

# Housing Authority of the City of Redding

Redding, California

*Basic Financial Statements  
and Independent Auditors' Reports*

*For the year ended June 30, 2010*



# Housing Authority of the City of Redding

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## INDEPENDENT AUDITORS' REPORT

To the Affordable Housing Commission  
of the Housing Authority of the City of Redding  
Redding, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redding Housing Authority (Authority), a component unit of the City of Redding (City), as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Affordable Housing Commission  
of the Housing Authority of the City of Redding  
Redding, California  
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The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
March 2, 2011

# Housing Authority of the City of Redding

## Management's Discussion and Analysis

### For the year ended June 30, 2010

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As management of the Housing Authority of the City of Redding (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ending June 30, 2010. The management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address future challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

#### FINANCIAL HIGHLIGHTS

- The Authority's net assets increased by \$579,004.
- As of the close of the current fiscal year, the Authority's funds reported combined ending fund balances of \$2,495,341 which is a decrease of \$603,030 in comparison with the prior year. All of the Authority's fund balance is required to be used for Housing activities.
- Total operating expenses of all of the Authority's programs were \$9,220,493 for the fiscal year.

#### USING THIS FINANCIAL REPORT/ OVERVIEW OF REPORT

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

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of the following parts:

**Statement of Net Assets:** This statement presents information on all of the Authority's assets and liabilities, with the difference between the two reported as **net assets**. Over time, the change in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

**Statement of Activities:** This statement presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow in future fiscal periods (e.g., uncollected grants and earned but unused comp time and vacation leave).

**Housing Authority of the City of Redding**  
**Management's Discussion and Analysis, continued**  
**For the year ended June 30, 2010**

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The Authority adopts an annual appropriated budget at the entity-wide level. A budgetary comparison statement has been provided for the Authority to demonstrate compliance with this budget.

The government-wide financial statements can be found on pages 11-12 of this report.

**Fund Financial Statements**

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund financial statements to demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds.

**Governmental Funds:** These funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The Authority is a Section 8 only housing authority, providing rental assistance and home purchase assistance to qualified residents. Since the Authority does not own or operate rental property, the Section 8 Voucher program is reported as a special revenue fund.

The governmental fund financial statements can be found on pages 15-19 of this report.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-26 of this report.

**Housing Authority of the City of Redding**  
**Management's Discussion and Analysis, continued**  
**For the year ended June 30, 2010**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. The following schedule displays a summary breakdown of the Authority's net assets as of June 30, 2010 and 2009:

Condensed Statement of Net Assets

	2010	2009
Current assets	\$ 2,775,756	\$ 1,914,493
Non-current capital assets	24,482	37,200
Other non-current assets	140,184	171,708
Total assets	<u>2,940,422</u>	<u>2,123,401</u>
Current liabilities	422,557	186,759
Non-current liabilities	97,410	95,191
Total liabilities	<u>519,967</u>	<u>281,950</u>
Net Assets:		
Invested in capital assets, net of related debt	24,482	37,200
Restricted	1,193,149	529,103
Unrestricted	1,202,824	1,275,148
Total net assets	<u>\$ 2,420,455</u>	<u>\$ 1,841,451</u>

The Authority's net assets increased to \$2.42 million from \$1.84 million, an increase of 31%. The increase is entirely in the Section 8 program. At the beginning of the fiscal year the Authority was over-leased. The Authority reduced the number of units assisted throughout the year. At the same time the Authority received special assistance from HUD to handle higher per unit costs that resulted from the current economic downturn. As a result the Authority has built up a cash reserve during the year.

