

# **ANNUAL FINANCIAL REPORT**

**CITY OF PALMDALE, CALIFORNIA**

**HOUSING AUTHORITY**



*For the Fiscal Year Ended*

*June 30, 2012*

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF PALMDALE HOUSING AUTHORITY**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2012**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-Wide Financial Statements</b>	11
Statement of Net Assets	12
Statement of Activities	13
<b>Fund Financial Statements</b>	
<b>Governmental Fund Financial Statements</b>	15
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual	
General Fund	22
Special Revenue Fund-Mobile Home Parks	23
Special Revenue Fund-Housing Asset Fund	24
<b>Notes to Financial Statements</b>	25
<b>SUPPLEMENTARY INFORMATION</b>	45
Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual Debt Service Fund	46



## INDEPENDENT AUDITORS' REPORT

Honorable Members of the Board of Commissioners  
Palmdale Housing Authority  
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, 2012, 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 statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, and each of the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 with additional details in Notes 5, 7 and 9, the California State Legislature enacted legislation that provided for the dissolution of all redevelopment agencies in the State of California. The City elected to become the Successor Agency for the former Community Redevelopment Agency (CRA) of the City, and the Authority elected to accept the housing assets as the Housing Successor. As a result all former Low and Moderate Income Housing assets have been transferred to the Authority. Also, as noted at Note 5 certain inter-fund transactions were impacted, at Note 7 certain debt issuances were impacted, and at Note 9 certain contingencies remain outstanding.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2013, 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, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, 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 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Debt Service Fund budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Debt Service Fund budgetary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Vawter, Tami, Day, Co., LLP*

Rancho Cucamonga, California  
March 8, 2013

## 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, 2012.

### Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$56,705,713.
- The government's total net assets increased by \$57,241,288 Details are discussed on page 5 & 6.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$42,514,206, an increase of \$41,248,125 in comparison with the prior year. The increase is primarily the result of the dissolution of the Community Redevelopment Agency Housing Development Fund and Housing Authority's assumption of the former Low and Moderate Housing assets, liabilities and activities. (Note 8)

### 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 12 - 13 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.

**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 15-19. Budget and actual statements can be found on pages 22-24.

The Authority maintained three individual governmental funds prior to the Authority assuming the former Community Redevelopment Agency Low and Moderate Income Housing assets, liabilities and activities. Beginning February 1, 2012, when the Authority assumed the Low and Moderate Income Housing functions, the Authority maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Mobile Home Parks Special Revenue Fund, Housing Asset Fund-Special Revenue Fund, Housing Asset-Capital Project Fund and the former CRA 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, Housing Authority-Housing Asset Fund-Special Revenue Fund and Debt Service Fund. A budgetary comparison statement has been provided for General Fund and the Special Revenue funds to demonstrate compliance with budget.

### **Dissolution of Redevelopment**

As of January 31, 2012, the City of Palmdale Community Redevelopment Agency ceased to exist. The statewide dissolution of redevelopment, per AB1X26 which was upheld by the State Supreme Court in December 2011, has changed the way in which redevelopment activity is presented in the City's financial statements, as well as in stand-alone reports prepared and reviewed by the city's independent auditors. Also, under the provision of AB-1484, the City can elect to become the Housing Successor and retain the housing assets. The City elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Successor Agency Housing Authority-Housing Asset Fund as the Housing Authority has control of those assets. As of February 1, 2012, the Housing Authority received assets that were previously held by the Community Redevelopment Agency Low and Moderate Income Housing Fund, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

Therefore the financial statements will reflect “extraordinary gains” and “extraordinary losses” as accounting entries to record the transition of the former Low and Moderate Income Housing Fund assets, liabilities, and activities from January 31, when the former Community Redevelopment was not reported as part of the Housing Authority financial statements, to February 1, 2012, when the Low and Moderate Income Housing Funds is reported as part of the Housing Authority financial statements. (Note 8)

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-43 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, assets exceeded liabilities by \$56,705,713 as of June 30, 2012.

#### **Housing Authority's Net Assets**

	Governmental Activities 2012	Governmental Activities 2011
	2012	2011
Current and Other Assets	\$ 49,644,044	\$ 2,247,749
Capital Assets	14,374,969	14,887,911
Total Assets	64,019,013	17,135,660
Long-Term Liabilities Outstanding	-	16,972,998
Other Liabilities	7,313,300	698,237
Total Liabilities	7,313,300	17,671,235
Net Assets:		
Invested in Capital Assets	14,374,969	120,259
Restricted	-	-
Unrestricted	42,330,744	(655,834)
Total Net Assets	\$ 56,705,713	\$ (535,575)

The Authority’s investment in capital assets, net of related debt reflects a balance of \$14,374,969. 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 unrestricted net assets of \$42,330,744 represent resources that are subject to the low and moderate income housing provisions of California Redevelopment Law. Certain reclassifications were made to prior net assets for financial statement presentation purposes noting that the primary reason for the changes were due to the dissolution of the former Community Redevelopment Agency.



