13,739)	(685,219)	58,307	(640,651)
Fund Balances, Beginning of Year	138,453	896,214	872,065	1,906,732
Fund Balances, End of Year	\$ 124,714	210,995	930,372	1,266,081

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances - Total Governmental Funds (page 14) \$ (640,651)

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

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

Cost of Assets Capitalized - Current Year	\$ -	
Depreciation Expense	<u>(512,942)</u>	(512,942)

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

Debt Issued or Incurred:		
Long Term Advances	\$ (163,862)	
Principal Repayments		
Long Term Advances	1,113,091	
Tax Allocation Bonds Payable	<u>625,000</u>	1,574,229

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

Accrued Interest on Debt	\$ 8,524	
Amortization of Deferred Loss on Refinancing	(94,742)	
Amortization of Issuance Costs	<u>(31,606)</u>	<u>(117,824)</u>

Change in Net Assets of Governmental Activities (page 9) \$ 302,812

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Current Services	\$ 36,660	36,660	36,664	4
Other	-	-	5,000	5,000
	<u>36,660</u>	<u>36,660</u>	<u>41,664</u>	<u>5,004</u>
Expenditures:				
Current:				
Community Development	60,700	61,790	55,403	6,387
	<u>60,700</u>	<u>61,790</u>	<u>55,403</u>	<u>6,387</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(24,040)</u>	<u>(25,130)</u>	<u>(13,739)</u>	<u>11,391</u>
Net Change in Fund Balance	(24,040)	(25,130)	(13,739)	11,391
Fund Balance - Beginning of Year	<u>138,453</u>	<u>138,453</u>	<u>138,453</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 114,413</u>	<u>113,323</u>	<u>124,714</u>	<u>11,391</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE HOUSING AUTHORITY

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MOBILE HOME PARKS - SPECIAL REVENUE FUND
FOR YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
Revenues:				
Use of Property	\$ 4,029,300	4,029,300	4,253,105	223,805
Interest	2,750	250	1,498	1,248
Net Increase (Decrease) in the Fair Value of Investments	-	-	(354)	(354)
Total Revenues	4,032,050	4,029,550	4,254,249	224,699
Expenditures:				
Current:				
Community Development	3,349,510	3,482,000	3,440,325	41,675
Capital Outlay	-	-	5,300	(5,300)
Debt Service:				
Payments on Long Term Advances	-	-	1,113,091	(1,113,091)
Interest	77,000	77,000	38,529	38,471
Total Expenditures	3,426,510	3,559,000	4,597,245	(1,038,245)
Excess (Deficiency) of Revenues Over (Under) Expenditures	605,540	470,550	(342,996)	(813,546)
Other Financing Sources (Uses):				
Issuance of Long Term Advances	-	-	163,862	163,862
Transfers In	-	-	-	-
Transfers Out	(1,349,560)	(1,349,560)	(1,403,901)	(54,341)
Transfers from Community Redevelopment	-	-	897,816	897,816
Total Other Financing Sources (Uses)	(1,349,560)	(1,349,560)	(342,223)	1,007,337
Net Change in Fund Balance	(744,020)	(879,010)	(685,219)	193,791
Fund Balance - Beginning of Year	896,214	896,214	896,214	-
Fund Balance - End of Year	<u>\$ 152,194</u>	<u>17,204</u>	<u>210,995</u>	<u>193,791</u>

See Accompanying Notes to the Financial Statements

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**CITY OF PALMDALE HOUSING AUTHORITY
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FOR THE YEAR ENDED JUNE 30, 2011**

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CITY OF PALMDALE HOUSING AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

(1) Summary of Significant Accounting Policies

A. Description of the Reporting Entity

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

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

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

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

Government-Wide Financial Statements

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

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

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

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

assets. Under the accrual basis of accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

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

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

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

C. Budgets and Budgetary Accounting

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

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

D. Cash and Investments

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

Investments include amounts in U.S. Treasury and Agency Securities, Repurchase Agreements, the Local Agency Investment Fund, money market funds and investment agreements. The U.S.

