
HOUSING AUTHORITY OF THE CITY OF RICHMOND

**BASIC COMPONENT UNIT
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2013

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

For the Year Ended June 30, 2013

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-11
BASIC FINANCIAL STATEMENTS	
Authority-wide Financial Statements:	
Statement of Net Position	12
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Cash Flows	14
Notes to Financial Statements	15-33

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, 2013, 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, 2013, 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

Changes in Accounting Principles

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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013.

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 February 25, 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.

Perkins & Associates
Oakland, California
February 25, 2014

HOUSING AUTHORITY OF THE CITY OF RICHMOND

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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, 2013.

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 Position Invested in Capital Assets, Net of Related Debt: 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 Position Invested in Capital Assets, Net of Related Debt.

The **Statement of Revenues, Expenditures, and Changes in Net 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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Financial position and analysis

Table 1 compares the Authority's financial position for the fiscal years ended June 30, 2013 and 2012:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2013	2012	2013	2012		
Assets						
Cash & cash equivalents	\$ 125,706	\$ 938,160	\$ 359,140	\$ 355,539	\$ (808,853)	(62.52%)
Other current assets	3,987,192	768,572	42,107	34,208	3,226,519	401.92%
Noncurrent assets	51,399,497	53,765,929	30,118,463	30,713,491	(2,961,460)	(3.51%)
Total assets	55,512,395	55,472,661	30,519,710	31,103,238	(543,794)	(0.63%)
Liabilities						
Current liabilities	1,941,320	6,864,544	11,202,217	1,844,069	4,434,924	50.93%
Noncurrent liabilities	1,692,294	2,659,987	29,347,952	30,891,724	(2,511,465)	(7.49%)
Total liabilities	3,633,614	9,524,531	40,550,169	32,735,793	1,923,459	4.55%
Net position						
Invested in capital assets	39,239,954	45,238,229	(3,573,691)	(1,157,617)	(8,414,349)	(19.09%)
Restricted	161,271	590,226	2,645,727	2,645,983	(850,442)	(23.25%)
Unrestricted	12,477,556	119,675	(9,102,495)	(3,120,921)	6,797,538	(198.61%)
Total net positions	\$ 51,878,781	\$ 45,948,130	\$ (10,030,459)	\$ (1,632,555)	\$ (2,467,253)	(5.57%)

Cash & Cash Equivalents decreased by \$808,853 or 62.52% primarily due to changes in HUD's cash management rules in the Housing Choice Voucher Program. HUD recaptured cash held for excess HAP Income received through reduced funding in an effort to bring these balances to zero.

Other Current Assets increased by \$3,226,519 or 401.92% primarily due to sale proceeds due from and an advance receivable from RHA Properties to the Housing Authority.

Current Liabilities increased by \$4,434,924 or 50.93% primarily due to the retirement of outstanding debt owed to the City of Richmond assumed by RHA properties.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Table 2 focuses on the changes in net position:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2013	2012	2013	2012		
Operating revenue & expense						
Operating revenue	\$ 2,619,669	\$ 2,354,197	\$ 4,553,110	\$ 3,679,010	1,139,572	18.89%
Operating expenses	28,992,229	30,886,537	2,992,744	2,998,448	1,900,012	(5.61%)
Operating income (loss)	(26,372,560)	(28,532,340)	1,560,366	680,562	3,039,584	(10.91%)
Non-operating revenues & expenses	32,105,644	23,707,243	(9,958,270)	(887,821)	(672,048)	(2.95%)
Increase (decrease) in net position	5,733,084	(4,825,097)	(8,397,904)	(207,259)	2,367,536	(47.05%)
Prior period adjustment	197,567	-	-	-	197,567	100.00%
Net position, beginning of year	45,948,130	50,773,227	(1,632,555)	(1,425,296)	(5,032,356)	(10.20%)
Net position, end of year	\$ 51,878,781	\$ 45,948,130	\$ (10,030,459)	\$ (1,632,555)	\$ (2,467,253)	(5.57%)

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

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2013	2012	2013	2012		
Operating revenue						
Tenant revenue	\$ 1,662,889	\$ 1,652,159	\$ 4,106,464	\$ 3,509,159	608,035	11.78%
HUD operating grants	22,323,336	22,742,102			(418,766)	(1.84%)
Other income	958,780	702,038	446,646	169,851	531,537	60.96%
Total operating revenue	24,943,005	25,096,299	4,553,110	3,679,010	720,806	2.50%
Non-operating revenues						
Public housing capital fund	758,334	964,998	-	-	(206,664)	(21.42%)
Interest income	270	143	636	352	411	83.03%
Total non-operating revenues	758,604	965,141	636	352	(206,253)	(21.36%)
Total revenues	\$ 25,701,609	\$ 26,061,440	\$ 4,553,746	\$ 3,679,362	\$ 514,553	1.73%

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Tenant Revenue increased \$608,035 or 11.78%. This is primarily due to increases in rent charged to tenants.