**Housing Authority of the City of Redding**  
**Management's Discussion and Analysis, continued**  
**For the year ended June 30, 2010**

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The following schedule displays a comparison of 2009-10 and 2008-09 fiscal year revenues and expenses for the Authority:

Condensed Statement of Activities and Changes in Net Assets

	2010	2009
Administrative	\$ 1,038,972	\$ 1,122,743
Rental assistance	7,895,076	8,026,271
Other expenses	286,445	-
Total expenses	<u>9,220,493</u>	<u>9,149,014</u>
Operating grants	9,750,476	8,404,286
Investment and Other	49,021	105,105
Total revenues	<u>9,799,497</u>	<u>8,509,391</u>
Change in net assets	579,004	(639,623)
Beginning net assets	1,841,451	2,481,074
Ending net assets	<u>\$ 2,420,455</u>	<u>\$ 1,841,451</u>

Administrative expenses decreased in the fiscal year ended 2010 primarily due to decreased staffing. Rental assistance paid out of restricted HAP funds decreased slightly due to the decrease in lease-up. Other expenses are rental assistance and admin expenses paid on over-leased units during the fiscal year. These expenses were paid out of the General Fund. The increase in operating grants is partially due to one-time funding received from HUD. This level of funding is not expected to continue in 2010-11.

**BUDGETARY HIGHLIGHTS**

The Authority's budget is approved at the entity-wide level. Since the Authority is a component unit of the City, it is budgeted as a special revenue fund of the City.

The Authority prepares a biennial budget prior to knowing its annual subsidy grant from HUD. Actual amounts received from HUD vary from initial projections. In addition, the Authority began the lease-up mentioned previously. Accordingly, the Authority increased its expenditure budget to allow for additional HAP payments. The expenditure budget increased from an original \$6.80 million to a final amended budget of \$9.17 million during the year.

**Housing Authority of the City of Redding  
Management's Discussion and Analysis, continued  
For the year ended June 30, 2010**

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**ANALYSIS OF GOVERNMENTAL FUNDS**

The Authority reports each program as a fund in order to segregate and track restricted funds.

General Fund: The Authority's General Fund is used to track resources that do not belong to a HUD program, but that are a part of the City of Redding's Housing Authority Fund.

Section 8 Voucher – Special Revenue Fund: The Section 8 program's fund balance increased from a beginning balance of \$752,125 to \$1,626,312. The administrative portion of the fund increased by \$205,024. The housing assistance portion of the fund increased by \$669,163.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The Authority is unable to predict, beyond a given Congressional budget cycle, what funds will be available to administer the Section 8 program. At June 30, 2010 the Authority has cash reserves for approximately 7 months of administrative expenses and less than 2 months of HAP expenses.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. This report can be found on the City of Redding website, [www.ci.redding.ca.us](http://www.ci.redding.ca.us) under City Departments, Finance. Questions concerning any information provided in this report or request for additional financial information should be directed to:

The City of Redding – Finance Department  
777 Cypress Avenue  
Redding, CA 96001

**BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Housing Authority of the City of Redding**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 1,294,545
Receivables:	
Interest	3,117
Damage claims and overpayments	33,896
Intergovernmental receivable	31,675
Restricted assets:	
Cash and investments	1,412,523
Total current assets	<u>2,775,756</u>
Noncurrent assets:	
Intergovernmental receivable	138,181
FSS emergency loans receivable	2,003
Capital assets, net of depreciation	24,482
Total noncurrent assets	<u>164,666</u>
<b>Total assets</b>	<u><u>2,940,422</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	1,667
Accrued liabilities	42,192
Intergovernmental payable	52,633
Unearned revenue	172,361
Deposits	121,434
Compensated absences	32,270
Total current liabilities	<u>422,557</u>
Noncurrent liabilities:	
Compensated absences	97,410
Total current liabilities	<u>97,410</u>
<b>Total liabilities</b>	<u><u>519,967</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	24,482
Restricted for:	
Housing	1,193,149
Unrestricted	1,202,824
<b>Total net assets</b>	<u><u>\$ 2,420,455</u></u>

See accompanying Notes to the Basic Financial Statements.

