
**HOUSING AUTHORITY
OF THE CITY OF RICHMOND**

**BASIC COMPONENT UNIT
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2014

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
BASIC COMPONENT UNIT FINANCIAL STATEMENTS**

For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Richmond
Richmond, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Housing Authority of the City of Richmond, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Housing Authority of the City of Richmond's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Housing Authority of the City of Richmond as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the basic financial statements, Housing Authority of the City of Richmond implemented the provisions of Governmental Accounting Standards Board Statement No. 65, items *Previously Reported as assets and liabilities*, for the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014, on our consideration of Housing Authority of the City of Richmond's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Authority of the City of Richmond's internal control over financial reporting and compliance.

Patricia A. ...
Oakland, California
December 23, 2014

HOUSING AUTHORITY OF THE CITY OF RICHMOND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

The management discussion and analysis (MD&A) will be focused on the Primary Governmental Unit referred to in this document, the financial statements as well as the notes to the financial statements as the "Authority". The MD&A is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, and (c) identify changes in the Authority's financial position for the fiscal year ended June 30, 2014.

Please read it in conjunction with the Authority's financial statements.

Overview of the financial statements

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The Authority's accounting records is structured as an enterprise fund with revenues recognized when earned, rather than when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and depreciated over their estimated useful lives. The accounting for enterprise funds is similar to the accounting used by businesses. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following the MD&A are the basic financial statements of the Authority together with notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's finances.

The **Statement of Net Position** presents information similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources of the Authority. The statement is presented in the format where assets, minus liabilities, equal net position. Assets and liabilities are presented in order of liquidity, and are classified as current and non-current.

Net position is reported in three broad categories:

Net Invested in Capital Assets: This component consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: This component consists of assets that are constrained by limitations placed on their use by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Position: This component consists of assets that are not restricted and do not meet the definition of Net Invested in Capital Assets.

The **Statement of Revenues, Expenditures, and Changes in Position** presents information showing how the Authority's net position changed during the year. This statement includes operating revenues, such as rental income, operating expenses, such as administrative, utilities, maintenance, and depreciation, and non-operating revenue and expenses, such as grant revenue, investment income, interest expense, and gains or losses from the sale or disposition of capital assets. The focus of the statement is the change in net position, which is similar to net income or loss for a business entity.

The **Statement of Cash Flows** reports net cash provided by or used by operating activities, non-capital financing activities, capital and related financing activities and investing activities.

The **Notes to Financial Statements** provide additional information that is essential to a full understanding of the information included in the financial statements.

In addition to the basic financial statements and accompanying notes, this report includes two types of supplementary information: required supplementary information and other supplementary information. Required supplementary information must be included to conform with generally accepted accounting principles. Management's discussion and analysis is the required supplementary information.

Other supplementary information is not required by generally accepted accounting principles but is presented for additional analysis purposes or to meet other requirements. The financial data schedule is required by the U.S. Department of Housing and Urban Development (HUD). The schedule of expenditures of federal awards is required by the U.S. Office of Management and Budget and *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

Program information

Low Income Public Housing: The Authority owns 715 units. Under the low income public housing program, the Authority rents units that it owns to low-income households. The program is operated under an annual contributions contract with HUD, and HUD provides operating subsidy and capital funding to enable the Authority to provide housing at a rent that is based on 30% of household income. The conventional public housing program includes the capital fund program, which is the primary funding source for physical improvements to the Authority's properties.

Section 8 Housing Choice Vouchers: HUD has contracted with the Authority for support for 1,750 Housing Choice Vouchers. Under the housing choice voucher program, the Authority administers contracts with landlords that own rental property. The Authority subsidizes the family's rent through a housing assistance payment made to the landlord. The program is administered under an annual contributions contract with HUD. HUD provides an annual contribution funding to enable the Authority to structure a lease that sets the participant's rent at 30% of household income.

HOPE VI Program: A grant program funded by the Department of Housing and Urban Development to redevelop the Authority's Easter Hill Village housing project.

Lead-Based Paint: A grant program funded by the Department of Housing and Urban Development to assist rental housing on Lead Based Paint Hazard Control.

Financial position and analysis

Table 1 compares the Authority's financial position for the fiscal years ended June 30, 2014 and 2013:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2014	2013	2014	2013		
Assets						
Cash & cash equivalents	\$ 792,948	\$ 125,706	\$ 32,046	\$ 359,140	\$ 340,148	70.16%
Other current assets	673,366	3,987,192	2,506,575	42,107	(849,358)	(21.08%)
Noncurrent assets	49,300,069	51,399,497		30,118,463	(32,217,894)	(39.52%)
Total assets	50,766,383	55,512,395	2,538,621	30,519,710	(32,727,101)	(38.04%)
Liabilities						
Current liabilities	1,834,837	1,941,320	2,519,127	11,202,217	(8,789,573)	(66.87%)
Noncurrent liabilities	252,954	1,692,294		29,347,952	(30,787,292)	(99.19%)
Total liabilities	2,087,791	3,633,614	2,519,127	40,550,169	(39,576,865)	(89.57%)
Net position						
Invested in capital assets	37,733,664	39,239,954		(3,573,691)	2,067,398	5.80%
Restricted		161,271		2,645,727	(2,806,998)	(100.00%)
Unrestricted	10,944,928	12,477,556	19,494	(9,102,495)	7,589,364	224.87%
Total net positions	\$ 48,678,592	\$ 51,878,781	\$ 19,494	\$ (10,030,459)	\$ 6,849,764	16.37%

Cash & Cash Equivalents increased by \$340,148 or 70.16% primarily due to the sale of the Westridge Property from RHA Properties. Upon sale all reserve accounts held as Other Current Assets in the prior year were released from restriction and considered cash equivalents.

Other Current Assets decreased by \$849,358 or 21.08% primarily due to the sale of the Westridge Property from RHA Properties and release of reserves as listed above.

Current Liabilities decreased by \$8,789,573 or 66.87% and **Noncurrent Liabilities** decreased \$30,787,292 or 99.19% primarily due to the retirement of outstanding bonds in conjunction with sale of Westridge Property. Debt paid off with proceeds from sale of assets eliminated both the current and noncurrent portions of the debt from the prior year.