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

	Governmental Activities 2012	Governmental Activities 2011
	<u>2012</u>	<u>2011</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 4,475,124	\$ 4,294,769
Operating Grants and Contributions	456,019	897,818
General Revenues:		
Investment Income	11,280	5,110
Total Revenues	<u>4,942,423</u>	<u>5,197,697</u>
Extraordinary Item (Note 8)	<u>57,209,652</u>	<u>-</u>
Total General Revenues & Extraordinary Items	<u>62,152,075</u>	<u>5,197,697</u>
Expenses:		
Community Development	4,411,937	4,045,576
Interest on Long-Term Debt	498,850	849,309
Total Expenses	<u>4,910,787</u>	<u>4,894,885</u>
Increase in Net Assets	57,241,288	302,812
Net Assets - Beginning of Year	<u>(535,575)</u>	<u>(838,387)</u>
Net Assets - End of Year	<u>\$ 56,705,713</u>	<u>\$ (535,575)</u>

**Governmental Activities.** Governmental activities increased the Authority's net assets by \$57,241,288 during the current fiscal year. The increase is primarily as the result of the dissolution of the former Community Redevelopment Agency and the Housing Authority assuming the former Community Redevelopment Low and Moderate Income Housing Fund duties. Accounting entries were recorded as "extraordinary gains" and "extraordinary losses" to record the transition of activity as of February 1, when the former Community Redevelopment Low and Moderate Income Housing fund assets, liabilities and activities were transferred to the Housing Authority as the Successor Agency. Key elements of the governmental activities net asset increase are as follows:

- Charges for services grew \$180,355 primarily due to an increase in rents collected as higher occupancy levels were achieved at the mobile home parks and the additional administrative fees received in the Housing Asset Fund that were previously not part of the Housing Authority as the result of the Housing Authority assuming the housing activities. (Note 8)
- Operating Grants and contributions decreased \$441,799 as the result of the dissolution of the former Community Redevelopment Low and Moderate Housing Fund and only a partial year of contributions were received from the former Housing Development Fund. The prior year Housing Development Fund contributions were made to cover expenses for law enforcement costs and administrative fees.
- Community Development expenditures increased \$366,361 due to Former Housing Development Fund activities being assumed by the Housing Authority and the addition to expenditures as the result of the new fund.

**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 \$42,514,206, an increase of \$41,248,125 in comparison with the prior year. The fund balances were classified as follows:

- \$53,432,446 is "Nonspendable" because the resources are not in a spendable form (i.e., long-term receivables, or non-financial assets held for resale).
- \$5,767,849 "Assigned" for Low and Moderate Income Housing provisions of California Redevelopment Law
- (\$16,686,089) "Unassigned" and represents a negative residual resources.

**Capital Asset and Debt Administration**

**Capital Assets.** The Authority's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$14,374,969 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, and infrastructure. The \$512,942 decrease in the Authority's investment in capital assets for the current fiscal year was 3.4 percent as compared to prior year. The decrease is due to current year depreciation.

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

	Governmental Activities 2012	Governmental Activities 2011
	2012	2011
Land	\$ 2,982,052	\$ 2,982,052
Buildings and Structures	1,233,179	1,263,941
Infrastructure	10,159,738	10,641,918
Total	\$ 14,374,969	\$ 14,887,911

Additional information on the Authority's capital assets can be found on page 36, Note 6.

**Long-Term Debt.** At the beginning of the current fiscal year, the Housing Authority had a loan payable outstanding of \$16,820,000 due to the former City of Palmdale Community Redevelopment Agency. The Housing Authority and the former Community Redevelopment Agency have entered into loan and repayment agreements whereby the former Community Redevelopment 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.

As of January 31, 2012, the former City of Palmdale Community Redevelopment Agency ceased to exist. The statewide dissolution of redevelopment, per AB1X26, which was upheld by the State Supreme Court in December 2011, has changed the way in which redevelopment activity is presented in the City's financial statements, as well as in stand-alone reports prepared and reviewed by the city's independent auditors. Also, under the provision of AB-1484, the City elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Successor Agency Housing Authority-Housing Asset Fund as the Housing Authority has control of those assets. As of February 1, 2012, the Housing Authority received assets that were previously held by the Community Redevelopment Agency Low and Moderate Income Housing Fund. Therefore, the loan payable described above is an interfund loan between the Housing Authority-Mobile Home Park Special Revenue Fund and the Housing Authority-Housing Asset Fund Capital Projects Fund reported on the Government Fund Statements when previously the loan payable was reported as long-term debt on the Government Wide Financial Statements. (Note 7 and Note 8).

The Authority also has advances due to the former Community Redevelopment Agency as a result of the Authority's acquisition of three mobile home parks during fiscal year 2002-2003. As of February 1, 2012, when the Housing Authority received assets previously held by the former Community Redevelopment Agency the advances due between the Housing Authority-Mobile Home Park Special Revenue Fund and the Housing Authority-Housing Asset Fund Capital Projects Fund are reported on the Government Fund Statements when previously the advances were reported as long term debt on the Government Wide Financial Statements. (Note 5, 7 and 8).

The Schedule below of Loans Payable and Long Term Advances Payable that were previously reported on the Government Wide Financial Statements are now reported on the Governmental Fund Financial Statements as the result of the Housing Authority assuming the duties as Successor Agency of the Former Low and Moderate Income Housing Fund and the assets and liabilities being transferred to the Housing Authority. (Note 5, 7 and 8)

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

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Loan Payable:		16,820,000
City of Palmdale Community Redevelopment Agency	\$ -	(1,531,658)
City of Palmdale Community Redevelopment Agency (Deferred Loss on Refinancing)	-	1,684,656
Advances Due to the Agency and City	-	16,972,998
Total	<u>\$ -</u>	<u>16,972,998</u>

## **Economic Factors and Next Year's Budgets and Rates**

The Authority took into consideration the following factors in preparing the budget for the 2012-13 fiscal Year:

- Housing funds impacted by State budget actions.
- Housing funds impacted by Assembly Bills X1 26 and 1484. 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.