**Housing Authority of the City of Redding**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>		<u>Operating Grants &amp; Contributions</u>		
		<u>FSS Forfeitures</u>	<u>Overpayments &amp; Damage Claims</u>	<u>Grants</u>	<u>Restricted Interest</u>	
<b>Governmental activities:</b>						<b>Governmental Activities</b>
Rental assistance	\$ 7,895,076	\$ 10,072	\$ 9,238	\$ 8,535,141	\$ 4,671	\$ 664,046
Administration	1,038,972	-	9,238	1,215,335	463	186,064
Business activity	286,445	-	-	-	-	(286,445)
<b>Total governmental activities:</b>	<b>\$ 9,220,493</b>	<b>\$ 10,072</b>	<b>\$ 18,476</b>	<b>\$ 9,750,476</b>	<b>\$ 5,134</b>	<b>\$ 563,665</b>
<b>General revenues:</b>						
						51
						15,288
						<u>15,339</u>
						579,004
						1,841,451
						<u>\$ 2,420,455</u>

See accompanying Notes to the Basic Financial Statements.

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**FUND FINANCIAL STATEMENTS**

**Housing Authority of the City of Redding**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General Fund	Section 8 Voucher Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 698,041	\$ 596,504	\$ 1,294,545
Receivables:			
Interest	1,132	1,985	3,117
Damage claims and overpayments	-	33,896	33,896
Intergovernmental	31,675	-	31,675
Restricted assets:			
Cash and investments	-	1,412,523	1,412,523
Non current assets:			
Intergovernmental receivables	138,181	-	138,181
FSS emergency loans receivable	-	2,003	2,003
<b>Total assets</b>	<b>\$ 869,029</b>	<b>\$ 2,046,911</b>	<b>\$ 2,915,940</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ -	\$ 1,667	\$ 1,667
Accrued liabilities	-	42,192	42,192
Intergovernmental payable	-	52,633	52,633
Deferred revenue	-	202,673	202,673
Deposits	-	121,434	121,434
<b>Total liabilities</b>	<b>-</b>	<b>420,599</b>	<b>420,599</b>
<b>Fund Balances:</b>			
Reserved for:			
Housing	-	1,177,993	1,177,993
Unreserved, undesignated reported in:			
Special revenue funds	869,029	448,319	1,317,348
<b>Total fund balances</b>	<b>869,029</b>	<b>1,626,312</b>	<b>2,495,341</b>
<b>Total liabilities and fund balances</b>	<b>\$ 869,029</b>	<b>\$ 2,046,911</b>	<b>\$ 2,915,940</b>

See accompanying Notes to the Basic Financial Statements.

**Housing Authority of the City of Redding**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Government-Wide Statement of Net Assets**  
**June 30, 2010**

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<b>Total Fund Balances - Total Governmental Funds</b>	\$ 2,495,341
Capital assets have not been included as financial resources in governmental fund activities.	24,482
Accrued vacation and other leave (compensated absences) is not reported in governmental funds, but is recorded as expense in the Statement of Activities.	(129,680)
Revenue reported as deferred revenue in the governmental funds was recorded as revenue in the Statement of Activities.	<u>30,312</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 2,420,455</u></u>

See accompanying Notes to the Basic Financial Statements.

**Housing Authority of the City of Redding**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2010**

	General Fund	Section 8 Voucher Special Revenue	Total Governmental Funds
<b>REVENUES:</b>			
Intergovernmental revenues	\$ -	\$ 9,750,476	\$ 9,750,476
Interest revenue	15,288	5,134	20,422
Other revenue	-	38,833	38,833
<b>Total revenues</b>	<b>15,288</b>	<b>9,794,443</b>	<b>9,809,731</b>
<b>EXPENDITURES:</b>			
Administration	30,886	967,237	998,123
Professional services	-	383	383
Rental assistance payments	255,559	7,895,076	8,150,635
FSS services coordinator	-	57,560	57,560
<b>Total expenditures</b>	<b>286,445</b>	<b>8,920,256</b>	<b>9,206,701</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(271,157)</b>	<b>874,187</b>	<b>603,030</b>
<b>FUND BALANCES:</b>			
Beginning of year	1,140,186	752,125	1,892,311
End of year	<b>\$ 869,029</b>	<b>\$ 1,626,312</b>	<b>\$ 2,495,341</b>

See accompanying Notes to the Basic Financial Statements.