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Treasury was adjusted to fair value based on market prices on June 30, 2011. Amounts invested in money market funds are reported at fair value, which is the same as the carrying amount as of June 30, 2011.

E. Restricted Assets

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

F. Capital Assets

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

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

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

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

G. Long-Term Obligations

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

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

H. Fund Equity

In the Fund Financial Statements, governmental funds classify fund balance 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 are 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: Resources that are constrained to specific purposes by a formal action of the Housing Authority such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the Housing Authority. Housing Authority 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 are neither restricted nor committed.

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.

This policy delegates to the Finance Director 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.

I. Use of Estimates

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

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

J. Excess of Expenditures over Appropriations

For the year ended June 30, 2011, expenditures exceeded appropriations in the Mobile Home Parks Special Revenue Fund under the Capital Outlay and Debt Service Expenditure level of budgetary control by \$5,300 and \$1,113,01, respectively. The expenditures were funded by greater than anticipated revenues.

K. Implemented Accounting Pronouncements

During fiscal year 2010-2011, the Housing Authority adopted the provisions of GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement is intended to improve the usefulness of information provided to financial report users about fund balance classifications, and by clarifying the definitions of existing governmental fund types. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation did not have any significant impact on the Housing Authority's financial statements.

During fiscal year 2010-2011, the Housing Authority adopted the provisions of GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. The implementation did not have any significant impact on the Housing Authority's financial statements.

(2) Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 1,129,846
Cash overdraft	(44,249)
Total cash and investments	<u>\$ 1,085,597</u>

Cash and investments as of June 30, 2011 consist of the following:

Cash and investments with City of Palmdale Investment pool	<u>\$ 1,085,597</u>
Total cash and investments	<u>\$ 1,085,597</u>

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

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2011.

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	2%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	15%	10%
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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

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

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Tax Allocation Bond indentures which are held by the City of Palmdale Community Redevelopment Agency specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks. See Note 7 for further detail.

C. Disclosures Relating to Interest Rate Risk

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

D. Disclosures Relating to Credit Risk

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

E. Custodial Credit Risk

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

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: Authority deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts held with the City of Palmdale. As of June 30, 2011, Authority investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

F. Investment in State Investment Pool

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the City's Comprehensive Annual Financial Report for the year ended June 30, 2011 at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Fund Balance Classification

The Governmental Fund Balances at June 30, 2011 were classified as follows:

	HA General Fund	Special Revenue Fund Mobile Home Parks Fund	Debt Service Fund	Total Governmental Funds
Restricted for:				
Low and Moderate Housing	\$ 124,714	\$ -	\$ -	\$ 124,714
Mobile Home Park Operations	-	210,995	-	210,995
Debt Service Reserve	-	-	930,372	930,372
Total Fund Balance	<u>\$ 124,714</u>	<u>\$ 210,995</u>	<u>\$ 930,372</u>	<u>\$ 1,266,081</u>

(4) Interfund Transfers

Transfers between funds for the year ended June 30, 2011, consisted of the following:

<u>Transfer To:</u>	<u>Transfer From:</u>	<u>Amount</u>
Debt Service Funds	Mobile Home Parks	<u>\$ 1,403,901</u>
Total Interfund Transfers		<u>\$ 1,403,901</u>

The transfers resulted from moving revenues from the Mobile Home Parks Fund that collect and report the day to day operations of the Parks to the Debt Service Fund to pay for debt related to the acquisition of the three mobile home parks.