**THIS PAGE LEFT BLANK INTENTIONALLY**

---

# **Government-Wide Financial Statements**

---

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and Investments	\$ 5,323,342
Accounts and Interest Receivable	2,153,012
Advances Due from Successor Agency	15,857,215
Notes and Liens	20,260,383
Land Held for Resale	1,594,848
Restricted Assets:	
Cash and Investments	4,455,208
Interest Receivable	36
Capital Assets:	
Not Being Depreciated:	
Land	2,982,052
Being Depreciated, Net of Accumulated Depreciation:	
Buildings and Structures	1,233,179
Infrastructure	<u>10,159,738</u>
Total Assets	<u>64,019,013</u>
<b>Liabilities:</b>	
Accounts Payable	125,067
Accrued Salaries and Employee Benefits	206,092
Due to Bank - Overnight Sweep	161,102
Deposits	4,643,817
Unearned Revenue	<u>2,177,222</u>
Total Liabilities	<u>7,313,300</u>
<b>Net assets (Deficit):</b>	
Invested in Capital Assets	14,374,969
Unrestricted	<u>42,330,744</u>
Total Net Assets (Deficit)	<u><u>\$ 56,705,713</u></u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities	
Governmental Activities:					
Community Development	\$ 4,411,937	4,475,124	456,019	-	519,206
Interest on Long-Term Debt	498,850	-	-	-	(498,850)
Total Governmental Activities	\$ 4,910,787	4,475,124	456,019	-	20,356
 General Revenues:					
Unrestricted Investment Earnings					11,280
Total General Revenues					11,280
 Extraordinary Item (Note 8)					
Assets transferred /Liabilities Assumed by Successor Agency					57,209,652
					57,241,288
					(535,575)
					\$ 56,705,713

See Accompanying Notes to the Financial Statements



**THIS PAGE LEFT BLANK INTENTIONALLY**

---

# Governmental Fund Financial Statements

---

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

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

The Mobile Home Parks Fund accounts for revenues and expenditures related to the operations of the three mobile home parks. Revenues received are restricted to be used accordance with the low and moderate income housing provisions of California Redevelopment Law.

Housing Asset Fund – Used to account for the restricted housing assets of the former Community Redevelopment Agency Housing Development Fund, which were transferred to the Successor Agency Fund and then transferred to the Housing Authority – Housing Asset Fund upon acceptance of the Housing Successor role by the City (Refer to Note 8). Revenues received from assets previously held by the former CRA Housing Development Fund are restricted to be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

**Capital Projects Funds** are used to account for financial resources to be used for the acquisition and construction of major capital facilities. The following fund has been classified as a major funds:

City Housing Fund - This fund accounts for the former Community Redevelopment Agency Housing Development Fund assets, resources accumulated from land sale proceeds, principal and interest on notes receivable as well as expenditures related to low and moderate income housing needs. On February 1, 2012, all redevelopment agencies in the State of California were dissolved and ceased to operate as legal entities. The City elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the Successor Agency Housing Authority-Housing Asset Fund as the Housing Authority has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

**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:

Former CRA Housing Debt Service Fund - This fund was used to account for resources accumulated and payments made for principal and interest on bonded debt of mobile home parks and on low/moderate income housing set-aside projects. On February 1, 2012, all redevelopment agencies in the State of California were dissolved and ceased to operate as legal entities. All assets and liabilities were transferred to a private purpose trust fund (Refer to Note 8).

**CITY OF PALMDALE HOUSING AUTHORITY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	General Fund	Special Revenue Fund		Capital Project Fund	Debt Service Fund	Total Governmental Funds
		Mobile Home Parks Fund	Housing Asset Fund	City Housing Fund		
<b>Assets</b>						
Assets:						
Cash and Investments	\$ -	195,298	2,890,453	2,237,591	-	5,323,342
Receivables:						
Accounts and Interest Receivable	4,000	1,495,048	93,797	560,167	-	2,153,012
Due from Other Funds	-	-	186,009	385,000	-	571,009
Advances Due from Other Funds	277,139	-	-	1,706,781	-	1,983,920
Advances Due from Mobile Home Parks Fund	-	-	-	15,720,000	-	15,720,000
Advances Due from Successor Agency	-	-	15,857,215	-	-	15,857,215
Notes and Liens	-	-	2,260,000	18,000,383	-	20,260,383
Restricted Assets:						
Investments	-	-	4,455,208	-	-	4,455,208
Interest Receivable	-	-	36	-	-	36
Land Held for Resale	-	-	1,302,018	292,830	-	1,594,848
<b>Total Assets</b>	<b>281,139</b>	<b>1,690,346</b>	<b>27,044,736</b>	<b>38,902,752</b>	<b>-</b>	<b>67,918,973</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts Payable	14,803	93,387	39,507	-	-	147,697
Due to Bank - Overnight Sweep	-	6,555	78,671	75,876	-	161,102
Due to Other Funds	186,009	385,000	-	-	-	571,009
Advances Due to Other Funds	-	1,983,920	-	-	-	1,983,920
Advances Due to Housing Asset Fund	-	15,720,000	-	-	-	15,720,000
Deposits	1,000	187,573	4,455,244	-	-	4,643,817
Deferred Revenue	-	-	1,621,208	556,014	-	2,177,222
<b>Total Liabilities</b>	<b>201,812</b>	<b>18,376,435</b>	<b>6,194,630</b>	<b>631,890</b>	<b>-</b>	<b>25,404,767</b>
Fund Balances:						
Nonspendable	-	-	19,419,233	34,013,213	-	53,432,446
Assigned	-	-	1,430,873	4,257,649	-	5,688,522
Unassigned	79,327	(16,686,089)	-	-	-	(16,606,762)
<b>Total Fund Balances</b>	<b>79,327</b>	<b>(16,686,089)</b>	<b>20,850,106</b>	<b>38,270,862</b>	<b>-</b>	<b>42,514,206</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 281,139</b>	<b>1,690,346</b>	<b>27,044,736</b>	<b>38,902,752</b>	<b>-</b>	<b>67,918,973</b>