**Housing Authority of the City of Redding**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2010**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 603,030
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets. It did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(12,718)
Damage claims and overpayments (fraud) receivables are not expected to provide current financial resources. Therefore, the net change in fraud receivables is a change in deferred revenue on the governmental funds, but on the Government-Wide Statement of Activities and Changes in Net Assets the change is recorded as a revenue, reduction in revenue, or bad debt expense.	(10,234)
Compensated absences in the Statement of Activities is reported as an expense but is not reported in the governmental funds.	<u>(1,074)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 579,004</u></u>

See accompanying Notes to the Basic Financial Statements.

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# Housing Authority of the City of Redding

## Notes to the Basic Financial Statements

### For the years ended June 30, 2010

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#### 1. REPORTING ENTITY

The Housing Authority of the City of Redding (Authority), a component unit of the City of Redding, California (City), was established pursuant to the laws of the State of California to provide housing, transact business and to have those powers as defined by law. The Authority has entered into an annual contribution contract with the U.S. Department of Housing and Urban Development (HUD) pertaining to its Section 8 Housing Choice Vouchers Program.

The Authority is an integral part of the City, and the accompanying financial statements are being presented as governmental funds as a means of disclosing what has been presented to HUD in the required annual compliance reports, submitted on HUD's Real Estate Assessment Center (REAC) system. REAC collects and reviews data from housing authorities to assure the accuracy, timeliness and reliability of the information used by HUD to assess the condition of HUD's portfolio as well as to provide information to help ensure safe, decent and affordable housing and to restore the public trust by identifying fraud, abuse and waste of HUD resources.

The Authority is a Section 8 only housing authority that does not own its own rental property. Therefore the Authority has opted to maintain its records as a governmental fund and is accounted for as a special revenue fund. It is included on the City's financial statements as part of the Housing Special Revenue Fund along with components of the Redding Redevelopment Agency (RRA). As such, the accompanying financial statements will not agree to what is included in the City's financial statements due to the consolidation of RRA activities and assets in the Housing Fund.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the Authority, all of which conform to generally accepted accounting principles as applicable to governmental units. The Authority has elected to follow Governmental Accounting Standards Board (GASB) pronouncements.

##### *A. Basis of Accounting and Measurement Focus*

The government-wide financial statements are reported using the "*economic resources*" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fund financial statements for the Authority are presented as General Fund and Special Revenue Fund, which are governmental funds. Governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenue to be available if it is collectible within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the years ended June 30, 2010**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Presentation***

**Major Funds**

The Authority reports all of its funds as major funds:

The General Fund is the fund the Authority uses for resources within the fund that are not HUD resources. These funds must be used for housing purposes, but are not restricted by HUD.

The Section 8 Voucher Special Revenue Fund is for all activity in the Section 8 Housing Choice Voucher program.

***C. Restricted Cash***

Restricted cash is recorded for cash held in trust for FSS Escrow participants and for cash restricted for use on housing assistance payments.

***D. Deferred/Unearned Revenue***

Unearned revenue in the governmental-wide financial statement is recognized for transactions for which revenues have not yet been earned. Typical transactions recorded as unearned revenues are unspent grant funds.

In the governmental fund financial statements, deferred revenue arises when potential revenues do not meet both "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

***E. Net Assets***

Net Assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount is capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt:", or "restricted net assets."

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the years ended June 30, 2010**

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*F. Use of Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. CASH AND INVESTMENTS**

The Authority maintains a separate bank account for Housing Assistance Payment (HAP) activity. Balances deemed not necessary for each month's HAP expenditures are kept in the Authority's Local Agency Investment Fund (LAIF) with the State Treasurer in order to maintain a higher return. Administrative costs are handled through the pooled cash of the City and reimbursements are made to the City monthly.

*A. Cash Deposits*

At June 30, 2010, the carrying amount of the Authority's deposits (unrestricted and restricted combined) was \$770,183. Bank balances before reconciling items were \$781,250 at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the Authority's name as discussed below.