(5) Interfund Assets/Liabilities

A. Due From/To Other Funds for the year ended June 30, 2011 were as follows:

<u>Payable To:</u>	<u>Payable From:</u>	Amount
Debt Service Fund	Special Revenue Fund-MHP	\$ 242
General Fund	Special Revenue Fund-MHP	<u>253,447</u>
Total Due From/To Other Funds		<u>\$ 253,689</u>

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

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

(6) Capital Assets

Capital Assets of the Housing Authority for the year ended June 30, 2011 consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 2,982,052	-	-	2,982,052
Total Capital Assets, Not Being Depreciated	<u>2,982,052</u>	<u>-</u>	<u>-</u>	<u>2,982,052</u>
Capital Assets, Being Depreciated				
Buildings and Structures	1,538,100	-	-	1,538,100
Infrastructure	14,529,942	-	-	14,529,942
Total Capital Assets, Being Depreciated	<u>16,068,042</u>	<u>-</u>	<u>-</u>	<u>16,068,042</u>
Less Accumulated Depreciation for:				
Buildings and Structures	243,397	30,762	-	274,159
Infrastructure	3,405,844	482,180	-	3,888,024
Total Accumulated Depreciation	<u>3,649,241</u>	<u>512,942</u>	<u>-</u>	<u>4,162,183</u>
Total Capital Assets, Being Depreciated, Net	<u>12,418,801</u>	<u>(512,942)</u>	<u>-</u>	<u>11,905,859</u>
Total Capital Assets, Net	<u>\$ 15,400,853</u>	<u>(512,942)</u>	<u>-</u>	<u>14,887,911</u>

For the year ended June 30, 2011, depreciation expense on capital assets was charged to the governmental function Community Development in the amount of \$512,942.

(7) Long-Term Debt

A. Loans Payable

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

The proceeds of the Bonds were used to finance the acquisition, sale and improvement of three mobile home parks ("Parks") in the City. Immediately upon acquiring the Parks, the Agency sold them pursuant to an Affordable Housing Agreement, which reserved an option for the

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

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

Repayment agreements between the Agency and the Housing Authority require the Housing Authority to pay the Agency under the same terms as the Bonds were issued. The 2003 Series C Bonds and 2005 Series E Bonds are secured by Project Area No. 2A's Housing Set-Aside revenue and certain related reimbursements provided for in the Affordable Housing Agreement. The Housing Authority will use operating income from the Parks to repay the Agency, which will in turn, pay principal and interest with respect to the 2003 Series C Bonds and 2005 Series E Bonds as they become due. The debt service schedule for the loan payable at June 30, 2011 is as follows:

Year Ending	Principal	Interest	Total
2012	\$ 650,000	698,464	1,348,464
2013	675,000	671,057	1,346,057
2014	705,000	644,627	1,349,627
2015	730,000	616,584	1,346,584
2016	760,000	586,581	1,346,581
2017-2021	4,280,000	2,452,670	6,732,670
2022-2026	5,245,000	1,454,535	6,699,535
2027-2029	3,775,000	269,325	4,044,325
	<u>\$ 16,820,000</u>	<u>\$ 7,393,843</u>	<u>\$ 24,213,843</u>

B. Long-Term Advances Payable

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

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

CITY OF PALMDALE HOUSING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

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

	<u>City of Palmdale</u>	<u>Housing Authority</u>
	Receivable	Payable
City of Palmdale:		
General Fund	\$ 4,642	\$ -
City Housing Fund	1,626,821	-
CRA Project No. 2A Fund	53,193	-
Housing Authority Mobile Home Parks Fund:		
Special Revenue Fund	-	1,684,656
Total Long-Term Advances	<u>\$ 1,684,656</u>	<u>\$ 1,684,656</u>

C. Changes in Long-Term Liabilities – Activity for the year ended June 30, 2011 was as follows:

	<u>Principal Balance at July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance at July 1, 2010</u>	<u>Amounts Due Within One Year</u>
Loan Payable Related to:					
2003 Tax Allocation Bonds	\$ 4,975,000	-	(170,000)	4,805,000	175,000
Less Deferred Loss on Refinance	(818,596)	-	47,686	(770,910)	(47,686)
2005 Tax Allocation Bonds	12,470,000	-	(455,000)	12,015,000	475,000
Less Deferred Loss on Refinance	(807,804)	-	47,056	(760,748)	(47,056)
Advances Due the Agency & City	2,633,885	163,862	(1,684,656)	1,684,656	-
Total	<u>\$ 18,452,485</u>	<u>163,862</u>	<u>(1,643,349)</u>	<u>16,972,998</u>	<u>555,258</u>

