

**Housing Authority
of the City of
Redding**
Redding, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2007

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, as of and for the year ended June 30, 2007, 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 generally accepted auditing standards in the United States 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 from material misstatement. 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 basic 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, 2007, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007, 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.

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.

Oakland, California
November 9, 2007

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**Housing Authority of the City of Redding
Management's Discussion and Analysis
For the year ended June 30, 2007**

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, 2007. 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 \$284,630.
- As of the close of the current fiscal year, the Authority's funds reported combined ending fund balances of \$1,959,579 which is an increase of \$247,278 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 \$7,147,461 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, 2007**

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 12-13 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 Mod-Rehab and Section 8 Voucher programs are each reported as special revenue funds.

The governmental fund financial statements can be found on pages 16-19 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 21-27 of this report.

Housing Authority of the City of Redding
Management's Discussion and Analysis, continued
For the year ended June 30, 2007

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, 2007 and 2006:

Condensed Statement of Net Assets

	2007	2006 Restated
Current assets	\$ 1,993,235	\$ 1,755,985
Non-current capital assets	45,192	-
Other non-current assets	260,159	260,797
Total assets	<u>2,298,586</u>	<u>2,016,782</u>
Current liabilities	201,542	216,057
Non-current liabilities	77,839	66,150
Total liabilities	<u>279,381</u>	<u>282,207</u>
Net Assets:		
Invested in capital assets, net of related debt	45,192	-
Restricted	1,981,679	1,744,151
Unrestricted	(7,666)	(9,576)
Total net assets	<u>\$ 2,019,205</u>	<u>\$ 1,734,575</u>

The Authority's net assets increased to \$2.02 million from \$1.73 million, an increase of 17%. The increase is primarily in the Section 8 program. Included in the 2007 net assets is a revenue accrual and intergovernmental receivable of \$431,422 associated with the 2007 annual award which the Authority received notice of after the fiscal year-end.

Housing Authority of the City of Redding
Management's Discussion and Analysis, continued
For the year ended June 30, 2007

The following schedule displays a comparison of 2006-07 and 2005-06 fiscal year revenues and expenses for the Authority:

Condensed Statement of Activities and Changes in Net Assets		
	2007	2006 Restated
Administrative	\$ 1,071,949	\$ 942,748
Rental assistance	6,075,512	5,936,167
Total expenses	<u>7,147,461</u>	<u>6,878,915</u>
Operating grants	7,172,519	7,210,074
Investment and Other	259,572	192,194
Total revenues	<u>7,432,091</u>	<u>7,402,268</u>
Change in net assets	284,630	523,353
Beginning net assets, as restated	1,734,575	1,211,222
Ending net assets	<u>\$ 2,019,205</u>	<u>\$ 1,734,575</u>

Administrative expenses of \$1,071,949 in the fiscal year ended 2007 include \$98,153 of bad debt expense related to a write-down of damage claims and overpayments receivables. Other revenues for the 2006-07 fiscal year include \$134,592 of revenue recorded for damage claims and overpayments receivable additions.

BUDGETARY HIGHLIGHTS

The Authority's budget is approved at the entity-wide level. Since the Authority is a component unit of the City of Redding, 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 H.U.D. Actual amounts received from H.U.D. vary from initial projections. Accordingly, the Authority increases its expenditure budget to allow for additional HAP payments. The expenditure budget increased from an original \$6.88 million to a final amended budget of \$7.11 million during the year.

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.

MOD 1 - Special Revenue Fund: The Mod Rehab 1 program ended in 2005-06. Amounts due to HUD at June 30, 2006 were collected during the 2006-07 fiscal year and the negative fund balance was closed out to the Section 8 Voucher program.

MOD 2 - Special Revenue Fund: The Mod Rehab 2 program ended in 2005-06. However, as of June 30, 2007 the Authority still had not received a settlement for the \$30,368 due from HUD at the close of the program. The fund is being held open until a settlement is received.

Section 8 Voucher - Special Revenue Fund: The Section 8 program's fund balance increased from a restated beginning balance of \$732,880 to \$928,809. The increase is due to unspent housing assistance funds.

CAPITAL ASSETS

The Authority purchased new software in 2006-07 to facilitate administration of the Section 8 Voucher system, to include the administration of FSS escrow accounts.

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, 2007 the Authority has approximately 1.5 months HAP reserve and 3.4 months administrative reserve.
- With the problems in the housing market, locally and nationwide, the Authority expects that the demand for low-income housing will increase noticeably in the coming months. Since receiving its annual budget authority in July, the Authority has been attempting to lease-up more units in order to better meet the local needs and to bring housing expenditures in line with the current monthly budget authority.