Other Income increased by \$531,537 or 60.96%. This increase is primarily due to receipt of developer fees in the Hope VI program.

Public housing capital fund decreased by \$206,664 or 21.42%. This is primarily due to closing of the 2009 Capital Fund.

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

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2013	2012	2013	2012		
Administrative	\$ 4,123,180	\$ 5,150,229	\$ 787,811	\$ 620,775	(860,013)	(14.90%)
Tenant services	162,714	189,168			(26,454)	(13.98%)
Utilities	650,829	711,358	403,275	245,240	97,506	10.19%
Maintenance	1,746,650	2,567,134	661,498	800,769	(959,755)	(28.50%)
Protective services	308,910	335,228			(26,318)	(7.85%)
General expenses	987,356	319,603	203,234	430,225	440,762	58.78%
Depreciation expenses	2,335,848	2,345,823	936,926	901,439	25,512	0.79%
Housing assistance payments	18,676,742	19,267,994			(591,252)	(3.07%)
Total expenses	\$ 28,992,229	\$ 30,886,537	\$ 2,992,744	\$ 2,998,448	\$ (1,900,012)	(5.61%)

Administrative decreased by \$860,013 or 12.46%. This is primarily due to a decrease in Administrative salaries and benefits.

Maintenance expenses decreased by \$959,755 or 28.50%. This was primarily due to decreases in inspections, risk assessments, and site monitoring costs related to lead abatement grants.

General Expenses increased by \$440,762 or 58.78% due to the write-off of several years' bad debt in the Low Income Public Housing Program

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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	\$ 1,662,027	\$ 12,027	0.73%
Operating subsidy	1,975,453	2,225,213	249,760	12.64%
Other income	150,000	56,375	(93,625)	(62.42%)
Total revenue	<u>3,775,453</u>	<u>3,943,615</u>	<u>168,162</u>	<u>4.45%</u>
Expenses				
Administrative	1,547,624	1,341,695	205,929	13.31%
Tenant services	202,842	162,714	40,128	19.78%
Utilities	575,000	650,080	(75,080)	(13.06%)
Maintenance	875,000	1,157,136	(282,136)	(32.24%)
Protective services	340,000	308,910	31,090	9.14%
Insurance	115,012	78,196	36,816	32.01%
General expenses	119,975	730,140	(610,418)	(508.58%)
Total expenses	<u>3,775,453</u>	<u>4,428,871</u>	<u>(653,418)</u>	<u>(17.31%)</u>
Income (over)/under expenses	<u>\$</u>	<u>\$ (485,256)</u>	<u>\$ (485,256)</u>	

Rental Income was over budget by \$12,027 or .73% due to higher average daily balances of cash and investments and increases in rent charged to tenants.

Other Income was under budget by \$93,625 or 62.42% due to reduced charges to tenants for fees such as damages, late fees, keys, etc.

Maintenance was under budget by \$585,958 or 66.97% primarily due to more required maintenance being required than expected and increased landscaping costs.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Housing Choice Voucher

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Percent Variance Favorable (Unfavorable)</u>
Revenue				
Operating subsidy	\$ 19,200,000	\$ 17,502,781	\$ (1,697,219)	(8.84%)
Administrative fees	1,630,142	1,632,367	2,225	0.14%
Other income	-	212,436	212,436	-
Total revenue	<u>20,830,142</u>	<u>19,347,584</u>	<u>(1,482,558)</u>	<u>(7.12%)</u>
Expenses				
Administrative	1,271,112	1,250,520	20,592	1.62%
Maintenance	25,000	29,770	(4,770)	(19.08%)
General expenses	140,563	59,117	81,446	57.94%
HAP expense	<u>19,124,701</u>	<u>18,676,742</u>	<u>447,959</u>	<u>2.34%</u>
Total expenses	<u>20,561,376</u>	<u>20,016,149</u>	<u>(545,227)</u>	<u>(34.00%)</u>
Income (over)/under expense	<u>\$ 268,766</u>	<u>\$ (668,565)</u>	<u>\$ (937,331)</u>	<u>(348.75%)</u>

Operating Subsidy was under budget by 1,697,219 or 8.84%. This is due to a reduction in funding from the HCV Program in an effort to have Authorities use existing cash balances.