(8) Contingency/Subsequent Events

A. Community Redevelopment Agency

As described in Note 7 the Authority and the Palmdale Redevelopment Agency (Agency) have entered into agreements whereby the Agency has loaned the proceeds of Tax Allocation Bond debt issuances to the Authority. The loan agreements between the Authority and Agency require the Authority to pay the Agency under the same terms as the bonds were issued. In addition the Authority has advances due to the City of Palmdale (City) and the Agency as a result of the acquisition of three mobile home parks. The operating agreements

CITY OF PALMDALE HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

establish priorities of the use of revenues from the operation of the mobile home parks. These agreements provide that debt service shortfalls, program management fees and project administration fees, will continue to accrue to the long-term advances due to the Agency.

The California State Legislature passed two Assembly Bills, the first, AB X1 26, provided for the dissolution of redevelopment agencies, and the second, AB X1 27, provided a mechanism for the continuance of redevelopment agencies. On December 29, 2011 the California Supreme Court upheld that Assembly Bill X1 26, which dissolves redevelopment agencies, was constitutional and determined that AB X1 27 was unconstitutional. As of February 1, 2012, the Agency will dissolve and their assets and functions will transfer to a successor agency and a successor to the Agency's housing function. On January 4, 2012, the City Council adopted a resolution designating the City of Palmdale as successor agency under Part 1.85 of the Health and Safety Code and the Housing Authority of the City of Palmdale to perform the housing functions previously performed by the Community Redevelopment Agency. Also, on January 4, 2012, the Housing Authority approved the acceptance of the transfer of Housing Assets and Housing functions of the Community Redevelopment Agency of the City of Palmdale.

This action causes substantial doubt regarding the Palmdale Redevelopment Agency's ability to continue as a going concern. Although the full impact of complying with Assembly Bill AB X1 26 is uncertain, Management believes that there will be no significant impact on the Authority.

B. Housing Related Agreements:

On January 11, 2012, the Housing Authority amended the Enforceable Obligation payment Schedule (EOPS) and sixteen different long-term housing agreements ranging in the amount of \$1 million to \$40 million to perform future housing functions pursuant to redevelopment law provisions relating to the use of affordable housing funds. As the successor agency to the housing functions previously performed by the Community Redevelopment Agency, the agreements are subject to approval and certification of the Enforceable Obligation Payment Schedule (EOPS) or, when effective, the Recognized Obligation Payment Schedule (ROPS) that outline these obligations. The nature and extent of performing affordable housing functions under the Housing Authority is subject to the details of Assembly Bill X1 26.

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Supplementary Information

CITY OF PALMDALE HOUSING AUTHORITY

**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HOUSING - DEBT SERVICE FUND
FOR YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
Revenues:				
Interest	6,330	710	4,982	4,272
Net Increase (Decrease) in the Fair Value of Investments	-	-	(1,013)	(1,013)
Total Revenues	<u>6,330</u>	<u>710</u>	<u>3,969</u>	<u>3,259</u>
Expenditures:				
Current:				
Debt Service:				
Principal	685,000	685,000	625,000	60,000
Interest	<u>1,186,070</u>	<u>1,186,070</u>	<u>724,563</u>	<u>461,507</u>
Total Expenditures	<u>1,871,070</u>	<u>1,871,070</u>	<u>1,349,563</u>	<u>521,507</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,864,740)</u>	<u>(1,870,360)</u>	<u>(1,345,594)</u>	<u>524,766</u>
Other Financing Sources (Uses):				
Transfers In	1,871,070	1,871,070	1,403,901	(467,169)
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>1,871,070</u>	<u>1,871,070</u>	<u>1,403,901</u>	<u>(467,169)</u>
Net Change in Fund Balance	6,330	710	58,307	57,597
Fund Balance - Beginning of Year	<u>872,065</u>	<u>872,065</u>	<u>872,065</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 878,395</u>	<u>872,775</u>	<u>930,372</u>	<u>57,597</u>