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 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 Division
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, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 1,346,692
Receivables:	
Interest	15,800
Damage claims and overpayments	89,933
Intergovernmental receivable	461,790
Restricted assets:	
Cash	79,020
Total current assets	<u>1,993,235</u>
Noncurrent assets:	
Intergovernmental receivable	258,598
FSS emergency loans receivable	1,561
Capital assets, net of depreciation	45,192
Total noncurrent assets	<u>305,351</u>
Total assets	<u><u>2,298,586</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	3,814
Accrued liabilities	24,871
Intergovernmental payable	65,809
Deposits	79,020
Compensated absences	28,028
Total current liabilities	<u>201,542</u>
Current assets:	
Compensated absences	77,839
Total current liabilities	<u>77,839</u>
Total liabilities	<u><u>279,381</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	45,192
Restricted for:	
Housing	1,981,679
Unrestricted (deficit)	(7,666)
Total net assets	<u><u>\$ 2,019,205</u></u>

See accompanying Notes to Basic Financial Statements.

Housing Authority of the City of Redding
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2007

Expenses:	
Housing:	
Administrative	\$ 1,071,949
Rental assistance	<u>6,075,512</u>
Total Program expenses	<u>7,147,461</u>
 Program Revenues:	
Operating grants and contributions	<u>7,172,519</u>
Net program income	<u>25,058</u>
 General revenues:	
Investment earnings	85,005
Other	<u>174,567</u>
Total general revenues	<u>259,572</u>
Change in net assets	284,630
Net assets - beginning of year	1,698,545
Prior period adjustments	36,030
Net assets - beginning of year (as restated)	<u>1,734,575</u>
Net assets - end of year	<u>\$ 2,019,205</u>

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

Housing Authority of the City of Redding
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	MOD 1 Special Revenue	MOD 2 Special Revenue	Section 8 Voucher Special Revenue	Total Governmental Funds
ASSETS					
Current assets:					
Cash and investments	\$ 763,462	\$ -	\$ -	\$ 583,230	\$ 1,346,692
Receivables:					
Interest	8,710	-	-	7,090	15,800
Damage claims and overpayments	-	-	-	89,933	89,933
Intergovernmental	28,569	-	-	431,422	459,991
Restricted assets:					
Cash	-	-	-	79,020	79,020
Non current assets:					
Interfund receivable	38,034	-	-	-	38,034
Intergovernmental receivables	230,029	-	30,368	-	260,397
FSS emergency loans receivable	-	-	-	1,561	1,561
Total assets	\$ 1,068,804	\$ -	\$ 30,368	\$ 1,192,256	\$ 2,291,428
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 3,814	\$ 3,814
Accrued liabilities	-	-	-	24,871	24,871
Intergovernmental payable	-	-	-	65,809	65,809
Deferred revenue	-	-	30,368	89,933	120,301
Deposits	-	-	-	79,020	79,020
Total current liabilities	-	-	30,368	263,447	293,815
Noncurrent liabilities:					
Interfund payable	\$ -	\$ -	\$ 38,034	-	\$ 38,034
Total noncurrent liabilities	-	-	38,034	-	38,034
Total liabilities	-	-	68,402	263,447	331,849
Fund Balances:					
Reserved for:					
Housing	1,068,804	-	-	928,809	1,997,613
Unreserved, undesignated reported in:					
Special revenue funds	-	-	(38,034)	-	(38,034)
Total fund balances	1,068,804	-	(38,034)	928,809	1,959,579
Total liabilities and fund balances	\$ 1,068,804	\$ -	\$ 30,368	\$ 1,192,256	\$ 2,291,428

See accompanying Notes to 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, 2007

Total Fund Balances - Total Governmental Funds	\$ 1,959,579
Capital assets have not been included as financial resources in governmental fund activity.	45,192
Accrued vacation and other leave not reported in governmental funds, but recorded as expense in the statement of activities.	(105,867)
Revenue reported as deferred revenue in the governmental funds was recorded as revenue in the statement of activities.	<u>120,301</u>
Net Assets of Governmental Activities	<u><u>\$ 2,019,205</u></u>

See accompanying Notes to 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, 2007