Maintenance Fee expenses were over budget by \$4,770 or 19.08% primarily due to slight increases in contract costs.

General expenses were over budget by \$81,446 or 57.94% primarily due to estimates of operating costs being higher than actual costs to run program.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Capital assets

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

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2013	2012	2013	2012		
Land	\$ 2,744,477	\$ 6,124,107	\$ 10,431,153	\$ 10,431,153	(3,379,630)	(20.41%)
Buildings, improvements and equipment	64,962,750	63,785,153	24,904,059	24,245,648	1,836,008	2.09%
Construction in progress	1063,114	2,548,475	-	209,224	(1,694,585)	(61.45%)
	68,770,341	72,457,735	35,335,212	34,886,025	(3,238,207)	(3.02%)
Less: accumulated depreciation	(29,530,387)	(27,219,506)	(8,720,951)	(7,784,026)	(3,247,806)	9.28%
Capital assets, net	\$ 39,239,954	\$ 45,238,229	\$ 26,614,261	\$ 27,101,999	\$ (6,486,013)	(8.97%)

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 2013 is as follows:

	Grant	Total Budget	Expended through 6/30/2013	Budget Remaining at 6/30/2013
Capital Fund Program 2009	501-09	\$ 953,889	\$ 953,889	\$ -
Capital Fund Program 2010	501-10	956,915	956,915	-
Capital Fund Program 2011	501-11	803,684	739,915	63,769
Capital Fund Program 2012	501-12	745,045	338,806	406,239
Capital Fund recovery Grant 2009	CFRG-09	1,446,269	1,446,269	-
				\$ 470,008

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

As of June 30, 2013, the Component Unit had \$30,187,952 in outstanding bond indebtedness, consisting of Senior Lien Lease Revenue Bonds and Subordinate Lien Lease Revenue Bonds.

	<u>The Authority</u>	<u>RHA Properties</u>
June 30, 2012	\$ 3,179,270	\$ 30,905,599
Current year debt paid	<u>(970,853)</u>	<u>(717,647)</u>
June 30, 2013	<u>\$ 2,208,417</u>	<u>\$ 30,187,952</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, 2013

	Primary Government Business-Type Activities	Component Unit RHA Properties
ASSETS:		
Current assets:		
Cash in bank (Note 2)	\$ 125,706	\$ 359,140
Investments (Note 2)	407,223	
Accounts receivable - HUD	142,632	
Accounts receivable - tenants, net of allowance (Note 1G)	130,034	38,227
Prepaid expenses and deposits	59,679	3,880
Due from RHA Properties (Note 11C)	2,257,799	
Advance receivable from RHA Properties (Note 2I)	966,183	
Inventories	23,642	
	4,112,898	401,247
Total current assets		
Restricted assets:		
Cash and Investments (Note 2)	188,112	2,645,727
Capital assets (Note 3)		
Land	2,744,477	10,431,153
Construction in progress	1,063,114	
Buildings and improvements	63,324,758	24,674,311
Furniture and equipment	1,637,992	229,749
Less accumulated depreciation	(29,530,387)	(8,720,952)
	39,239,954	26,614,261
Total capital assets, net		
Other non current assets:		
Other receivables		
Due from developer (Note 11A)	11,971,431	
Bond issuance costs (net of amortization)		858,475
	11,971,431	858,475
Total non current assets		
	55,512,395	30,519,710
Total assets		
LIABILITIES:		
Current liabilities:		
Accounts payable	432,793	141,773
Accrued and other liabilities	72,215	34,919
Tenants security deposits	188,112	361,543
Due to the Housing Authority and City of Richmond (Note 11C)		8,857,799
Housing Authority advance		966,183
Due to the City	472,214	
Accrued compensated absences (Note 1D)	25,986	
Current portion of long-term obligations (Note 4)	750,000	840,000
	1,941,320	11,202,217
Total current liabilities		
Long-term liabilities:		
Long-term portion of long-term obligations (Note 4)	1,458,417	29,347,952
Accrued compensated absences (Note 1D)	233,877	
	1,692,294	29,347,952
Total long term liabilities		
	3,633,614	40,550,169
Total liabilities		
Net position (Note 5):		
Investment in capital assets, net of related debt	39,239,954	(3,573,691)
Restricted	161,271	2,645,727
Unrestricted	12,477,556	(9,102,495)
	51,878,781	(10,030,459)
Total net position		