Table 2 focuses on the changes in position:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2014	2013	2014	2013		
Operating revenue & expense						
Operating revenue	\$ 2,638,834	\$ 2,619,669	\$ 3,503,083	\$ 4,553,110	\$ (1,030,862)	(14.37%)
Operating expenses	29,771,151	28,992,229	2,611,925	2,992,744	398,103	1.24%
Operating income (loss)	(27,132,317)	(26,372,560)	891,158	1,560,366	(1,428,965)	5.76%
Non-operating revenues & expenses	23,932,128	32,105,644	9,158,795	(9,958,270)	10,943,549	49.41%
Increase (decrease) in net position	(3,200,189)	5,733,084	10,049,953	(8,397,904)	9,514,584	(357.04)
Prior period adjustment	-	197,567	-	-	(197,567)	100.00%
Net position, beginning of year	51,878,781	45,948,130	(10,030,459)	(1,632,555)	(2,467,253)	(5.57)
Net position, end of year	\$ 48,678,592	\$ 51,878,781	\$ 19,494	\$ (10,030,459)	\$ 6,849,764	16.37%

Table 3 presents a summary of the Authority's revenue by source:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2014	2013	2014	2013		
Operating revenue						
Tenant revenue	\$ 1,745,290	\$ 1,662,889	\$ 3,431,135	\$ 4,106,464	\$ (592,928)	(10.28%)
Other income	893,544	958,780	71,948	446,646	(437,934)	(31.20%)
Total operating revenue	2,638,834	2,619,669	3,503,083	4,553,110	(1,030,862)	(14.37%)
Non-operating revenues						
Public housing capital fund	618,670	758,334	-	-	(139,664)	(18.42%)
HUD operating grants	21,953,401	22,323,336	-	-	(369,935)	(1.66%)
Interest income	128	270	5,061	636	4,283	472.74%
Gain on disposition of assets	-	-	12,703,208	-	12,703,208	100.00%
Extraordinary item	1,359,929	-	-	-	1,359,929	100.00%
Total non-operating revenues	23,932,128	23,081,940	12,708,269	636	13,557,821	58.74%
Total revenues	\$ 26,570,962	\$ 25,701,609	\$ 16,211,352	\$ 4,553,746	\$ 12,526,959	41.40%

Tenant Revenue decreased \$592,928 or 10.28%. This is primarily due to not having a full year of rental income in the Westridge Property as it was sold in April 2014.

Public housing capital fund decreased by \$139,644 or 18.42%. This is primarily due to closing of the open Capital Funds and fewer capital needs.

Gain on disposition of assets increased \$12,703,208 or 100% due to the sale of Westridge Property in the current year.

Extraordinary item increased \$1,359,929 or 100% as RHAP absorbed debt owed to the City of Richmond after the sale of Westridge Property provided available cash for payment.

Table 4 presents a summary of the Authority's operating expenses:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2014	2013	2014	2013		
Administrative	\$ 3,639,825	\$ 4,123,180	\$ 670,968	\$ 787,811	\$ (600,198)	(12.22%)
Tenant services	182,235	162,714	-	-	19,521	12.00%
Utilities	715,053	650,829	339,847	403,275	796	0.08%
Maintenance	2,226,146	1,746,650	545,397	661,498	363,395	15.09%
Protective services	329,377	308,910	-	-	20,467	6.63%
General expenses	2,271,940	987,356	278,704	203,234	1,360,054	114.23%
Depreciation expenses	2,402,097	2,335,848	777,009	936,926	(93,668)	(2.86%)
Housing assistance payments	18,004,478	18,676,742	-	-	(672,264)	(3.59%)
Total expenses	\$ 29,771,151	\$ 28,992,229	\$ 2,611,925	\$ 2,992,744	\$ 398,103	1.24%

Administrative decreased by \$600,198 or 12.22%. This is primarily due to a decrease in Administrative salaries and benefits both at the Authority and for RHA Properties.

Maintenance expenses increased by \$363,395 or 15.09%. This was primarily due to increases in inspections, risk assessments, and site monitoring costs related to lead abatement grants and additional non-capital costs related to conversion to project based vouchers for AMP 2.

General Expenses increased by \$1,360,054 or 114.23% due to the additional charges from the City of Richmond for allocated expense costs at the time of the Westridge Property sale.

Budgetary Analysis

The Authority adopts a consolidated annual operating budget for all programs. The budget for Low Income Public Housing and Housing Choice Voucher are adopted on the basis of accounting prescribed by HUD, which differs in some respects from generally accepted accounting principles.

Low Income Public Housing

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Percent Variance Favorable (Unfavorable)</u>
Operating revenue				
Rental income	\$ 1,650,000	\$ 1,745,931	\$ 95,931	5.81%
Operating subsidy	1,975,453	2,107,814	132,361	6.70%
Other income	150,000	11,273	(138,727)	(92.48%)
Total revenue	<u>3,775,453</u>	<u>3,865,018</u>	<u>89,565</u>	<u>2.37%</u>
Expenses				
Administrative	1,197,624	1,248,734	(51,110)	(4.27%)
Tenant services	202,842	179,912	22,930	11.30%
Utilities	625,000	714,442	(89,442)	(14.31%)
Maintenance	1,175,000	1,153,087	21,913	1.86%
Protective services	340,000	329,377	10,623	3.12%
Insurance	65,012	66,838	(1,826)	(2.81%)
General expenses	169,975	192,133	(22,158)	(13.04%)
Total expenses	<u>3,775,453</u>	<u>3,884,523</u>	<u>(109,070)</u>	<u>(2.89%)</u>
Income (over)/under expenses	<u>\$ -</u>	<u>\$ (19,505)</u>	<u>\$ (19,505)</u>	<u>-</u>

Rental Income was over budget by \$95,931 or 5.81% due to in rent charged to tenants and fewer vacancies than in prior year.

Other Income was under budget by \$138,727 or 92.48% due to reduced charges to tenants for fees such as damages, late fees, keys, etc.

Utilities were over budget by \$89,442 or 14.31% primarily due to increased rates charged from utility companies and increased usage by the projects.