	General Fund	MOD 1 Special Revenue	MOD 2 Special Revenue	Section 8 Voucher Special Revenue	Total Governmental Funds
REVENUES:					
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ 7,172,519	\$ 7,172,519
Interest revenue	48,439	-	-	36,566	85,005
Other revenue	1,000	-	-	65,872	66,872
Total revenues	49,439	-	-	7,274,957	7,324,396
EXPENDITURES:					
Current:					
Administrative	-	-	-	944,766	944,766
Professional services	-	-	-	693	693
Rental assistance payments	-	-	-	6,075,512	6,075,512
FSS service coordinator	-	-	-	56,147	56,147
Total expenditures	-	-	-	7,077,118	7,077,118
REVENUES OVER (UNDER) EXPENDITURES	49,439	-	-	197,839	247,278
OTHER FINANCING SOURCES (USES):					
Transfers in	-	1,910	-	-	1,910
Transfers out	-	-	-	(1,910)	(1,910)
Total other financing sources (uses)	-	1,910	-	(1,910)	-
Net change in fund balances	49,439	1,910	-	195,929	247,278
FUND BALANCES:					
Beginning of year	1,019,365	(1,910)	(38,034)	688,756	1,668,177
Prior period adjustments	-	-	-	44,124	44,124
Beginning of year, as restated	1,019,365	(1,910)	(38,034)	732,880	1,712,301
End of year	\$ 1,068,804	\$ -	\$ (38,034)	\$ 928,809	\$ 1,959,579

See accompanying Notes to 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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 247,278
 Governmental funds reported acquisition of capital assets as part of capital expenditures. However in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period	 48,420
 Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	 (3,228)
 Damage claims and overpayments (fraud) receivables are not expected to provide current financial resources. Therefore, when new fraud receivables are recorded in governmental funds, deferred revenue is recorded, but on the Government-Wide Statement of Activities and Changes in Net Assets revenue is recorded.	 107,695
 Damage claims and overpayments (fraud) receivables are not expected to provide current financial resources. Therefore, when a bad debt allowance for new fraud receivables is recorded in governmental funds, deferred revenue is reduced, but on the Government-Wide Statement of Activities and Changes in Net Assets bad debt expense is recorded.	 (98,153)
 Compensated absences in the statement of activities is reported as an expense but is not reported in the governmental funds.	 <u>(17,382)</u>
Change in Net Assets of Governmental Activities	\$ <u>284,630</u>

See accompanying Notes to 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, 2007

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 Conventional Low Rent Owned Housing 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 revenue recognition differences and the consolidation of RRA activities and assets in the Housing Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements for the Authority are presented as General Fund and Special Revenue Funds, 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 they are collectible within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred.

B. *Restricted Cash*

Restricted cash is recorded for all cash advances received as deposits for housing activities.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Deferred/Unearned Revenue

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

In the governmental fund financial statement, deferred revenues arise when potential revenues do not meet both "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise 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.

D. 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 "restricted net assets."

E. 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 cash and investment pool, which includes cash balances and authorized investments of all funds, which the Authority invests to enhance interest earnings. The pooled interest earned is allocated to the funds annually, based on an analysis of cash activity and fund balances.

A. Cash Deposits

At June 30, 2007, the carrying amount of the Authority's deposits was \$615,813. Bank balances before reconciling items were \$630,052 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.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2007

3. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

The California Government 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 \$100,000 by the Federal Deposit Insurance Corporation. The Authority, however, has not waived the collateralization requirements.

B. Investments

The Authority reports its investments in accordance with Governmental Accounting Standards Board (GASB) Statement Number 31. This standard requires that the Authority's investments be reported 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 the Local Agency Investment Fund (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.

In accordance with authorized investment laws, LAIF invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2007, 3.466% 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, 2007, 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 .999545022. No rating is available from a nationally recognized statistical rating organization for LAIF.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2007

3. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments

As of June 30, 2007, the Authority had the following cash and investments:

	<u>Fair Value</u>	<u>Investment Maturity in Year Less Than One Year</u>
Cash and Investments:		
<i>Deposits:</i>		
Cash in bank	\$ 536,793	\$ 536,793
Cash on hand	2,282	2,282
Total deposits	<u>539,075</u>	<u>539,075</u>
<i>Investments:</i>		
Local Agency Investment Funds	807,617	807,617
Total investments	<u>807,617</u>	<u>807,617</u>
Total Cash and Investments	<u><u>\$ 1,346,692</u></u>	<u><u>\$ 1,346,692</u></u>
 Restricted Cash:		
<i>Deposits:</i>		
Cash in bank	\$ 79,020	\$ 79,020
Total Restricted Cash and Investments	<u><u>\$ 79,020</u></u>	<u><u>\$ 79,020</u></u>

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 (Local Agency Investment Fund) 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 the State Treasurer's Investment Pool (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 about 60% 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.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2007

3. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

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.