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, 2013

	<u>Primary Government Business-Type Activities</u>	<u>Component Unit RHA Properties</u>
Operating revenues:		
Rental revenue - tenant	\$ 1,662,889	\$ 4,106,464
Other revenues	<u>956,780</u>	<u>446,646</u>
Total operating revenues	<u>2,619,669</u>	<u>4,553,110</u>
Operating expenses:		
Administration	4,123,180	787,811
Tenant services	162,714	
Utilities	650,829	403,275
Ordinary maintenance and operations	1,746,650	661,498
Protective services	308,910	
General expenses	987,356	203,234
Housing assistance payments	18,676,742	
Depreciation	<u>2,335,848</u>	<u>936,926</u>
Total operating expenses	<u>28,992,229</u>	<u>2,992,744</u>
Operating income/(loss)	<u>(26,372,560)</u>	<u>1,560,366</u>
Non-operating revenues/(expenses):		
Investment earnings	270	636
HUD PHA grants	22,323,336	
Interest expenses and fiscal expenses		(795,818)
Amortization		<u>(139,384)</u>
Total non-operating revenues/(expenses)	<u>22,323,606</u>	<u>(934,566)</u>
Income/(loss) before capital grants	(4,048,954)	
Capital grants	<u>758,334</u>	
Income / (loss) before extraordinary items	<u>(3,290,620)</u>	<u>625,800</u>
Extraordinary item		
Assumption of Housing Authority debts by RHA Properties (Note 11C)	<u>9,023,704</u>	<u>(9,023,704)</u>
Total extraordinary item	<u>9,023,704</u>	<u>(9,023,704)</u>
Changes in net position	5,733,084	(8,397,904)
Net position/(deficit), beginning of the year (restated, Note 10)	<u>46,145,697</u>	<u>(1,632,555)</u>
Net position/(deficit), end of the year	<u>\$ 51,878,781</u>	<u>\$ (10,030,459)</u>

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, 2013**

	Primary Government Business-Type Activities	Component Unit RHA Properties
Cash flows from operating activities		
Receipts from dwelling rents	\$ 1,685,360	\$ 4,098,158
Receipts from other miscellaneous sources	956,780	447,053
Payments for housing assistance	(18,676,742)	
Payments for employee expenses	(2,208,085)	
Payments for administrative expenses	(1,338,564)	(976,902)
Payments for general maintenance and other expenses	(3,514,152)	(1,404,692)
Net cash flows from operating activities	(23,095,403)	2,163,617
Cash flows from non-capital & related financing activities:		
Subsidies from federal grants	22,323,336	
Payment for OIG sanction		(165,905)
Net cash flows from non-capital and related financing activities	22,323,336	(165,905)
Cash flows from capital & related financing activities:		
Principal paid on capital debt		(750,000)
Interest paid on capital debt		(795,816)
Subsidies from federal capital assets	758,334	
Acquisition and construction of capital assets	(429,833)	(449,187)
Net cash flows from capital & related financing activities	328,501	(1,995,003)
Cash flows from investing activities:		
Advances on notes receivable	(81,068)	
Sale of investments	20,263	
Advances to affiliate	(319,973)	
Interest received	270	636
Net cash flows from investing activities	(380,508)	636
Net increase/(decrease) in cash	(824,074)	3,345
Cash at beginning of year	1,137,892	3,001,522
Cash at end of year	\$ 313,818	\$ 3,004,867
Reconciliation of operating income to net cash provided/(used) by operating activities:		
Operating income/(loss)	\$ (26,372,560)	\$ 1,560,366
Adjustments to reconcile operating income/(loss) to net cash(provided/(used) by operating activities:		
Depreciation expense	2,335,848	936,926
Loss on disposition of fixed assets	81,212	
Contingency expense	98,381	
Decrease/(Increase) in grants and accounts receivable	19,450	(8,306)
Decrease/(Increase) in prepaid expenses and other assets	(44,923)	407
Decrease/(Increase) in other receivables		
Decrease in inventory	10,582	
Increase/(Decrease) in accounts payable	225,647	(189,091)
Increase/(Decrease) in accrued liabilities and other liabilities	530,479	(183,049)
Increase in tenant security deposits	20,481	46,364
Net cash (used)/provided by operating activities	\$ (23,095,403)	\$ 2,163,617
Non Cash Transactions		
Cost of issuance amortization		\$ 139,384

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, 2013

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.