Housing Choice Voucher

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Percent Variance Favorable (Unfavorable)</u>
Revenue				
Operating subsidy	\$ 18,200,000	\$ 17,254,653	\$ (945,347)	(5.19%)
Administrative fees	1,530,000	1,462,956	(67,044)	(4.38%)
Portability revenue	-	738,983	738,983	-
Other income	50,000	70,471	20,471	-
Total revenue	<u>19,780,000</u>	<u>19,527,063</u>	<u>(252,937)</u>	<u>(1.28%)</u>
Expenses				
Administrative	1,300,000	1,598,731	(298,731)	(22.98%)
Maintenance	65,000	60,899	4,101	6.31%
General expenses	100,000	89,927	10,073	10/07%
HAP expense	<u>18,125,000</u>	<u>18,004,478</u>	<u>120,522</u>	<u>0.66%</u>
Total expenses	<u>19,590,000</u>	<u>19,754,035</u>	<u>164,035</u>	<u>(34.00%)</u>
Income (over)/under expense	<u>\$ 190,000</u>	<u>\$ (226,972)</u>	<u>\$ (416,972)</u>	<u>(219.46%)</u>

Operating Subsidy was under budget by 945,347 or 5.19%. This is due to a reduction in funding from the HCV Program in an effort to have Authorities use existing cash balances.

Portability Revenue was over budget by \$738,983 or 100% due to the Authority not including Portability revenues or HAP Portability expenses in the operating budget.

Administrative Fee expenses were over budget by \$298,731 or 22.98% primarily due to full charges of management and bookkeeping fees from the Central Office Cost Center that were expected to be at a reduced level.

HAP expenses were over budget by \$120,552 or 0.66% primarily due to estimates of HAP being lower than actual checks issued to tenants.

Capital assets

Table 7 summarizes the Authority's investment in capital assets:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2014	2013	2014	2013		
Land	\$ 2,744,477	\$ 2,744,477	\$ -	\$ 10,431,153	(10,431,153)	(79.17%)
Buildings, improvements and equipment	65,472,248	64,962,750	-	24,904,059	(24,394,564)	(27.15%)
Construction in progress	1,029,684	1,063,114	-	-	(33,430)	(3.14%)
	69,246,409	68,770,341	-	35,335,212	(34,859,147)	(33.48%)
Less: accumulated depreciation	(31,512,745)	(29,530,387)	-	(8,720,951)	6,738,593	(17.62%)
Capital assets, net	\$ 37,733,664	\$ 39,239,954	\$ -	\$ 26,614,261	\$ (28,120,554)	(42.70%)

Acquisitions are capitalized at cost and depreciated using the straight-line method of depreciation. Additional information and details can be found in the Notes to the Financial Statements.

Capital funding available for 2014 is as follows:

	Grant	Total Budget	Expended through 6/30/2014	Budget Remaining at 6/30/2014
Capital Fund Program 2011	501-11	\$ 803,684	\$ 803,684	\$ -
Capital Fund Program 2012	501-12	745,045	553,014	192,031
Capital Fund Program 2013	501-13	753,815	319,151	434,664
				\$ 626,695

Analysis of Debt Activity

In April of 2007, the Authority entered in an agreement with the City of Richmond for operating assistance and services provided by the City. Monthly payments were made as resources became available.

As of June 30, 2014, the Component Unit retired all outstanding bond indebtedness, consisting of Senior Lien Lease Revenue Bonds and Subordinate Lien Lease Revenue Bonds at the time of the sale of Westridge Property.

	<u>The Authority</u>	<u>RHA Properties</u>
June 30, 2013	\$ 2,208,417	\$ 30,187,952
Current year debt paid	<u>(2,208,417)</u>	<u>(30,187,952)</u>
June 30, 2014	<u>\$ -</u>	<u>\$ -</u>

Significant economic factors affecting the Authority are as follows:

- The Department of Housing and Urban Development (HUD) has historically been underfunded to meet the subsidy needs of public housing authorities (PHAs). We do not expect this consistent trend to change.
- Even if HUD was fully funded for both the Operating and Capital Funds, it is unlikely that Congress would appropriate adequate funding. Pressure on the federal budget will remain in the form of both record deficits and competing funding needs. Further, funding for the Departments of Defense and Homeland Security will probably result in reduced appropriations for all other domestic program spending.
- Rising cost of utility rates, supplies, and other costs may impact our budgets in future years.

Request for Information

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Richmond Housing Authority
Attn: Tim Jones, Executive Director
330 24th Street
Richmond, CA 94804

HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government Business-Type Activities	Component Unit RHA Properties
ASSETS:		
Current assets:		
Cash in bank (Note 2)	\$ 241,233	\$ 32,047
Investments (Note 2)	349,817	
Accounts receivable - HUD	514,462	
Accounts receivable - other and tenants, net of allowance (Note 1.g)	105,459	2,506,574
Prepaid expenses and deposits	41,692	
Inventories	11,753	
Total current assets	1,264,416	2,538,621
Restricted assets:		
Cash and Investments (Note 2)	201,898	
Capital assets (Note 3)		
Land	2,744,477	
Construction in progress	1,029,684	
Buildings and improvements	63,904,715	
Furniture and equipment	1,567,533	
Less accumulated depreciation	(31,512,745)	
Total capital assets, net	37,733,664	
Other non current assets:		
Due from developer (Note 11a)	11,566,405	
Total non current assets	11,566,405	
Total assets	50,766,383	2,538,621
LIABILITIES:		
Current liabilities:		
Accounts payable	267,507	19,127
Accrued and other liabilities	149,876	
Tenants security deposits	201,898	
Due to City of Richmond (Note 11.c)		2,500,000
Due to City of Richmond (Note 11.c)	1,187,450	
Accrued compensated absences (Note 1e)	28,106	
Total current liabilities	1,834,837	2,519,127
Long-term liabilities:		
Accrued compensated absences (Note 1e)	252,954	
Total long term liabilities	252,954	
Total liabilities	2,087,791	2,519,127
Net position (Note 5):		
Investment in capital assets, net of related debt	37,733,664	
Unrestricted	10,944,928	19,494
Total net position	\$ 48,678,592	\$ 19,494