The California Government Code (Code) requires California banks and savings and loan associations to secure the Authority's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Authority's name.

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the Authority's cash deposits. California law also allows institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total cash deposits. The Authority may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Authority, however, has not waived the collateralization requirements.

*B. Investments*

The Authority reports its investments at fair value with realized and unrealized gains or losses reported in the Statement of Revenues, Expenditures and Changes in Fund Balance

The Authority invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through LAIF, a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee.

LAIF has oversight by the Local Agency Investment Advisory Board. The fair value of the Authority's position in the pool is materially equivalent to the value of pool shares.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the years ended June 30, 2010**

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**3. CASH AND INVESTMENTS, Continued**

*B. Investments, Continued*

In accordance with authorized investment laws, LAIF may invest in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2010, 5.42% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. The City valued its investments in LAIF as of June 30, 2010, by multiplying its account balance with LAIF by a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 1.001643776. No rating is available from a nationally recognized statistical rating organization for LAIF.

*C. Summary of Cash and Investments*

As of June 30, 2010, the Authority had the following cash and investments:

	Fair Value	Investment Maturity in Year Less Than One Year
	<u>Fair Value</u>	<u>Less Than One Year</u>
<b>Cash and Investments:</b>		
<i>Deposits:</i>		
Cash in bank	\$ 648,749	\$ 648,749
Total deposits	<u>648,749</u>	<u>648,749</u>
<i>Investments:</i>		
Local Agency Investment Funds	645,796	645,796
Total investments	<u>645,796</u>	<u>645,796</u>
<b>Total Cash and Investments</b>	<u><u>\$ 1,294,545</u></u>	<u><u>\$ 1,294,545</u></u>
<b>Restricted Cash:</b>		
<i>Deposits:</i>		
Cash in bank	\$ 121,434	\$ 121,434
Total deposits	<u>121,434</u>	<u>121,434</u>
<i>Investments:</i>		
Local Agency Investment Funds	1,291,089	1,291,089
Total investments	<u>1,291,089</u>	<u>1,291,089</u>
<b>Total Restricted Cash and Investments</b>	<u><u>\$ 1,412,523</u></u>	<u><u>\$ 1,412,523</u></u>

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the years ended June 30, 2010**

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**3. CASH AND INVESTMENTS, Continued**

*D. Risk Disclosures*

Interest Rate Risk - In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the average maturity of its investment portfolio to less than one year, with 100% of investments LAIF being available on demand.

Credit Risk - The California Government Code and the investment policy of the Authority authorize the Authority to invest in obligations, participations, or other instruments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements, medium-term notes of maximum five-year maturity with a rating category of A or its equivalent or better by a nationally recognized rating agency, and LAIF. Reverse repurchase agreements may be made only when prior approval of the Board of Directors has been given.

Concentration of Credit Risk - The Authority has 72% of its cash invested with the LAIF. In addition to the safety provided by investing in high quality securities, LAIF's policies limit concentration risk by spreading investments over different investment types to minimize the impact of any one industry/investment class and by spreading investments over multiple credits/issuers within an investment type to minimize the credit exposure of the portfolio to any single firm or institution.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the Authority's investments in securities are held in the name of the Authority. The Authority's custodial agreement policy prohibits counterparties holding securities not in the Authority's name.

Restricted Cash - Certain deposits are received by the Authority which are not part of pooled cash and investments, but are recorded and tracked separately as restricted assets until refunded or applied.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the years ended June 30, 2010**

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**4. CAPITAL ASSETS**

Changes in capital assets consisted of the following:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Vehicles & Equipment	\$ 63,588	\$ -	\$ -	\$ 63,588
Total	<u>63,588</u>	<u>-</u>	<u>-</u>	<u>63,588</u>
Accumulated Depreciation	26,388	12,718	-	39,106
Total	<u>26,388</u>	<u>12,718</u>	<u>-</u>	<u>39,106</u>
Net Capital Assets	<u>\$ 37,200</u>	<u>\$ (12,718)</u>	<u>\$ -</u>	<u>\$ 24,482</u>

Depreciation expense was \$12,718.