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.

(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 USA.

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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.

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

(d) 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, 2013, are presented as follows:

	<u>Business-Type Activities</u>
Beginning balance	\$ 256,353
Additions	28,503
Payments	<u>(24,993)</u>
Ending balance	\$ <u>259,863</u>
Due within one year	\$ <u>25,986</u>

(e) Adoption of New Pronouncement

GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and incorporates these financial measures into the definitions of the required components of the residual measure, which will be renamed as net position, rather than net position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of July 1, 2012, the Authority adopted this statement, which did not have a significant impact on its financial statements.

(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 RHA Properties and the City of Richmond nor existing Payment in Lieu of Taxes (PILOT).

(g) Accounts Receivable - 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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

(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.

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, 2013, 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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 terms of the Authority's debt instruments. RHA Properties money market funds were rated AAAM as of June 30, 2013.

	Authority	RHA - Properties
Cash in bank	\$ 125,706	\$ 359,140
Investments:		
Unrestricted	407,223	
Restricted	188,112	2,645,727
Total cash and investments	\$ 721,041	\$ 3,004,867
Composition:		
Cash	\$ 126,023	\$ 1,979,592
Money Market funds		1,025,275
Local Agency Investment Fund	56,149	
Certificates of Deposit	188,112	
U.S. Treasury Notes	350,757	
Total cash and investments	\$ 721,041	\$ 3,004,867

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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.

E. Investments Authorized by Debt Agreements

RHA Properties must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with RHA Properties resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Repurchase agreements	N/A	Highest Rating Category	No Limit	No Limit
Government obligations	N/A	N/A	N/A	N/A
U.S. Government agency obligations	N/A	N/A	N/A	N/A
State obligations	N/A	Highest Rating Category	No Limit	No Limit
Commercial paper	N/A	Highest Rating Category	No Limit	No Limit
Negotiable certificates of deposit	N/A	Highest Rating Category	No Limit	No Limit
Time deposits	N/A	Highest Rating Category	No Limit	No Limit
Bankers acceptances	N/A	Highest Rating Category	No Limit	No Limit
Guaranteed investment contracts	N/A	Highest Rating Category	No Limit	No Limit
Money market mutual funds	N/A	AAA	No Limit	No Limit
State of California local agency Investment fund (LAIF Pool)	Upon Demand	N/A	\$50,000,000 per account	\$50,000,000 per account

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

F. 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 is July 25, 2013.

G. 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

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, these investments matured in an average of 278 days.

H. 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.

I. Other Investments

As of June 30, 2013, the Authority had invested \$1,000,000 in start-up contributions and had advanced \$966,183 to RHA Properties, which was used for debt service and operating expenses. The Housing Authority expects the entire amount to be repaid from the proceeds upon disposition of the Westridge at Hilltop Apartment by RHA Properties.

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.

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. During the fiscal year ended June 30, 2012, management had a change in estimate and determined the remaining useful lives of certain capital assets should be decreased, which resulted in a current year increase in accumulated depreciation. The Authority has assigned the useful lives listed below to capital assets:

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2012	Additions	Deletion	Transfers	Reclassified*	Balance at June 30, 2013
Capital assets not being depreciated:						
Land	\$ 6,124,107	\$	\$	\$	\$ (3,379,630)	\$ 2,744,477
Construction in progress	<u>2,548,475</u>	<u>412,333</u>	<u>(81,212)</u>	<u>(1,816,482)</u>		<u>1,063,114</u>
Total capital assets not being depreciated	<u>8,672,582</u>	<u>412,333</u>	<u>(81,212)</u>	<u>(1,816,482)</u>	<u>(3,379,630)</u>	<u>3,807,591</u>
Capital assets being depreciated:						
Buildings & improvements	62,122,836			1,816,482	(614,560)	63,324,758
Furniture & equipment	<u>1,662,317</u>	<u>17,500</u>	<u>(11,825)</u>		<u>(30,000)</u>	<u>1,637,992</u>
Total capital assets being depreciated	<u>63,785,153</u>	<u>17,500</u>	<u>(11,825)</u>	<u>1,816,482</u>	<u>(644,560)</u>	<u>64,962,750</u>
Less: Accumulated depreciation for:						
Buildings	26,206,440	2,195,048				28,401,488
Furniture & equipment	<u>1,013,066</u>	<u>140,800</u>	<u>(11,825)</u>		<u>(13,142)</u>	<u>1,128,899</u>
Total Accumulated depreciation	<u>27,219,506</u>	<u>2,335,848</u>	<u>(11,825)</u>		<u>(13,142)</u>	<u>29,530,387</u>
Total Capital assets being depreciated, net	<u>36,565,647</u>	<u>(2,318,348)</u>			<u>(631,418)</u>	<u>35,432,363</u>
Total Capital assets, net	<u>\$ 45,238,229</u>	<u>\$ (1,906,015)</u>	<u>\$ (81,212)</u>	<u>\$</u>	<u>(4,011,048)*</u>	<u>\$ 39,239,954</u>

*Amount was reclassified as Due from Developer as the funds used to purchase these assets were loaned to Easter Hill by the Housing Authority from Hope VI funding in the past.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Changes in RHA Properties capital assets are summarized below:

	Balance at June 30, 2012	Additions	Transfers	Balance at June 30, 2013
Capital assets not being depreciated:				
Land	\$ 10,431,153	\$	\$	\$ 10,431,153
Construction in progress	209,224		(209,224)	
Total capital assets not being depreciated	10,640,377		(209,224)	10,431,153
Capital assets being depreciated:				
Buildings & improvements	24,067,825	397,261	209,224	24,674,310
Furniture & equipment	169,830	51,926		221,756
Vehicles	7,993			7,993
Total capital assets being depreciated	24,245,648	449,187	209,224	24,904,059
Less: Accumulated depreciation for:				
Buildings	7,707,717	905,862		8,613,579
Furniture & equipment	75,376	29,464		104,840
Vehicles	933	1,599		2,532
Total Accumulated depreciation	7,784,026	936,925		8,720,951
Net Capital assets being depreciated	16,461,622	(487,738)		16,183,108
Total Capital assets, net	\$ 27,101,999	\$ (487,738)	\$	\$ 26,614,261

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4: LONG TERM OBLIGATION

The following is a summary of long-term debt transactions for the year ended June 30, 2013:

	Original Issue Amount	Balance June 30, 2012	Transfers	Retirements	Balance June 30, 2013	Amount due within one year
City of Richmond Promissory Notes	\$ 4,511,017	\$ 3,179,270	\$ (970,853)	\$ _____	\$ 2,208,417	\$ 750,000
Component Unit - RHA Properties Multifamily Housing Revenue Bonds						
2003 Series A Bonds	23,000,000	19,950,000		(425,000)	19,525,000	500,000
2007 Series S Bonds	12,540,000	11,635,000		(325,000)	11,310,000	340,000
Less: amount deferred on refunding		(679,401)		32,353	(647,048)	
Total Revenue Bonds	35,540,000	30,905,599		(717,647)	30,187,952	840,000
Total Long-Term Debt	\$ 40,051,017	\$ 34,084,869	\$ (970,853)	(717,647)	\$ 32,396,369	\$ 1,590,000

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. The Authority did not make any payment during fiscal year 2012-2013; instead it transferred \$970,853 of the note to the RHA Properties in anticipation of paying the full amount at disposition of Westridge at Hilltop Apartments expected to take place within the fiscal year 2013-14.

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, 2003 Series A-S (Subordinated Bonds), in the initial aggregate principal amount of \$12,000,000 and has loaned the proceeds to RHA Properties which used the proceeds to acquire a 401-unit multifamily apartment project.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 paying these Bonds and they have therefore been included in these financial statements.

The **2003 Series A Senior Bonds** were issued August 1, 2003, mature on September 15, 2033 and bear a variable rate of interest (0.07% at June 30, 2013) 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 3.850% 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.