The accompanying notes are an integral part of these financial statements

HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Primary Government Business-Type Activities	Component Unit RHA Properties
Operating revenues:		
Rental revenue - tenant	\$ 1,745,290	\$ 3,431,135
Other revenues	893,544	71,948
Total operating revenues	2,638,834	3,503,083
Operating expenses:		
Administration	3,639,825	670,968
Tenant services	182,235	
Utilities	715,053	339,847
Ordinary maintenance and operations	2,226,146	545,397
Protective services	329,377	
General expenses	2,271,940	278,704
Housing assistance payments	18,004,478	
Depreciation	2,402,097	777,009
Total operating expenses	29,771,151	2,611,925
Operating income/(loss)	(27,132,317)	891,158
Non-operating revenues/(expenses):		
Investment earnings	128	5,061
HUD PHA grants	21,953,401	
Interest expenses and fiscal expenses		(684,020)
Amortization		(1,505,525)
Total non-operating revenues/(expenses)	21,953,529	(2,184,484)
(Loss) before capital grants	(5,178,788)	
Capital grants	618,670	
(Loss) before extraordinary items	(4,560,118)	(1,293,326)
Extraordinary item		
Assumption of Housing Authority debts by RHA Properties (Note 11.c)	1,359,929	(1,359,929)
Gain on sale of capital assets (Note 10)		12,703,208
Total extraordinary item	1,359,929	11,343,279
Changes in net position	(3,200,189)	10,049,953
Net position/(deficit), beginning of the year	51,878,781	(10,030,459)
Net position, end of the year	\$ 48,678,592	\$ 19,494

The accompanying notes are an integral part of these financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
STATEMENT OF CAHS FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	Primary Government Business-Type Activities	Component Unit RHA Properties
Cash flows from operating activities		
Receipts from dwelling rents	\$ 1,411,811	\$ 3,462,787
Receipts from other miscellaneous sources	893,544	75,828
Payments for housing assistance	(18,004,478)	
Payments for employee expenses	(2,577,767)	
Payments for administrative expenses	(1,280,665)	(793,614)
Payments for general maintenance and other expenses	(3,467,534)	(1,560,410)
Net cash (used)/provided by operating activities	(23,025,089)	1,184,591
Cash flows from non-capital & related financing activities:		
Subsidies from federal grants	21,953,401	
Payment of promissory note to City of Richmond	(2,208,417)	
Payment for due to the Housing Authority and City of Richmond		(7,717,728)
Payment for Housing Authority advance		(966,183)
Net cash provided/(used) by non-capital and related financing activities	19,744,984	(8,683,911)
Cash flows from capital & related financing activities:		
Principal paid on capital debt		(455,000)
Retirement of long-term debts from sale of capital assets		(30,380,000)
Interest and fiscal charges paid on capital debt		(684,020)
Subsidies from federal capital assets	618,670	
Acquisition and construction of capital assets	(895,804)	
Net cash (used) by capital & related financing activities	(277,134)	(31,519,020)
Cash flows from investing activities:		
Proceeds from sale of capital assets (net of \$2,500,000 of escrow withholding)		37,500,000
Payments for costs on sale of capital assets		(1,459,542)
Receipts on notes receivable	405,026	
Receipts from affiliate	3,223,992	
Interest received	128	5,061
Net cash provided by investing activities	3,629,146	36,045,519
Net increase/(decrease) in cash and cash equivalents	71,907	(2,972,820)
Cash and cash equivalents at beginning of year	721,041	3,004,867
Cash and cash equivalents at end of year	\$ 792,948	\$ 32,047
Reconciliation of operating income to net cash (used)/provided by operating activities:		
Operating income/(loss)	\$ (27,132,317)	\$ 891,158
Adjustments to reconcile operating income/(loss) to net cash(provided/(used) by operating activities:		
Depreciation expense	2,402,097	777,009
Assumption of debt	1,359,929	
Decrease/(Increase) in grants and accounts receivable	(347,265)	31,652
Decrease/(Increase) in prepaid expenses and other assets	17,987	3,880
Decrease in inventory	11,886	
Decrease in accounts payable	(165,286)	(122,646)
Increase/(Decrease) in accrued liabilities and other liabilities	814,094	(34,919)
Increase/(Decrease) in tenant security deposits	13,786	(361,543)
Net cash (used)/provided by operating activities	\$ (23,025,089)	\$ 1,184,591
Non Cash Transactions		
Cost of issuance amortization	\$	\$ 1,505,525

The accompanying notes are an integral part of these financial statements

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Reporting Entity

The Housing Authority of the City of Richmond (the "Authority") was formed in 1941 as a separate legal entity under the provisions of the Housing Act of 1937. The Authority was established to use funds provided by the Department of Housing and Urban Development (HUD) to rehabilitate local deteriorated housing and to subsidize low-income families in obtaining decent, safe, and sanitary housing. Under State Laws, the Authority is subject to California Health and Safety Code Sections 34200 – 34606. Although the Authority is a separate legal entity from the City of Richmond, it is an integral part of the City. The City exercises significant financial and management control over the Authority, and members of the City Council serve as the governing board of the Authority. The financial statements of the Authority are included in the City of Richmond's general-purpose financial statements.

The Authority has two component units, which are RHA Properties and RHA Housing Corporation in accordance with statement No. 61 Government Accounting Standards Board ("GASB"). Both entities are to be reported as discretely presented component under GASB 61 as management of the Authority does not manage the activities of the component units in the same manner in which it manages its own programs.

Discretely Presented Component Unit - RHA Properties is responsible for providing housing units within the Authority's jurisdiction. The members of RHA Properties' governing board are elected by the Authority and the City. However, the Authority is financially accountable for the RHA Properties because the Authority's Board approves RHA Properties' budget, and must approve any debt issuances. RHA Properties is presented as a business-type activity. Separate financial statements for RHA Properties can be obtained from the Authority.

RHA Housing Corporation is a nonprofit public benefit corporation created in 2004 to benefit and support the RHA with respect to the Easter Hill development. RHA Housing Corporation did not have any financial transactions during the fiscal year under audit.

(b) Basis of Presentation

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Government-wide Statements: The statement of net position and the statement of activities display information about the Authority (and its component unit, RHA Properties). These statements include the financial activities of the overall Authority. The Authority's business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as grants and investment earnings, result from nonexchange transactions or ancillary activities.

(c) **Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Authority may fund certain programs with a combination of cost reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Authority's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

The Authority follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors issued on or before November 30, 1989, in accounting for its business-type activities, unless those pronouncements conflict with Government Accounting Standards Board pronouncements.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

The Authority considers all of its funds to be proprietary. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Authority or if total assets, liabilities, revenues, or expenses of the individual fund are at least 10 percent of the Authority-wide total. The Authority considers all of its activity to be housing related and therefore, considers all the financial activity of the Authority to be one major fund.

(d) Adoption of New Pronouncement

The Authority has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The statement of position presents the Authority's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Net position is reported in three categories.