**5. DEFERRED REVENUES**

In the governmental fund financial statements the deferred revenue balance at June 30, 2010 was \$202,673. The balance consisted of the following:

- ◆ \$30,312 for damage claims and overpayments due from Housing program participants were considered by the Authority not to have met the conditions and criteria to be recognized as revenue.
- ◆ \$172,361 that was received from HUD during the year for a specific purpose but not used. It is expected that HUD will reduce 2010-11 HAP payments by this amount.

In the government-wide financial statements the Authority has recognized the \$30,312 due from program participants for damage claims and overpayments as revenue, along with an associated bad debt expense, in the year that the receivable was recorded. As a result, the \$30,312 is not deferred revenue on the government-wide financial statements.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the years ended June 30, 2010**

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**6. COMPENSATED ABSENCES**

The Authority's changes in compensated absences for the year ended June 30, 2010 were as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due within</u> <u>One Year</u>
Compensated Absences	<u>\$ 128,606</u>	<u>\$ 53,403</u>	<u>\$ 52,329</u>	<u>\$ 129,680</u>	<u>\$ 32,270</u>

**7. CONTINGENCIES**

Grants have been received by the Authority for specific purposes that are subject to review and additional audit by HUD. Such audits could lead to a request for reimbursement for expenditures disallowed under the terms of the grant. The amount, if any, of expenditures that may be disallowed by HUD cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

**8. ECONOMIC DEPENDENCE**

The Authority is dependent upon grant funding from HUD for a significant portion of the Authority's operations. Grant receipts from HUD are subject to audits to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations.

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# Housing Authority of the City of Redding

## Required Supplementary Information

### For the year ended June 30, 2010

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#### 1. BUDGETARY PRINCIPLES

##### Budget Data

The operating budget of the Authority is adopted by the Housing Board prior to July 1 each year at the Housing Authority level (fund level within the City) primarily on a cash basis. The City Manager of the City is authorized to transfer budget amounts between divisions of a department within any fund; however, any revisions that alter the total expenditures of the Housing Authority require a Housing Board resolution.

Budget information is adopted and presented for the Authority as a whole. The presentations represent original appropriations adjusted for supplemental appropriations, if any, made during the year.

Portions of fund equity are recorded as reserves when segregation for future use is necessary and the funds are, therefore, not available for future apportionment or expenditures.

##### Summary of Differences between Budgetary Basis and Generally Accepted Accounting Principles (GAAP)

The following are the differences between the Authority's budgetary basis and GAAP:

- A. The Authority does not budget for the fair market value adjustment required under GASB 31.
- B. The Authority does not budget for accounts payable or intergovernmental payables.
- C. The Authority does not budget for benefit accruals.
- D. The Authority budgets for certain receivables and payables on a cash basis.
- E. Encumbrances are not included in the Statement of Revenue, Expenditures and Changes in Fund Balance

**Housing Authority of the City of Redding**  
**Required Supplementary Information**  
**For the year ended June 30, 2010**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenues	\$ 7,838,930	\$ 9,618,210	\$ 10,620,496	\$ 1,002,286
Interest revenue	40,000	40,000	10,551	(29,449)
Other	10,000	10,000	29,237	19,237
Total revenues	<u>7,888,930</u>	<u>9,668,210</u>	<u>10,660,284</u>	<u>992,074</u>
<b>EXPENDITURES:</b>				
Current:				
Community development	<u>7,854,720</u>	<u>9,634,000</u>	<u>9,171,478</u>	<u>462,522</u>
Total expenditures	<u>7,854,720</u>	<u>9,634,000</u>	<u>9,171,478</u>	<u>462,522</u>
Excess (deficiency) of revenues over (under) expenditures	<u>34,210</u>	<u>34,210</u>	<u>1,488,806</u>	<u>1,454,596</u>
Net change in fund balance	<u>34,210</u>	<u>34,210</u>	<u>1,488,806</u>	<u>1,454,596</u>
Beginning fund balance	<u>1,892,311</u>	<u>1,892,311</u>	<u>1,892,311</u>	<u>-</u>
Budgetary fund balances (deficit), end of year	<u>\$ 1,926,521</u>	<u>\$ 1,926,521</u>	<u>\$ 3,381,117</u>	<u>\$ 1,454,596</u>