C. Debt Service Requirement

Debt Services for all long-term debt are scheduled to mature as follows:

<u>For the year</u> <u>ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 840,000	\$ 891,190	\$ 1,731,190
2015	855,000	867,805	1,722,805
2016	965,000	843,655	1,808,655
2017	985,000	816,990	1,801,990
2018	1,005,000	788,830	1,793,830
2019-2023	6,205,000	3,454,813	9,659,813
2024-2028	8,155,000	2,416,375	10,571,375
2029-2033	10,970,000	1,053,600	12,023,600
2034	855,000	10,750	865,750
Total payments due	<u>\$ 30,835,000</u>	<u>\$ 11,144,008</u>	<u>\$ 41,979,008</u>

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Reconciliation of long-term debt principal:

Principal requirement as reported above	\$ 30,835,000
Less: deferred amount on refunding	<u>(647,048)</u>
Total long-term debt principal, net	<u>\$ 30,187,952</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.

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.

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 2012-2013, the Authority paid \$266,235 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.

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, 2013, 20 retirees met those eligibility requirements. During fiscal year 2013, no costs were incurred for postemployment health care benefits by the Authority. 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, 2013

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.

<u>Property</u>	<u>Building and Personal Property Premium</u>	<u>Annual Premium</u>	<u>Deductible</u>
Westridge Hilltop	\$ 36,312	\$ 38,682	\$ 25,000
Triangle Court	12,508	12,676	25,000
Nevin Plaza (#1)	3,270	3,308	25,000
Friendship Manor	5,189	5,290	25,000
Hacienda	11,382	11,507	25,000
Nystrom Village	11,300	11,470	25,000
Administration Office	419	419	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 2012/2013 policy was \$13,362 for coverage limits of \$5 million per occurrence and in the aggregate. All of the Housing Authority properties are included for general liability coverage under the CJPRMA program.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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.

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
Property	\$10,000 per claim	\$1,000,000,000 inclusive of deductible	Insurance Company of Lexington
Boiler and Machinery	\$5,000 per claim	\$1,000,000 inclusive of deductible	Lexington
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	Zurich Insurance Co
		\$50,000 per accident	

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

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, the Authority participated with the City in paying premiums of \$716,013 for the year ended June 30, 2013. 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 \$247,355 for the year ended June 30, 2013. 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: RESTATEMENT OF BEGINNING NET POSITION AND ADVANCE TO RHA PROPERTIES

The Housing Authority’s beginning net position has been restated as of July 1, 2012 to recognize unrecorded advance to RHA Properties in prior years. The restatement will cause an increase in beginning net position and increase in due from RHA Properties as follows:

A. Net Position

Net position – beginning	\$ 45,948,130
Adjustment to record investment in RHA Properties from advance payment	197,567
Net position - beginning as restated	\$ <u>46,145,697</u>

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

B. Advance Receivable

Due from RHA Properties – beginning	\$	701,125
Adjustment to record advance payment to RHA Properties		197,567
Unpaid claims expense - beginning as restated	\$	898,692

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 is \$11,971,431.

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.

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.

HOUSING AUTHORITY OF THE CITY OF RICHMOND
NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

During fiscal year 2011-2012, OIG issued a final report requiring the Authority to use non-federal resources to pay \$165,905 to the U.S. Treasury and \$2,257,799 to its own Public Housing/Section 8 Programs. The \$165,905 of OIG sanction has been fully paid off as of June 30, 2013. The repayment term for the Public Housing/Section 8 Programs is 56 equal quarterly payments, which are to commence July 1, 2013.

C. Assumption of Housing Authority Debts by RHA Properties

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 by RHA Properties. On May 24, 2013 RHA Properties entered into a Purchase & Sale Agreement with buyers. The disposition is expected to take place within fiscal year 2013-2014.

Total amount of debt owed by the Housing Authority, which were assumed by RHA Properties during fiscal year 2012-2013, is \$9,023,704.

NOTE 12: MAJOR VENDOR

The RHA Properties Project is managed pursuant to an agreement with a third party vendor who was paid \$187,675 during the fiscal year 2012-2013 for its services.

NOTE 13: SUBSEQUENT EVENTS

On February 10, 2014, Addendum #1 to Purchase & Sale Agreement was reached to extend the closure date of escrow on or before March 11, 2014. As of February 25, 2014, the Buyer had deposited non-refundable \$1,000,000 into the escrow account. Subsequent to the execution of the Addendum FANNIE MAE required the senior bond to be paid off on March 15, 2014. On February 28, RHA Properties provided a notice to Fannie Mae its intention to prepay on March 15, 2014 the entire outstanding principal amount of 2003 Series A Bonds from the proceeds of the disposition.