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, 2012**

**Total Fund Balances - Total Governmental Funds (page 16)** \$ 42,514,206

Amounts reported for Governmental Activities in the Statement of  
Net Assets (page 12) 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>(4,675,125)</u>	14,374,969

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

Compensated Absences	<u>(183,462)</u>
----------------------	------------------

**Net Assets of Governmental Activities (page 12)** \$ 56,705,713

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, 2012**

	General Fund	Special Revenue Funds		Capital Project Fund	Debt Service Fund	Total Governmental Funds
		Mobile Home Parks Fund	Housing Asset Fund	City Housing Fund		
<b>Revenues:</b>						
Charges for Current Services	\$ 37,317	4,326,644	9,677	79,960	-	4,453,598
Use of Property	-	-	1	10,000	-	10,001
Interest	-	1,500	-	20,581	(25)	22,056
Interfund Interest	-	-	-	570,935	-	570,935
Net Increase in Fair Value of Investments	-	150	599	-	1	750
<b>Total Revenues</b>	<b>37,317</b>	<b>4,328,294</b>	<b>10,277</b>	<b>681,476</b>	<b>(24)</b>	<b>5,057,340</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Community Development	82,704	3,173,033	77,088	18,465	-	3,351,290
Capital Outlay	-	-	37,354	-	-	37,354
<b>Debt Service</b>						
Payments on Long Term Advances	-	7,942	-	-	-	7,942
Principal	-	-	-	-	650,000	650,000
Interest	-	-	-	-	355,890	355,890
Interfund Interest	-	570,935	-	-	-	570,935
<b>Total Expenditures</b>	<b>82,704</b>	<b>3,751,910</b>	<b>114,442</b>	<b>18,465</b>	<b>1,005,890</b>	<b>4,973,411</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(45,387)	576,384	(104,165)	663,011	(1,005,914)	83,929
<b>Other Financing Sources (Uses):</b>						
Transfers (to) from Former Community Redevelopment Agency	-	448,788	(295,281)	-	-	153,507
Transfers from City's General Fund	-	-	7,231	-	-	7,231
Transfers In	-	-	-	-	75,542	75,542
Transfers Out	-	(75,542)	-	-	-	(75,542)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>373,246</b>	<b>(288,050)</b>	<b>-</b>	<b>75,542</b>	<b>160,738</b>
<b>Extraordinary Item:</b>						
Extraordinary Gain (Loss) Upon Dissolution of the Redevelopment (Note 8)	-	(17,846,714)	21,242,321	37,607,851	-	41,003,458
<b>Net Change in Fund Balances</b>	<b>(45,387)</b>	<b>(16,897,084)</b>	<b>20,850,106</b>	<b>38,270,862</b>	<b>(930,372)</b>	<b>41,248,125</b>
Fund Balances, Beginning of Year	124,714	210,995	-	-	930,372	1,266,081
<b>Fund Balances, End of Year</b>	<b>\$ 79,327</b>	<b>(16,686,089)</b>	<b>20,850,106</b>	<b>38,270,862</b>	<b>-</b>	<b>42,514,206</b>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Net Change in Fund Balances - Total Governmental Funds (page 18)** \$ 41,248,125

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets (page 13) 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.

Depreciation Expense		(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	\$ 7,942	
Principal Repayments		
Tax Allocation Bonds Payable	650,000	657,942

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.

Compensated Absences	\$ (183,462)	
Accrued Interest on Debt	(48,220)	
Amortization of Deferred Loss on Refinancing	(94,742)	
Amortization of Issuance Costs	(31,607)	(358,031)

Extraordinary Gain reported in the Government-Wide Statement of Activities and Changes in Net Assets are different than amounts reported in the Governmental Funds Statements because:

Long-term debt assumed by the Successor Agency resulted in an extraordinary gain was not reported in the governmental fund statements (Note 8)		16,206,194
--	--	------------

**Change in Net Assets of Governmental Activities (page 13)** \$ 57,241,288

See Accompanying Notes to the Financial Statements

**THIS PAGE LEFT BLANK INTENTIONALLY**

---

# **Budgetary Comparison Statements**

---



**CITY OF PALMDALE HOUSING AUTHORITY**  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
General Fund  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Charges for Current Services	\$ 36,660	37,320	37,317	(3)
Total Revenues	36,660	37,320	37,317	(3)
<b>Expenditures:</b>				
Current:				
Community Development	61,790	59,940	82,704	(22,764)
Total Expenditures	61,790	59,940	82,704	(22,764)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(25,130)	(22,620)	(45,387)	(22,767)
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	12,530	-	(12,530)
Total Other Financing Sources (Uses)	-	12,530	-	(12,530)
Net Change in Fund Balance	(25,130)	(10,090)	(45,387)	(35,297)
Fund Balance - Beginning of Year	124,714	124,714	124,714	-
Fund Balance - End of Year	\$ 99,584	114,624	79,327	(35,297)