Explanation of differences from the Statement of Revenues, Expenditures and Changes in Fund Balance to Actual Amounts Budgetary Basis Fund Balance from the Statement of Revenues, Expenditures and Changes in Fund Balance

(1) Fair market value adjustments to investments are not recorded in budgetary accounts.	(2,733)
(2) Accounts payable accruals are reflected in GAAP based financial statements but are not included in budgetary expenditures.	392
(3) The Authority budgets for and records loans made in the expenditure accounts, but adjusts loans receivable under GAAP financial statements.	(912)
(4) The Authority budgets for and records loan payments received in the revenue accounts, but adjusts loans receivable under GAAP financial statements.	476
(5) The Authority budgets for grants on a cash basis.	859,948
(6) End of year encumbrances are included in budgetary expenditures but are not included in the GAAP based Statement of Revenues, Expenditures, and Changes in Fund Balance.	(1,877)
(7) The Authority budgets for interest income on notes receivable on a cash basis.	(7,138)
(8) The Authority budgeted and prepaid rent in a prior year, but adjusts the prepayment for the current year portion.	37,620
Budgetary fund balance	<u>\$ 3,381,117</u>

The Authority's budget is approved at the entity-wide level, as it is a component unit of the City of Redding and is budgeted as a single fund within the City.

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Caporicci & Larson, Inc.  
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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of City Council  
of the City of Redding  
Redding, California

We have audited the basic financial statements of the City of Redding, California (City), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 9, 2010. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the City's internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness as defined above.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any instances of significant deficiencies, as defined above.

This report is intended solely for the information and use of management, the Housing Commission, others within the entity, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
March 2, 2011

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## **SUPPLEMENTARY INFORMATION**



## Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Board of Directors  
 of the City of Redding Housing Authority  
 Redding, California

We have performed the procedure described in the second paragraph of this report, which was agreed to by the City of Redding Housing Authority and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents included within the OMB Circular A-133 reporting package. The Housing Authority is responsible for the accuracy and completeness of the electronic submission. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the chart below.

Procedures	UFRS Rule Information	Hard Copy Documents	Agreed	Does Not Agree
1	Balance Sheet and Revenue and Expense (data line items 111 to 13901)	Financial Data Schedule, all CFDA's	X	
2	Footnotes (G5000-010)	Footnotes to Audited Basic Financial Statements	X	
3	Type of opinion on the Financial Statement and auditor reports (G3100-040)	Auditor's Reports on the Financial Statements, Compliance and Internal Control	X	
4	Audit finding narrative (G5200-010)	Schedule of Findings and Questioned Costs	X	
5	General information (G2000, G2100, G2200, G9000, and G9100 series of accounts)	OMB Data Collection Form	X	
6	Financial Statement Report Information (G3000-005 to G3000-050)	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	X	
7	Federal Program Report Information (G4000-010 to G4100-040)	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	X	
8	Federal Agencies required to receive reporting package (G4200-020 & G4000-030)	OMB Data Collection Form	X	
9	Basic Financial Statements and Auditor Reports required to be submitted electronically	Basic Financial Statements (inclusive auditor reports)	X	

To the Board of Directors  
of the City of Redding Housing Authority  
Redding, California

We were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, City of Redding Housing Authority, HUD Project No. 106 as of and for the year ended June 30, 2010, and have issued our report thereon March 2, 2011. The information in the "Hard Copy Documents" column was included within the scope or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental information dated March 2, 2011 was expressed in relation to the basic financial statements of City of Redding Housing Authority, HUD Project No. 106 taken as a whole.

A copy of the reporting package required by OMB Circular A-133, which includes the auditor's reports, is available in its entirety from the City of Redding Housing Authority. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the City of Redding Housing Authority and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.



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A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
March 30, 2011