4. INTERFUND ACTIVITIES

At June 30, 2007 interfund activities were as follows:

Due To Other Funds	Due From Other Funds
	General Fund
MOD 2 Special Revenue Fund	38,034
Total	\$ 38,034

5. CAPITAL ASSETS

Changes in capital assets consisted of the following:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Furnishings and equipment \$	-	\$ 48,420	\$ -	\$ 48,420
Total	-	48,420	-	48,420
Accumulated depreciation	-	3,228	-	3,228
Total	-	3,228	-	3,228
Net book value	\$ -	\$ 45,192	\$ -	\$ 45,192

Housing Authority of the City of Redding
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2007

6. DEFERRED REVENUES

In the governmental fund financial statements the deferred revenue balance at June 30, 2007 was \$120,301. The balance consisted of the following:

- ◆ \$30,368, due from the Department of Housing and Urban Development for the MOD 2 Housing program which was determined by the Authority not to be readily available to be recognized as revenue.
- ◆ \$89,933 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.

In the Government-wide financial statements the Authority recognized the \$30,368 due from the Department of Housing and Urban Development for the MOD 2 Housing program, as revenue. Also, amounts due from program participants for damage claims and overpayments were recognized as revenue, along with an associated bad debt expense, in the year that the receivable was recorded. As a result, the \$89,933 is not deferred revenue on the Government-wide statements.

7. COMPENSATED ABSENCES

The Authority's changes in compensated absences for the year ended June 30, 2007 were as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007	Due within One Year
Compensated Absences	\$ 89,387	\$ 83,653	\$ 67,173	\$ 105,867	\$ 28,028

8. 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.

9. ECONOMIC DEPENDENCE

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

10. TRANSFERS

The Authority made an operating transfer of \$1,910 from the Section 8 fund to the Mod 1 fund to close out the negative fund balance in that program. The program is now closed and all receivables/payables have been resolved.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2007

11. PRIOR PERIOD ADJUSTMENT TO NET ASSETS AND FUND BALANCE

A. Government-Wide Statements

During the fiscal year 2007 the Authority recorded a prior period adjustment to correct an accounting error.

	Accounting Adjustment				Net Assets as Restated
	Net Assets as Previously Reported	Deferred Revenue	Bad Debt Expense	Compensated Absences	
Government-Wide Activities:	\$ 1,698,545	\$ 164,923	\$ (40,408)	\$ (88,485)	\$ 1,734,575

Net accounts receivable was originally offset by deferred revenue. In addition, a 2004 HUD true-up was recorded as a reduction in revenue in 2005-06 instead of in the year adjusted.

Prior year net asset statements did not account for compensated absences.

B. Fund Financial Statements

The Authority recorded the following prior period adjustment to correct an accounting error:

	Beginning Fund Balance	Accounting Correction	Restated Fund Balance
Special Revenue Fund			
Section 8	\$ 688,756	\$ 44,124	\$ 732,880

In August 2006, HUD issued a reduced Section 8 voucher payment to the Authority. The reduction was related to a true-up from 2004. The Authority initially recorded this as a reduction to 2005-06 revenue. Per direction from HUD, the Authority is recording this reduction in the year adjusted (2006-07) requiring a prior period adjustment.