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Mobile Home Parks - Special Revenue Fund  
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
<b>Revenues:</b>				
Use of Property	\$ 4,094,970	4,441,210	4,326,644	(114,566)
Interest	250	250	1,500	1,250
Net Decrease in the Fair Value of Investments	-	-	150	150
<b>Total Revenues</b>	<u>4,095,220</u>	<u>4,441,460</u>	<u>4,328,294</u>	<u>(113,166)</u>
<b>Expenditures:</b>				
Current:				
Community Development	3,514,770	3,381,900	3,173,033	208,867
Debt Service:				
Payments on Long Term Advances	-	-	7,942	(7,942)
Interfund Interest	-	-	570,935	(570,935)
Interest	77,000	-	-	-
<b>Total Expenditures</b>	<u>3,591,770</u>	<u>3,381,900</u>	<u>3,751,910</u>	<u>(370,010)</u>
Excess (Deficiency) of Revenues: Over (Under) Expenditures	<u>503,450</u>	<u>1,059,560</u>	<u>576,384</u>	<u>(483,176)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from Former RDA	-	463,190	448,788	(14,402)
Transfers Out	(1,356,340)	(1,356,340)	(75,542)	1,280,798
<b>Total Other Financing Sources (Uses)</b>	<u>(1,356,340)</u>	<u>(893,150)</u>	<u>373,246</u>	<u>1,266,396</u>
<b>Extraordinary Gain (Loss)</b>				
Extraordinary Gain (Loss) Upon dissolution of the Redevelopment Agency	-	-	(17,846,714)	(17,846,714)
<b>Net Change in Fund Balance</b>	(852,890)	166,410	(16,897,084)	(17,063,494)
Fund Balance - Beginning of Year	<u>210,995</u>	<u>210,995</u>	<u>210,995</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ (641,895)</u>	<u>377,405</u>	<u>(16,686,089)</u>	<u>(17,063,494)</u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY**  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Housing Asset Fund - Special Revenue Fund  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of Property	\$ -	-	1	1
Charges for Current Services	109,450	-	9,677	9,677
Interest	224,940	35,000	-	(35,000)
Net Decrease in the Fair Value of Investments	-	-	599	599
Other	-	1,540	-	(1,540)
<b>Total Revenues</b>	<b>334,390</b>	<b>36,540</b>	<b>10,277</b>	<b>(26,263)</b>
<b>Expenditures:</b>				
Current:				
Community Development	5,785,720	7,590,360	77,088	7,513,272
Capital Outlay	1,000,000	378,670	37,354	341,316
<b>Total Expenditures</b>	<b>6,785,720</b>	<b>7,969,030</b>	<b>114,442</b>	<b>7,854,588</b>
Excess (Deficiency) of Revenues: Over (Under) Expenditures	(6,451,330)	(7,932,490)	(104,165)	7,828,325
<b>Other Financing Sources (Uses):</b>				
Transfers to Former RDA	-	-	(295,281)	(295,281)
Transfers In	7,645,540	84,230	7,231	(76,999)
Transfers Out	(562,180)	(1,321,140)	-	1,321,140
<b>Total Other Financing Sources (Uses)</b>	<b>7,083,360</b>	<b>(1,236,910)</b>	<b>(288,050)</b>	<b>948,860</b>
<b>Extraordinary Gain (Loss):</b>				
Extraordinary Gain (Loss) Upon dissolution of the Redevelopment Agency (Note 8)	-	-	21,242,321	21,242,321
<b>Net Change in Fund Balance</b>	<b>632,030</b>	<b>(9,169,400)</b>	<b>20,850,106</b>	<b>30,019,506</b>
Fund Balance - Beginning of Year	26,098,101	26,098,101	-	(26,098,101)
Fund Balance - End of Year	<u>\$ 26,730,131</u>	<u>16,928,701</u>	<u>20,850,106</u>	<u>3,921,405</u>

See Accompanying Notes to the Financial Statements

**CITY OF PALMDALE HOUSING AUTHORITY  
TABLE OF CONTENTS TO THE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Note No.</b>	<b>Page No.</b>
<b>1. Summary of Significant Accounting Policies.....</b>	<b>27</b>
Description of the Reporting Entity.....	27
Financial Statement Presentation, Basis of Accounting and Measurement Focus.....	27
Government-Wide Financial Statements.....	27
Governmental Fund Financial Statements.....	28
Budgets and Budgetary Accounting.....	28
Cash and Investments.....	28
Restricted Assets.....	29
Abandoned and Foreclosed Mobile Home Rehabilitation.....	29
Capital Assets.....	29
Long-Term Obligations.....	29
Fund Equity.....	30
Deficit Fund Equity.....	30
Use of Estimates.....	31
Excess of Expenditures over Appropriations.....	31
Implemented Accounting Pronouncements.....	31
<b>2. Cash and Investments.....</b>	<b>31</b>
Investments Authorized by the California Government Code and the Authority’s Investment Policy..	32
Investments Authorized by Debt Agreements.....	33
Disclosures Relating to Interest Rate Risk.....	33
Disclosures Relating to Credit Risk.....	33
Custodial Credit Risk.....	33
Investment in State Investment Pool.....	34
<b>3. Fund Balance Classification.....</b>	<b>34</b>
<b>4. Interfund Transfers.....</b>	<b>35</b>
<b>5. Due To/Form and Advances Due To/From.....</b>	<b>35</b>
Advances and Due To/From Other Funds.....	35
Advances Due from Between the Mobile Home Parks and the Housing Asset Fund.....	36
Advances Due from Successor Agency .....	37
<b>6. Capital Assets.....</b>	<b>38</b>
<b>7. Long-Term Debt.....</b>	<b>38</b>