- *Investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. There was no restricted net position.
- *Unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

(e) Compensated Absences

Vacation and related benefits fully vest as earned and are paid in full upon termination. Vested vacation obligations are recorded as accrued compensated absences until paid. Changes in compensated absences during fiscal year ended June 30, 2014, are presented as follows:

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

		<u>Business-Type Activities</u>
Beginning balance	\$	259,863
Additions		50,272
Payments		(29,075)

Ending balance	\$	<u>281,060</u>
Due within one year	\$	<u>28,106</u>

(f) Taxes

The RHA Properties is exempt from federal and state income taxes. The Authority is also exempt from property taxes, but makes payments to the City of Richmond for sewer fees. There is neither a cooperative agreement between the Housing Authority and the City of Richmond nor existing Payment in Lieu of Taxes (PILOT).

(g) Accounts Receivable – Other and Tenants

Accounts receivables consist of Low Rent Public Housing tenants' unpaid rents and Housing Choice Vouchers overpayments to landlords and tenant fraud. Allowances for uncollectible accounts have been established for both receivables. For RHA Properties, the accounts receivable consist of tenants receivable and from Fidelity Title Company for funds withheld in escrow as repair, reserve fund on sale of Westridge at Hilltop Apartments.

(h) Inventories

Inventories are valued at cost using the weighted average method. Inventories consist of maintenance, repair, and operating materials and supplies held for consumption. The cost is recorded as expenditure in the funds at the time individual inventory item is consumed rather than when purchased.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2: CASH AND INVESTMENTS

(a) Policies

California Law generally requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution. As of June 30, 2014, the Authority's cash in bank was insured or collateralized as discussed above.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for the fiscal year.

(b) Cash, Cash Equivalents and Investments

For purposes of reporting cash flows, the Authority considers each entity's share of cash to be cash and cash equivalents.

(c) Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the term of the Authority's agreement with tenants or disposition agreement RHA Properties entered with the Buyer.

	<u>Authority</u>	<u>RHA - Properties</u>
Cash in bank	\$ 241,233	\$ 32,047
Investments:		
Unrestricted	349,817	
Restricted	201,898	
Total cash and investments	<u>\$ 792,948</u>	<u>\$ 32,047</u>
Composition:		
Cash	\$ 242,246	\$ 32,047
Local Agency Investment Fund	6,244	
Certificates of Deposit	201,898	
U.S. Treasury Notes	342,560	
Total cash and investments	<u>\$ 792,948</u>	<u>\$ 32,047</u>

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

(d) Investments Authorized by the California Government Code and the Authority's Investment Policy

The California Government code allows the Authority to invest in the following; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified Percentage of Portfolio</u>	<u>Minimum Credit Quality</u>
Local agency bonds	5 years	None	None
U.S. treasury obligations	5 years	None	None
State of California obligations	5 years	None	None
CA Local agency obligations	5 years	None	None
U.S. agencies	5 years	None	None
Banker's acceptances	180 days	40%	A1/P1
Commercial paper – select agencies	270 days	40%	A1/P1
Commercial paper – other agencies	270 days	25%	None
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements and Securities lending agreements	92 days	20%	None
Medium-term notes	5 years	30%	A
Mutual funds	N/A	20%	Multiple
Money market mutual funds	N/A	20%	Multiple
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	AA
Time deposits	5 years	None	None
County pooled investment funds	N/A	None	None
Local agency investment fund (LAIF)	N/A	None	None

There are no restrictions on the maximum amount invested in each security type or maximum that can be invested in any one issuer.

The Authority does not have reverse repurchase agreements.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

(e) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. The Authority invests in cash, money market funds and U.S. Treasury Notes which may be drawn down as needed, subject to terms of the underlying debt indenture. The maturity date of the U.S. Treasury Note held by the Authority was June 19, 2014.

(f) Local Agency Investment Fund

The Authority is a 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 Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2014, these investments matured in an average of 232 days.

(g) Concentration Risk

Significant investments in the securities of any individual issuers, other than U.S. Treasury securities, or mutual funds are required to be disclosed when they exceed five percent of the total portfolio. The Authority has no investments meeting this definition.

NOTE 3: CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Outlays for capital assets in excess of \$1,000 for the Authority and RHA Properties, respectively, are capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
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Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Buildings and improvements	20-50 years
Furniture and equipment – operations	15 years
Furniture and equipment – administration	10 years

A. Capital Assets, Additions and Retirements

Changes in the Authority's capital assets are summarized below:

	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014
Capital assets not being depreciated:				
Land	\$ 2,744,477	\$	\$	\$ 2,744,477
Construction in progress	1,063,114		(33,430)	1,029,684
Total capital assets not being depreciated	3,807,591		(33,430)	3,774,161
Capital assets being depreciated:				
Buildings & improvements	63,324,758	579,957		63,904,715
Furniture & equipment	1,637,992	349,280	(419,739)	1,567,533
Total capital assets being depreciated	64,962,750	929,237	(419,739)	65,472,248
Less: Accumulated depreciation for:				
Buildings	28,401,488	2,302,717		30,704,205
Furniture & equipment	1,128,899	99,380	(419,739)	808,540
Total Accumulated depreciation	29,530,387	2,402,097	(419,739)	31,512,745
Total Capital assets being depreciated, net	35,432,363	(1,472,860)		33,959,503
Total Capital assets, net	\$ 39,239,954	\$ (1,472,860)	\$ (33,430)	\$ 37,733,664

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

RHA Properties has assigned the useful lives listed below to its capital assets:

Buildings and improvements	27.5 years
Furniture and equipment	5 years
Vehicles	5 years

Due to the disposition of Westridge at Hilltop Apartments, title for all the capital assets was transferred to the buyer on the closing date of April 15, 2014. At June 30, 2014, RHA Properties had no capital assets under its name.