REQUIRED SUPPLEMENTARY INFORMATION

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Housing Authority of the City of Redding
Required Supplementary Information
For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental revenues	\$ 6,828,160	\$ 6,928,740	\$ 6,852,796	\$ (75,944)
Interest revenue	20,000	20,000	73,499	53,499
Other	-	-	1,049	1,049
Total revenues	<u>6,848,160</u>	<u>6,948,740</u>	<u>6,927,344</u>	<u>(21,396)</u>
EXPENDITURES:				
Current:				
Community development	6,877,570	7,110,190	7,045,605	64,585
Total expenditures	<u>6,877,570</u>	<u>7,110,190</u>	<u>7,045,605</u>	<u>64,585</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,410)</u>	<u>(161,450)</u>	<u>(118,261)</u>	<u>43,189</u>
Net change in fund balance	<u>(29,410)</u>	<u>(161,450)</u>	<u>(118,261)</u>	<u>43,189</u>
Fund balances (deficit), beginning of year, as originally stated	1,668,177	1,668,177	1,668,177	-
Prior period adjustment	<u>44,124</u>	<u>44,124</u>	<u>44,124</u>	<u>-</u>
Fund balances (deficit), beginning of year, as restated	<u>1,712,301</u>	<u>1,712,301</u>	<u>1,712,301</u>	<u>-</u>
Budgetary fund balances (deficit), end of year	\$ <u>1,682,891</u>	\$ <u>1,550,851</u>	\$ <u>1,594,040</u>	\$ <u>43,189</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		
		1,959,579
(1) GASB 31 investment FMV adjustment - not budgeted.		(1,393)
(2) The Authority does not budget for accounts payable adjustments.		(791)
(3) The Authority budgets for and records loans made in the expenditure accounts, but adjusts the actual disbursement to loans receivable.		1,752
(4) The Authority budgets for land purchases in the expenditure accounts, but adjusts the actual payment to assets held for resale for property that is to be sold.		(901)
(5) The Authority does not budget for benefit accruals.		(901)
(6) The Authority budgets for and records loan payments received in the revenue accounts, but adjusts the actual payment to loans receivable.		(1,065)
(7) The Authority does not budget for rolling stock.		(98)
(8) The Authority budgets for grants on a cash basis.		(431,422)
(9) End of year encumbrances are included in actual expenditures budgetary basis, but are not included in the Statement of Revenues, Expenditures, and Fund Balance.		(3,350)
(10) The Authority did not adjust the budget for the 2004 true-up.		44,124
(11) The Authority budgets for interest income on notes receivable on a cash basis.		(10,015)
(12) 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>1,594,040</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.



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

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

We have audited the financial statements of the Housing Authority of the City of Redding (Authority), a component unit of the City of Redding (City), as of and for the year ended June 30, 2007, and have issued our report thereon dated November 9 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters identified as control deficiencies that we reported to management of the City in a separate letter dated November 9, 2007.

This report is intended solely for the information and use of management, the City Council, 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.

Capricci & Carlson

Oakland, California
November 9, 2007

SUPPLEMENTARY INFORMATION

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Independent Accountant's 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 City of Redding 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	Does Not	
			Agreed	Agreed
1	Balance Sheet, Revenue and Expense and Cash Flow data (account numbers 111 to 1121)	Financial Data Templates (i.e. Supplemental Schedules)	X	
2	Footnotes (G5000-010)	Footnotes to Audited Basic Financial Statements	X	
3	Type of opinion on the Financial Statement and auditor reports (G5100-010)	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)	OMB Data Collection Form	X	
7	General information (G4000-010 to G4100-040)	OMB Data Collection Form	X	
8	Federal Agencies required to receive reporting package (G4000-050)	OMB Data Collection Form	X	

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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, 2007, and have issued our report thereon dated November 9, 2007. 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 November 9, 2007 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.

Capricci & Carson

Oakland, California
January 4, 2007

PHA: CA106 FYED: 06/30/2007

Line Item No.	Account Description	Business Activities	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat CA106MR0001	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat CA106MR0002	Housing Choice Vouchers	Total
111	Cash - Unrestricted	\$763,462	\$0	\$0	\$583,230	\$1,346,692
113	Cash - Other Restricted	\$0	\$0	\$0	\$79,020	\$79,020
100	Total Cash	\$763,462	\$0	\$0	\$662,250	\$1,425,712
124	Accounts Receivable - Other Government	\$258,598	\$0	\$30,368	\$431,422	\$720,388
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0
128	Fraud Recovery	\$0	\$0	\$0	\$349,443	\$349,443
128.1	Allowance for Doubtful Accounts - Fraud	\$0	\$0	\$0	\$-259,510	\$-259,510
129	Accrued Interest Receivable	\$8,710	\$0	\$0	\$7,090	\$15,800
120	Total Receivables, net of allowances for doubtful accounts	\$267,308	\$0	\$30,368	\$528,445	\$826,121
144	Interprogram Due From	\$38,034	\$0	\$0	\$0	\$38,034
150	Total Current Assets	\$1,068,804	\$0	\$30,368	\$1,190,695	\$2,289,867
164	Furniture, Equipment & Machinery - Administration	\$0	\$0	\$0	\$48,420	\$48,420
166	Accumulated Depreciation	\$0	\$0	\$0	\$-3,228	\$-3,228
160	Total Fixed Assets, Net of Accumulated Depreciation	\$0	\$0	\$0	\$45,192	\$45,192
171	Notes, Loans, & Mortgages Receivable - Non Current	\$0	\$0	\$0	\$1,561	\$1,561
180	Total Non-Current Assets	\$0	\$0	\$0	\$46,753	\$46,753
190	Total Assets	\$1,068,804	\$0	\$30,368	\$1,237,448	\$2,336,620