**CITY OF PALMDALE HOUSING AUTHORITY  
TABLE OF CONTENTS TO THE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Note No.</b>		<b>Page No.</b>
<b>8.</b>	<b>Successor Agency Trust for Assets of the Former Redevelopment Agency of the City of Palmdale.....</b>	39
	General Discussion.....	39
<b>9.</b>	<b>Contingency/Subsequent Events.....</b>	41
<b>10.</b>	<b>New Accounting Pronouncements .....</b>	41

# CITY OF PALMDALE HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (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.

As the result of the dissolution of the former Community Redevelopment Agency, and under the provision of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Successor Agency Housing Asset Fund and later transferred to the Housing Authority. As more fully explained at Note 8, the Housing Authority assumed the authority to perform housing functions previously performed by the dissolved community redevelopment agency and all rights, powers, duties, obligations, and housing assets, were transferred to the Housing Authority during fiscal year 2011-12.

The financial statements of the Palmdale Housing Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The 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,

## **CITY OF PALMDALE HOUSING AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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 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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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. Treasury was adjusted to fair value based on market prices on June 30, 2012. Amounts invested in money market funds are reported at fair value, which is the same as the carrying amount as of June 30, 2012.

**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. Abandoned and Foreclosed Mobile Home Rehabilitation**

Abandoned and Foreclosed Mobile Homes to resale are capitalized in the special revenue funds at the acquisition cost. 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 to resale to a qualified applicant in need of an affordable home. Fund balances are classified as nonspendable or restricted in amounts equal to the carrying value of the Mobile Home to resale since such assets are not available to finance the Authority's current operations.

**G. Capital Assets**

Capital assets, which include property, 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



# CITY OF PALMDALE HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### **H. Long-Term Obligations**

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

### **I. 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.

### **J. Deficit Fund Equity**

The following fund had a deficit unassigned fund balance at June 30, 2012 in the amount indicated:

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Major Special Revenue Fund:  
Housing Authority Mobile Home Park Fund \$ 16,686,089

Management anticipates that a deficit will be resolved in future fiscal years as additional operating revenues become available and the Mobile Home Parks occupancy levels remain high and consistent each year at the three mobile home parks.

**K. 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.

**L. Excess of Expenditures over Appropriations**

For the year ended June 30, 2012, expenditures exceeded appropriations in the General Fund under the Community Development expenditure level and Mobile Home Parks Special Revenue Fund under the Debt Service and Housing Asset Fund – Special Revenue Fund of budgetary control by \$22,764, \$7,942, and \$570,935, respectively. The expenditures were funded by greater than anticipated revenues.

**M. Implemented Accounting Pronouncements**

During fiscal year 2011-12, the City adopted GASB Statement No. 57, *OPEB Measurements by Agency Employers and Agent Multiple-Employer Plans*. The objective of this statement is to address issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employers other post-employment benefit plans. The statement is effective for the periods beginning after June 15, 2011. The implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2011-12, the City adopted GASB Statement no. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement no. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Statement was effective for periods beginning after June 15, 2011. The implementation did not have any significant impact on the Authority's financial statements.

**(2) Cash and Investments**

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 5,323,342
Restricted Cash and investments	4,455,208
Cash overdraft	(161,102)
Total cash and investments	<u>\$ 9,617,448</u>

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Cash and investments as of June 30, 2012 consist of the following:

Cash and investments with City of Palmdale Investment pool	\$ 5,162,240
Cash and investments held by trustee	<u>4,455,208</u>
Total cash and investments	<u>\$ 9,617,448</u>

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

Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2012.

**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.

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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 Successor Agency for the Former 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 acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

**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 City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**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.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>AAA/Aaa</u>
Held by bond trustees:		
Money market funds	A	\$4,455,244

**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 OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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: City 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, 2012, City investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

**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, 2012 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, 2012 were classified as follows:

	HA General Fund	Special Revenue Fund Mobile Home Parks Fund	Special Revenue Fund Housing Asset Fund	Capital Project Fund City Housing Fund	Total Governmental Funds
Nonspendable	\$ -	\$ -	\$19,419,233	\$34,013,213	\$53,432,446
Assigned	-	-	1,430,873	4,257,649	5,688,522
Unassigned	79,327	(16,686,089)	-	-	(16,606,762)
<b>Total Fund Balance</b>	<b>\$ 79,327</b>	<b>\$(16,686,089)</b>	<b>\$20,850,106</b>	<b>\$38,270,862</b>	<b>\$42,514,206</b>

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**(4) Interfund Transfers**

Transfers between funds for the year ended June 30, 2012, consisted of the following:

<u>Transfer To:</u>	<u>Transfer From:</u>	<u>Amount</u>
Debt Service Funds	Mobile Home Parks	<u>\$ 75,542</u>
Total Interfund Transfers		<u><u>\$ 75,542</u></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 Due To/From and Advances Due To/From**

**A. Advances and Due To/From Other Funds**

The advances due to/from were previously classified as long-term debt, and now will be reported on the Governmental Fund Balance Sheet of the Housing Asset Fund - Special Revenue Fund, Housing Asset Fund - Capital Project Fund and Housing Authority – General Fund as the result of the dissolution of the Former City of Palmdale Community Redevelopment Agency. The debt was the result of the acquisition of the three mobile home parks (Parks) during fiscal year 2002-2003. Upon acquisition, the Housing Authority assumed the liabilities of the prior owner of the Parks which were payable to the Former City of Palmdale Community Redevelopment Agency and the City under the conditions of an Operating Agreement. Also as a result of the Housing Authority accepting the Housing Assets of the former Low and Moderate Income Housing Fund, the outstanding balance of \$1,676,714 was also transferred to the Authority of January 31, 2012 (Note 7).