Changes in RHA Properties capital assets are summarized below:

	Balance at June 30, 2013	Additions	Disposition	Balance at June 30, 2014
Capital assets not being depreciated:				
Land	\$ 10,431,153	\$ _____	\$ (10,431,153)	\$ _____
Total capital assets not being depreciated	10,431,153	_____	(10,431,153)	_____
Capital assets being depreciated:				
Buildings & improvements	24,674,310		(24,674,310)	
Furniture & equipment	221,756		(221,756)	
Vehicles	7,993	_____	(7,993)	_____
Total capital assets being depreciated	24,904,059	_____	(24,904,059)	_____
Less: Accumulated depreciation for:				
Buildings	8,613,579	771,233	(9,384,813)	
Furniture & equipment	104,840	4,510	(109,350)	
Vehicles	2,532	1,266	(3,798)	_____
Total Accumulated depreciation	8,720,951	777,009	(9,497,961)	_____
Net Capital assets being depreciated	16,183,108	(777,009)	(15,406,099)	_____
Total Capital assets, net	\$ 26,614,261	\$ (777,009)	\$ (25,837,252)	\$ _____

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 4: LONG TERM OBLIGATION

The following is a summary of long-term debt transactions for the year ended June 30, 2014:

	Original Issue Amount	Balance June 30, 2013	Addition	Retirement	Balance June 30, 2014	Amount due within one year
The Authority						
Accrued compensated Absence	\$	\$ 259,863	\$ 50,272	\$ (29,075)	\$ 281,060	\$ 28,106
City of Richmond Promissory Notes	<u>4,511,017</u>	<u>2,208,417</u>	<u> </u>	<u>(2,208,417)</u>	<u> </u>	<u> </u>
Total for the Authority	<u>4,511,017</u>	<u>2,468,280</u>	<u>50,272</u>	<u>(2,237,492)</u>	<u>281,060</u>	<u>28,106</u>
Component Unit - RHA Properties						
Multifamily Housing Revenue Bonds						
2003 Series A Bonds	23,000,000	19,525,000		(19,525,000)		
2007 Series S Bonds	12,540,000	11,310,000		(11,310,000)		
Less: amount deferred on refunding		<u>(647,048)</u>		<u>647,048</u>		
Total Revenue Bonds	<u>35,540,000</u>	<u>30,187,952</u>		<u>(30,187,952)</u>		
Total Long-Term Debt	<u>\$ 40,051,017</u>	<u>\$ 32,656,232</u>	<u>\$</u>	<u>\$ (32,656,232)</u>	<u>\$ 281,060</u>	<u>\$ 28,106</u>

A. City of Richmond Promissory Note

On April 30, 2007 the Authority entered into an agreement with the City of Richmond for the repayment of the operating assistance and services provided by the City in the total amount of \$4,511,017. Since the establishment of the Agreement, it has been reclassified as long-term obligation. In fiscal year 2012-2013, the Authority transferred \$970,853 of the note to the RHA Properties. As of June 30, 2014, using the proceeds from disposition of Westridge at Hilltop Apartments, the entire remaining balance of the promissory note, including \$970,853 of transferred balance to the RHA Properties had been paid off. At June 30, 2014, outstanding balance for the City of Richmond promissory note was \$0.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

B. Component Unit – RHA Properties

The Affordable Housing Agency, a financial intermediary, issued Variable Rate Demand Multifamily Housing Revenue Bonds (Westridge at Hilltop Apartments), 2003 Series A (Senior Bonds), in the initial aggregate principal amount of \$23,000,000, and Subordinate Multifamily Housing Revenue Bonds, 2007 Series A-S (Subordinated Bonds), in the initial aggregate amount of \$12,540,000 and has loaned the proceeds to RHA Properties which used the proceeds to acquire a 401-unit multifamily apartment project.

Pursuant to lease and sublease agreements, RHA Properties remits lease payments to a trustee acting on behalf of the financial intermediary, which are sufficient in timing and amount to be used to pay debt service on the bonds. In substance RHA Properties is repaying these Bonds and they have therefore been included in these financial statements.

The **2003 Series A Senior Bonds** were issued on August 1, 2003, mature on September 15, 2033 and bear a variable rate of interest with interest payments due monthly commencing September 15, 2003.

Interest rates on the Senior Bonds are reset periodically, using the “put” mechanism described below. The Senior Bonds are periodically subject to repurchase at par, referred to as a “put”. Once a put occurs, a remarketing agent resells the Senior Bonds at par by setting new interest rates and repurchase dates. RHA Properties has obtained an irrevocable transferable credit enhancement instrument which expires September 20, 2033 in the amount of \$23,000,000 to be used in the event the remarketing agent is unable to resell any Senior Bonds and to ensure RHA Properties will not be required to repurchase the Senior Bonds before they mature. RHA Properties paid the agent an annual fee equal 0.10% of the average aggregate principal amount of Bonds outstanding for the immediately preceding 12 month period.

The **2007 Series Subordinate Bonds** bear interest from 3.85% to 5% per annum, payable semi-annually commencing June 15, 2007. Net proceeds were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 Series A-S Bonds.

Using the proceeds from the liquidation sale of Westridge at Hilltop Apartments, RHA Properties paid off the entire outstanding balance for both Bonds. At June 30, 2014, balance for long term debt was \$0.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

The following is a summary of changes in long-term debt balance for the year ended June 30, 2014:

	Original Issue <u>Amount</u>	Balance June 30, <u>2013</u>	Retirements During the <u>Year</u>	Retirements from <u>Disposition</u>	Balance June 30, <u>2014</u>
Multifamily Housing Revenue Bonds					
2003 Series A Bonds	\$ 23,000,000	\$ 19,525,000	\$ (285,000)	\$ (19,240,000)	\$ -
2007 Series A-S Bonds	12,540,000	11,310,000	(170,000)	(11,140,000)	-
Less: deferred amount on refunding		<u>(647,048)</u>	<u>25,613</u>	<u>621,435</u>	<u>-</u>
Total long-term debt	<u>\$ 35,540,000</u>	<u>\$ 30,187,952</u>	<u>\$ (429,387)</u>	<u>\$ 29,758,565</u>	<u>\$ -</u>

NOTE 5: NET POSITION

Net position is the excess of all the Authority's assets over all its liabilities. Net position is divided into the following captions of the Statement of Net Position.

Invested in Capital Assets, net of related debt describes the portion of net position which is represented by the current net book value of the capital assets, less the outstanding balance of any debt issued to finance these assets. For RHA Properties, there was no balance for invested in capital assets, net of related debt as a result of sale of Westridge at Hilltop Apartments and settling the outstanding balance of debt.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority, or RHA Properties cannot unilaterally alter. These principally include projects and debt service requirements. There was no balance for restricted net position as a result of settlement of liabilities utilizing sale proceeds on sale of Westridge at Hilltop Apartments.

Unrestricted describes the portion of net position which is not restricted as to use.