PHA: CA106 FYED: 06/30/2007

Line Item No.	Account Description	Business Activities	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat CA106MR0001	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat CA106MR0002	Housing Choice Vouchers	Total
312	Accounts Payable <= 90 Days	\$0	\$0	\$0	\$3,814	\$3,814
321	Accrued Wage/Payroll Taxes Payable	\$0	\$0	\$0	\$24,871	\$24,871
322	Accrued Compensated Absences - Current Portion	\$0	\$0	\$0	\$28,028	\$28,028
345	Other Current Liabilities	\$0	\$0	\$0	\$65,809	\$65,809
347	Interprogram Due To	\$0	\$0	\$38,034	\$0	\$38,034
310	Total Current Liabilities	\$0	\$0	\$38,034	\$122,522	\$160,556
354	Accrued Compensated Absences - Non Current	\$0	\$0	\$0	\$77,839	\$77,839
353	Noncurrent Liabilities - Other	\$0	\$0	\$0	\$79,020	\$79,020
350	Total Noncurrent Liabilities	\$0	\$0	\$0	\$156,859	\$156,859
300	Total Liabilities	\$0	\$0	\$38,034	\$279,381	\$317,415

PHA: CA106 FYED: 06/30/2007

Line Item No.	Account Description	Business Activities	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat CA106MR0001	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat CA106MR0002	Housing Choice Vouchers	Total
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$0	\$0	\$0	\$45,192	\$45,192
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$1,068,804	\$0	\$-7,666	\$912,875	\$1,974,013
513	Total Equity/Net Assets	\$1,068,804	\$0	\$-7,666	\$958,067	\$2,019,205

PHA: CA106 FYED: 06/30/2007

Line Item No.	Account Description	Business Activities	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat CA106MR0001	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitat CA106MR0002	Housing Choice Vouchers	Total
705	Total Tenant Revenue		\$0	\$0	\$0	\$0
706	HUD PHA Operating Grants		\$0	\$0	\$0	\$7,172,519
711	Investment Income - Unrestricted		\$48,439	\$0	\$0	\$36,566
714	Fraud Recovery		\$0	\$0	\$0	\$134,592
715	Other Revenue		\$1,000	\$0	\$0	\$38,975
700	Total Revenue		\$49,439	\$0	\$0	\$7,382,652

PHA: CA106 FYED: 06/30/2007

Line Item No.	Account Description	Business Activities	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat CA106MR0001	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitat CA106MR0002	Housing Choice Vouchers	Total
911	Administrative Salaries	\$0	\$0	\$0	\$360,526	\$360,526
912	Auditing Fees	\$0	\$0	\$0	\$693	\$693
914	Compensated Absences	\$0	\$0	\$0	\$83,653	\$83,653
915	Employee Benefit Contributions - Administrative	\$0	\$0	\$0	\$236,353	\$236,353
916	Other Operating - Administrative	\$0	\$0	\$0	\$233,196	\$233,196
921	Tenant Services - Salaries	\$0	\$0	\$0	\$34,349	\$34,349
923	Employee Benefit Contributions - Tenant Services	\$0	\$0	\$0	\$21,798	\$21,798
966	Bad Debt - Other	\$0	\$0	\$0	\$98,154	\$98,154
969	Total Operating Expenses	\$0	\$0	\$0	\$1,068,722	\$1,068,722
970	Excess Operating Revenue over Operating Expenses	\$49,439	\$0	\$0	\$6,313,930	\$6,363,369
973	Housing Assistance Payments	\$0	\$0	\$0	\$6,075,511	\$6,075,511
974	Depreciation Expense	\$0	\$0	\$0	\$3,228	\$3,228
900	Total Expenses	\$0	\$0	\$0	\$7,147,461	\$7,147,461
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$49,439	\$0	\$0	\$235,191	\$284,630
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$1,019,365	\$-1,910	\$-7,666	\$813,271	\$1,823,060
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$1,910	\$0	\$-90,395	\$-88,485
1120	Unit Months Available	0	0	0	18,336	18,336
1121	Number of Unit Months Leased	0	0	0	16,362	16,362
1117	Administrative Fee Equity	\$0	\$0	\$0	\$129,448	\$129,448
1118	Housing Assistance Payments Equity	\$0	\$0	\$0	\$828,619	\$828,619