Advances Due To/From Other Funds for the year ended June 30, 2012 were as follows:

<u>Advances Payable To:</u>	<u>Payable From:</u>	<u>Amount</u>
Capital Project Fund-Housing Asset Fund	Special Revenue Fund-MHP	\$ 1,706,781
General Fund-Housing Authority	Special Revenue Fund-MHP	<u>277,139</u>
Advances Total Due From/To Other Funds		<u><u>\$ 1,983,920</u></u>

Due To/From Other Funds for the year ended June 30, 2012 were as follows:

<u>Payable To:</u>	<u>Payable From:</u>	<u>Amount</u>
Special Revenue Fund-Housing Asset Fund	General Fund-Housing Authority	\$ 186,009
Capital Project Fund-Housing Asset Fund	Special Revenue Fund-MHP	<u>385,000</u>
Total Due From/To Other Funds		<u><u>\$ 571,009</u></u>

## CITY OF PALMDALE HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

#### **B. Advances Due To / From Between the Mobile Home Parks Fund and the Housing Asset Fund**

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

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

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

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

As the result of the dissolution of the former Community Redevelopment Agency and the Housing Authority assuming the duties of the former Community Redevelopment Housing Development Fund, the Note asset will be maintained by the City Housing Fund – Capital Project Fund which is now classified as an Interfund Advance 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 the five-month period, beginning February 1, 2012, the Boulders Mobile Home parks paid \$450,000 principal and \$570,935 interest for a total of \$1,020,935 to the

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Housing Asset Fund. The balance of the Note as of June 30, 2012 is \$15,720,000 (Also refer to Note 7 A). The remaining debt service schedule for the advance payable at June 30, 2012 is as follows:

Year Ending	Principal	Interest	Total
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	3,325,000	269,325	3,594,325
	<u>\$ 15,720,000</u>	<u>\$ 6,695,379</u>	<u>\$ 22,415,379</u>

**C. Advances Due from Successor Agency at June 30, 2012**

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

In fiscal years 2004-2005 and 2005-2006, the state required the former Community Redevelopment Agency (CRA) to shift tax increment of \$1,862,827 to the Education Revenue Augmentation Fund (ERAF). To assist in funding this shift, the former CRA Housing Development fund advanced \$355,538 and \$1,507,289 (50% of the total requirement) to the former CRA Project Area No. 1 and 2A Debt Service funds, respectively. ERAF legislation requires that the loan be repaid within 10 years from the date the funds were advanced. Accordingly, the 2004-2005 advance of \$939,215 and the 2005-2006 advance of \$923,612 will be repaid by May 2015 and May 2016, respectively.

In Fiscal year 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 funds, respectively. SERAF legislation requires that the loan be repaid within 5 years from the date the funds were advanced. Accordingly, the 2009-2010 advance of \$11,605,102 will be repaid by June 2015.

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. SERAF legislation requires that the loan be repaid within 5 years from the date the funds were advanced. Accordingly, the 2010-2011 advance of \$2,389,286 will be repaid by June 2016.

As more fully explained at Note 8 the Successor Agency Trust Fund was formed for the purpose of holding the assets and liabilities of the former community redevelopment agency. All assets and



**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

liabilities were transferred to the Successor Agency Private Purpose Trust Fund which is used to account for assets and liabilities held by the City for the former Community Redevelopment Agency. The Advances due to Housing Authority described above are approved enforceable obligations in existence at the date of dissolution and will be repaid by the Successor Agency from future tax increment.

**(6) Capital Assets**

Capital Assets of the Housing Authority for the year ended June 30, 2012 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	274,159	30,762	-	304,921
Infrastructure	3,888,024	482,180	-	4,370,204
Total Accumulated Depreciation	<u>4,162,183</u>	<u>512,942</u>	<u>-</u>	<u>4,675,125</u>
Total Capital Assets, Being Depreciated, Net	<u>11,905,859</u>	<u>(512,942)</u>	<u>-</u>	<u>11,392,917</u>
Total Capital Assets, Net	<u>\$ 14,887,911</u>	<u>(512,942)</u>	<u>-</u>	<u>14,374,969</u>

For the year ended June 30, 2012, depreciation expense on capital assets was charged to the governmental function Community Development in the amount of \$512,942.