NOTE 6: PENSION PLANS

The Authority, an integral part of the City of Richmond (City), participates in the California Public Employees' Retirement System (PERS). The Authority's employees are included in Plans the City has with CALPERS. During fiscal year 2013-2014, the Authority paid \$309,536 representing its shared pension cost to the City. Detail of these plans and funding policies may be found in the City's Comprehensive Annual Financial Report.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 7: OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the City also provides postretirement health care benefits, in accordance with City ordinances, to all employees who retire from the City on or after attaining retirement age (50 for policemen, 50 for fireman, and 55 for all other employees) and who have at least ten years of service. For fiscal year ended June 30, 2014, 18 retirees met those eligibility requirements. During fiscal year 2014, \$63,121 was paid by the City of Richmond for postemployment health care benefits on behalf of the Authority. Detail of these plans and funding policies may be found in the City's Comprehensive Annual Financial Report.

NOTE 8: DEFERRED COMPENSATION PLANS

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

NOTE 9: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The Authority joined together with other entities and participates in the Housing Authority Insurance Group, a public entity risk pool currently operating as a common risk management and insurance program for its member entities. The purpose of the Housing Authority Insurance Group is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The Authority pays annual premiums to Housing Authority Insurance Group for its property damage insurance.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Property</u>	<u>Building and Personal Property Premium</u>	<u>Annual Premium</u>	<u>Deductible</u>
Westridge Hilltop	\$ 36,068	\$ 41,325	\$ 25,000
Triangle Court	13,170	13,543	25,000
Nevin Plaza (#1)	3,476	3,561	25,000
Friendship Manor	5,438	5,664	25,000
Hacienda	12,013	12,290	25,000
Nystrom Village	11,876	12,253	25,000
Administration Office	440	440	25,000

To satisfy loan requirements for the Westridge Hilltop property, general liability insurance coverage has been purchased for this location. The policy renews on March 1st of each year. The premium for the 2013/2014 policy was \$10,331 for coverage limits of \$5 million per occurrence and in the aggregate. The policy was cancelled for the Westridge Hilltop property after its disposal on April 15, 2014. All of the Housing Authority properties are included for general liability coverage under the CJPRMA program.

The Authority is covered by the City of Richmond's general liability and worker's compensation insurance. The Authority pays annual premiums to California Joint Powers Risk Management Authority (CJPRMA) for general liability and the California State Association of Counties Excess Insurance Authority (CSAC EIA) for worker's compensation.

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; general liability; errors and omissions; injuries to employees; natural disasters; and inverse condemnation. The Authority began self-insuring its workers' compensation in 1976. In July 2009, the Authority joined the California Joint Powers Risk Management Authority (CJPRMA) for general liability and employment practices coverage. In April 2009, the Authority joined the California State Association of Counties Excess Insurance Authority (CSAC EIA) for worker's compensation insurance. The Authority has chosen to establish a risk financing internal service fund where assets are accumulated for claim settlements and expenses associated with the above risks of loss up to certain limits.

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Excess coverage for the risk categories excluding inverse condemnation is provided by policies with various commercial insurance carriers. Self-insurance and insurance company limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance/ Deductible</u>	<u>Coverage Limit</u>	<u>Insurance Carrier</u>
Difference in Conditions	10% pre-1970, 5% post-1970 of total insured value of each building; minimum \$100,000	\$50,000,000 inclusive of deductible	Various
Crime/Employee Dishonesty	\$10,000 per claim	\$1,000,000 inclusive of deductible	National Union Fire Insurance Company of Lexington (NUFICL)
Property	\$10,000 per claim	\$1,000,000,000 inclusive of deductible	(NUFICL)
Boiler and Machinery	\$5,000 per claim	\$1,000,000 inclusive of deductible	(NUFICL)
Port Liability	\$25,000 per claim	\$50,000,000 inclusive of deductible	Starr Indemnity & Liability
Special Events Program	N/A	\$1,000,000 per occurrence	Evanston Insurance
Compensation	N/A	\$2,000,000 aggregate	Various
Student Volunteer	N/A	Statutory excess of \$50,000,00 \$50,000 per accident	Zurich Insurance Co

CJPRMA

The CJPRMA provides coverage against the following types of loss risks under the terms of a joint-powers agreement with the Authority as follows:

<u>Type of Coverage (Deductible)</u>	<u>Coverage Limits</u>
Liability (\$500,000)	\$40,000,000
Employment Practices (\$500,000)	\$8,000,000

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Once the City's self-insured retention for general liability claims are met, CJPRMA becomes responsible for payment of all claims up to the limit. During fiscal year ended June 30, 2014, the Authority participated with the City in paying premiums of \$269,219 for the year ended June 30, 2014. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements for the CJPRMA are available from CJPRMA, 3201 Doolan Road, Suite 285, Livermore, CA 94551.

CSAC EIA

CSAC EIA is a public entity risk pool of cities and counties within Northern California. The CSAC EIA provides workers' compensation coverage up to the statutory limit and the City retains a self-insured retention of \$750,000. Loss contingency reserves established by the CSAC EIA are funded by contributions from member agencies. The City pays an annual contribution to the CSAC EIA, which includes its pro-rata share of excess insurance premiums, charges for pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the risk pool. The City paid premiums of \$134,990 for the year ended June 30, 2014. CSAC EIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained. CSAC EIA has never made an additional assessment and is currently fully funded. No provision has been made on these financial statements for liabilities related to possible additional assessments.

Audited financial statements for CSAC EIA are available from CSAC EIA, 75 Iron Point Circle, Suite 200, Folsom, CA 95630.

NOTE 10: DISPOSITION OF WESTRIDGE AT HILLTOP APARTMENTS

On May 24, 2013, RHA Properties entered into a Purchase & Sale Agreement (PSA) with Menlo Capital Group, LLC (the Buyer) for the disposition of Westridge at Hilltop Apartments for a price of \$40 million. Upon closure of the disposition on April 15, 2014, title of all capital assets was transferred from RHA Properties to Menlo Westridge Affordable Partners, LP. The sale caused discontinuance of the business operation of RHA Properties. Gain from the capital assets sale, after charges and costs associated with the sale was \$12,703,208. According to sales agreement, at June 30, 2014, \$2,500,000 of sales proceeds was withheld in escrow account as repair reserve fund.