**(7) Long-Term Debt**

**A. Changes in Long-Term Liabilities** – Activity for the year ended June 30, 2012 was as follows:

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

	Principal Balance at July 1, 2011	Reclassified to Govern- mental Funds	Retirements	Transfers to the Successor Agency	Principal Balance at July 1, 2012
Loan Payable Related to:					
2003 Tax Allocation Bonds	\$ 4,805,000	-	(175,000)	4,630,000	-
Less Deferred Loss on Refinance	(770,910)	-	47,686	(723,224)	-
2005 Tax Allocation Bonds	12,015,000	-	(475,000)	11,540,000	-
Less Deferred Loss on Refinance	(760,748)	-	47,057	(713,691)	-
Advances Due the Agency & City	1,684,656	(1,676,714)	(7,942)	-	-
Total	<u>\$ 16,972,998</u>	<u>(1,676,714)</u>	<u>(563,199)</u>	<u>14,733,085</u>	<u>-</u>

As described in Note 8, the Former Community Redevelopment Agency of the City of Palmdale was dissolved effective January 31, 2012 and the Long Term Debt was either reclassified to the Governmental Fund Statements or transferred to the Successor Agency of the former Community Redevelopment Agency. Refer to Note 5 for the balance of the advances.

**(8) Successor Agency Trust For Assets of the Former Redevelopment Agency of the City of Palmdale**

**A. General Discussion**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting of certain transactions, previously accounted for by the Housing Authority, which included debt activity of the Housing Authority.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 04, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number CC 2012-002.

Under the provisions of AB 1484, the Housing Authority elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City’s Successor Agency Housing Asset Fund and later transferred to the Housing Authority. The Housing Authority assumed the authority to perform housing functions previously performed by the dissolved community redevelopment agency and all rights, powers, duties, obligations, and housing assets, were transferred to the Housing Authority during fiscal year 2011-12.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

## CITY OF PALMDALE HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the Housing Authority are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The Housing Authority's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonable possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorable to the Housing Authority. (Note 9 A).

In accordance with timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the Housing Authority. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the Housing Authority to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The transfer of these assets and liabilities from the Housing Authority to the private-purpose trust fund of the Successor Agency, are reported as extraordinary gains or losses.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary gain (loss) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized the fiduciary fund financial statements.

The transfer of the assets and liabilities of the former Low and Moderate Income Housing Fund and the City Housing Asset Fund resulted in combining funds in the Housing Authority Financial Statements that were not previously combined. As a result, long term payables previously recognized on the government wide financial statements are now being reported on the government fund financial statements as an interfund receivables and payables. (Note 7).

**CITY OF PALMDALE HOUSING AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary loss recognized on the government wide financial statements as the result of the Redevelopment Dissolution is as follows:

Total extraordinary gain reported in governmental funds-decrease to net assets of the Successor Agency Trust Fund	<u>(\$ 41,003,458)</u>
Long Term Advances previously reported on the government wide financial statements that are now reported on the governmental funds statements as interfund advances (see Note 7)	(1,676,714)
Deferred Charge for Issuance Costs recorded in the government-wide financial statements – increase to the net assets of the Successor Agency Trust Fund	489,085
Accrued bond interest reported in the government-wide financial statements-decrease to net assets of the Successor Agency Trust Fund	(285,480)
Long-term debt reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund	<u>(14,733,085)</u>
Total extraordinary loss reported in government-wide financial statements	<u>(16,206,194)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the Government-wide financial statements of the Housing Authority)	<u>(\$57,209,652)</u>

**(9) Contingency**

**A. Successor Agency Low and Moderate Income Housing Due Diligence Review**

The purpose of the Low and Moderate Income Housing Due Diligence Review (DDR) was to determine the amount of cash available for distribution to the affected taxing entities. The Department of Finance’s (DOFs) review of the Low and Moderate Income Housing DDR determined that the Low and Moderate Income Housing Fund had available cash balances of \$2,723,442 (held in the Housing Asset Fund) for distribution to taxing entities. Management is currently in the “meet and confer” process of working with DOF to demonstrate that the funds are needed for the purpose of meeting approved obligations.

**B. Housing Related Agreements:**

As a result of the dissolution of the former Community Redevelopment Agency, the Housing Authority has accepted certain assets and responsibilities, which may impact the Authority, may be subject to further review by the State of California and the outcome of future decisions are unknown. On the Recognized Obligation Payment Schedule (ROPS) III filed for the period of January 1, 2013 through June 30, 2013, included Housing related obligations that were subsequently denied by the State Department of Finance (DOF).

## CITY OF PALMDALE HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

#### (10) New Accounting Pronouncements

**GASB Statement No. 60** – GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, is effective for periods beginning in fiscal 2013. This statement address the issues related to service concession arrangements (SCA's), which, for the purposes of this statement, are arrangements between the transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The statement also provides guidance for governments that are operators in an SCA, and requires disclosures pertaining to an SCA. The provisions of the statement generally are required to be applied retroactively. The statement is effective for fiscal 2012-13. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 61** – In November 2010, GASB issued Statement no. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14. and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The Authority has not determined its effect on the financial statements.

**GASB Statement No. 62** – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The Authority has not determined its effect on the financial statements.

**GASB Statement no. 63** – In June 2011, GASB issued Statement no. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporation deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2012. The Authority has not determined its effect on the financial statements.

**GASB Statement no. 65** – In March 2012, GASB issued Statement no. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The

## CITY OF PALMDALE HOUSING AUTHORITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Statement is effective for periods beginning after December 15, 2012. The Authority has not determined if there will be an effect on the financial statements.

**GASB Statement No. 66** – In March 2012, GASB issued Statement no. 66, *Technical Corrections – 2012 an amendment of GASB statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012. The Authority has not determined if there will be an effect on the financial statements.

**GASB Statement No. 67** – In June 2012, GASB issued Statement no. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after December 15, 2013. The Authority has not determined if there will be an effect on the financial statements.

**GASB Statement No. 68** – In June 2012, GASB issued Statement no. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The Authority has not determined if there will be an effect on the financial statements.