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NOTE 11: COMMITMENT AND CONTINGENCIES

A. Hope VI Project

The Authority participates in a number of federally assisted grant programs, principal of which are the Section 8 Housing Assistance and the HOPE VI Revitalization Grant. It is possible that at some future date, it may be determined that the Authority is not in compliance with applicable grant requirements. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority does not expect such disallowed amounts, if any, to materially affect the financial statements.

In June 2000, the Richmond Housing Authority received a \$35 million grant (HOPE VI Grant) from the U.S. Department of Housing and Urban Development ("HUD") for the revitalization of the former Easter Hill Public Housing Project. The original Easter Hill site, owned by the Richmond Housing Authority, included 300 units on 21 acres in the Cortez/Stege neighborhood of Richmond.

The California Tax Credit Committee, City of Richmond, Bank of America, Silicon Valley, Federal Home Loan Bank, California Housing Finance Agency, the Richmond Housing Authority along with the \$35 million dollar HUD grant financed this \$120 million revitalization effort. Physical costs are estimated to be approximately \$108 million and life services, relocation, acquisition, administrative and other costs are estimated to be approximately \$12 million. The physical development includes approximately 320 rental and homeownership units to replace the 300 rental units originally at the site and 273 remaining units at the time of grant approval. Amenities at the revitalized site include a pool and a 5,000 square feet community room with facilities for an after school program, computer center, gymnasium and conference room.

In addition, pursuant to the same agreement, the Authority is entitled to receive reimbursement for certain costs it has incurred in development of these projects. Upon completion of the project, the Authority recorded \$14,276,909, representing reimbursement from the developer which had been recorded in the accompanying financial statements as due from developer. The balance outstanding as of June 30, 2014 is \$11,566,405.

In 2002, the Authority chose the development team of McCormack Baron Salazar, Inc. and Em Johnson Interest, Inc. to develop the site. Em Johnson Interest has developed the 82 homeownership units affordable to low, moderate and market rate buyers. McCormack Baron was charged with the development of 300 rental units, affordable to households 60% or below the area median income for Contra Costa County.

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Thus far, all new construction rental units at the former Easter Hill site have been developed. Thirty-six rehab rental units at the site are underway. The remaining 202 rental units at the site have been leased. Similarly, all 82 homeownership units at the former Easter Hill and Cortez sites have been constructed. With the exception of one unit at the Cortez site, all homeownership units have been sold.

Due to the City Council's action to not allow the Authority to retain the Fire Training site originally anticipated for phase III of the project, the third phase is being revised to include the Authority's Nystrom Village and Hacienda Public Housing sites. This will include the demolition and reconstruction of the 252 rental units presently existing at the two sites. As the proposal and conceptual plans are being developed, the final financial and construction plans are not determined at this time.

B. OIG Sanction

During fiscal year 2009-2010, the Office of Inspector General (OIG) from the Department of Housing and Urban Development (HUD), conducted an extensive audit of the Authority's procurement activities. In its report, OIG listed twenty four findings covering procurement activities performed over a ten year period, applicable to three programs and disallowed costs approximating \$2.5 million. Staff and a consultant prepared responses to the findings, including assembling and providing additional documentation to HUD as well as performing numerous corrective actions and meeting to negotiate a settlement with HUD.

During fiscal year 2010-2011, HUD waived \$605,866 of disallowed costs and requested additional data and completion of certain corrective actions to reach an ultimate resolution.

During fiscal year 2011-2012, OIG issued a final report requiring the Authority to use non-federal resources to pay \$2,257,799 to its own Public Housing/Section 8 Programs. As of June 30, 2014, using the proceeds from disposition of Westridge at Hilltop Apartments, the Authority paid off the entire OIG sanction obligation to its own Public Housing/Section 8 Programs.

C. Due to City of Richmond and Repayment

On May 1, 2013, a memorandum of understanding (MOU) was reached between the Housing Authority and RHA Properties, which states that the RHA Properties shall provide resource derived from the sale proceeds of Westridge at Hilltop Apartment to pay the financial sanction imposed by OIG in an amount no less than \$2,257,799, and to retire outstanding debt owed to the City of Richmond by the Housing Authority in an amount no less than \$6,600,000 upon disposition of the Westridge at Hilltop Apartment

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by RHA Properties. Using the proceeds from sale of Westridge at Hilltop Apartments, RHA Properties had paid back to the City of Richmond \$7,717,728 of assumed debt during the fiscal year 2013-2014. Included in the repayment was the OIG sanction debt of \$2,257,799, which had been fully paid off as of June 30, 2014.

At June 30, 2014, total debt owed to the City of Richmond by the Authority was \$3,687,450, out of which \$2,500,000 was assumed by RHA Properties on behalf of the Authority, \$1,187,450 remained with the Authority.

Included in the \$2,500,000 assumed by the RHA Properties was \$1,359,929 of new debt owed by the Authority to the City of Richmond, which represents retroactive charges the City of Richmond billed during fiscal year 2013-2014 for the services the City had provided to the Authority prior to fiscal year 2013-2014. The entire amount of debt assumed by the RHA Properties is expected to be paid off from the \$2,500,000 of repair reserve fund withheld in the escrow account when the fund is to be released to RHA Properties.

D. Commitments and Contingencies

RHA Properties is subject to litigation arising in the normal course of business. There is a lawsuit that involves a tenant at Westridge Apartment Complex seeking compensatory damages consisting of medical expenses and pain and suffering damages. A conditional settlement in November 2014 was reached. Approval by the Richmond City Council is the remaining condition to be satisfied before the settlement will become final. The outcome of this is not presently determinable and no liability has been accrued in the financial statements. In the opinion of the management the presently filed litigation is not likely to have a material adverse effect on the financial position of RHA Properties.

NOTE 12: MAJOR VENDOR

The RHA Properties Project is managed pursuant to an agreement with a third party vendor who was paid \$154,533 during the fiscal year 2013-2014 for its services.

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NOTE 13: GOING CONCERN

As a result of sale of Westridge at Hilltop Apartments, RHA Properties primary asset will cause to liquidate RHA Properties and discontinue the business operation, which raises substantial doubt about RHA Properties' ability to continue as a going concern. Management currently has no further plans for the entity.

NOTE 14: SUBSEQUENT EVENTS

On April 15, 2014, pursuant to disposition agreement \$2,500,000 of liquidation proceeds withheld in escrow account as repair reserve fund has not been released to the RHA Properties as of December 23, 2014.