

# Housing Authority of the City of Redding

*Basic Financial Statements  
and Independent Auditors' Reports*

*For the year ended June 30, 2013*

# Housing Authority of the City of Redding

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
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 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, 2013, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 31 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*D.H. Scott & Company LLP*

Redding, California  
December 20, 2013

## **Housing Authority of the City of Redding Management's Discussion and Analysis, continued For the year ended June 30, 2013**

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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, 2013. 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 position decreased by \$811,867.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$1,471,774 which is a decrease of \$789,109 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 \$9,002,028 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 Position:** This statement presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, the change in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the

**Housing Authority of the City of Redding  
Management's Discussion and Analysis, continued  
For the year ended June 30, 2013**

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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).

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

The governmental fund financial statements can be found on pages 15-18 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 20-28 of this report.

**Housing Authority of the City of Redding**  
**Management's Discussion and Analysis, continued**  
**For the year ended June 30, 2013**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position 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 position as of June 30, 2013 and 2012:

Condensed Statement of Net Position

	2013	2012
Current assets	\$ 1,721,754	\$ 2,502,361
Non-current capital assets	14,170	20,308
Other non-current assets	37,157	72,990
Total assets	<u>1,773,081</u>	<u>2,595,659</u>
Current liabilities	308,883	329,830
Non-current liabilities	93,469	82,233
Total liabilities	<u>402,352</u>	<u>412,063</u>
Net Position:		
Investment in capital assets	14,170	20,308
Restricted	597,782	1,279,314
Unrestricted	758,777	882,974
Total net position	<u>\$ 1,370,729</u>	<u>\$ 2,182,596</u>

The Authority's net position decreased to \$1.37 million from \$2.18 million, a decrease of 37%. The decrease is almost entirely in the HCV program. During 2011-12 the Department of Housing and Urban Development (HUD) began, at the direction of Congress, recapturing excess funds that were held by the Authority for payment of Housing Assistance Payments (HAP). At the beginning of the year the Authority had approximately \$1.02 million in HAP reserves. By June 30, 2013 this had been reduced to approximately \$0.51 million. Staff anticipates the HCV Program funding may be reduced and that HUD will continue to operate the HCV Program in this manner which will reduce the Authority's assets and reserves. HUD has indicated that once HAP reserves have been recaptured monthly funding should approximate monthly expenditures for HAP.

**Housing Authority of the City of Redding**  
**Management's Discussion and Analysis, continued**  
**For the year ended June 30, 2013**

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The following schedule displays a comparison of 2012-13 and 2011-12 fiscal year revenues and expenses for the Authority:

Condensed Statement of Activities and Changes in Net Position

	2013	2012
Administrative	\$ 1,258,242	\$ 1,194,078
Rental assistance	7,614,358	8,342,057
Other expenses	129,428	-
Total expenses	<u>9,002,028</u>	<u>9,536,135</u>
Operating grants	8,159,285	8,108,511
Investment and Other	30,876	38,414
Total revenues	<u>8,190,161</u>	<u>8,146,925</u>
Change in net position	(811,867)	(1,389,210)
Beginning net position	2,182,596	3,571,806
Ending net position	<u>\$ 1,370,729</u>	<u>\$ 2,182,596</u>

Administrative expenses increased in the fiscal year ending June 30, 2013. The higher administrative costs in the fiscal year that ended 2013 were primarily due to staffing reorganization resulting from the dissolution of the Redding Redevelopment Agency. Increased personnel costs were further compounded by a reduction in the published admin percentage reimbursement received per voucher from HUD. Rental assistance paid out of restricted HA funds decreased, as the Housing Authority was not fully leased up during the 2012 year in anticipation of the in pact of federal sequestration and the potential reduction in budget authority from HUD.

**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. Once HUD grant amounts are available the Authority adjusts its budget. Actual expenditures for HAP are subject to actual lease-up. Actual revenues are normally dependent on lease-up, but were reduced in the 2012-13 year as HUD recaptured HAP reserves. This action was not anticipated by the Authority when the budget was initially prepared.

**Housing Authority of the City of Redding  
Management's Discussion and Analysis, continued  
For the year ended June 30, 2013**

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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 HCV program's fund balance decreased from a beginning balance of \$1,377,909 to \$712,997. The administrative portion of the fund decreased by \$149,399. The housing assistance (HAP) portion of the fund decreased by \$515,513.

**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 HCV program. At June 30, 2013 the Authority has cash reserves for approximately 2 months of administrative expenses and about 0.7 months of HAP expenses. It is expected that the HAP portion will be reduced to zero by the 2014 fiscal year end.

**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 Position**  
**June 30, 2013**

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 1,066,861
Receivables:	
Interest	17
Damage claims and overpayments, net	10,429
Intergovernmental receivable	35,119
Restricted assets:	
Cash and investments	608,477
Interest receivable	851
Total current assets	<u>1,721,754</u>
Noncurrent assets:	
Intergovernmental receivable	36,348
FSS emergency loans receivable	809
Capital assets, net of depreciation	14,170
Total noncurrent assets	<u>51,327</u>
<b>Total assets</b>	<u><u>1,773,081</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	4,707
Intergovernmental payable	174,578
Accounts payable from restricted assets	10,929
Unearned revenue	20,749
Deposits	97,920
Total current liabilities	<u>308,883</u>
Noncurrent liabilities:	
Intergovernmental payable	93,469
Total noncurrent liabilities	<u>93,469</u>
<b>Total liabilities</b>	<u><u>402,352</u></u>
<b>NET POSITION</b>	
Investment in capital assets	14,170
Restricted for:	
Housing	597,782
Unrestricted	758,777
<b>Total net position</b>	<u><u>\$ 1,370,729</u></u>

See accompanying Notes to the Basic Financial Statements.

# Housing Authority of the City of Redding

## Statement of Activities

For the year ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Change in Net Position</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>						
Rental assistance	\$ 7,614,358	\$ 8,954	\$ 4,270	\$ 7,083,409	\$ 379	\$ (517,346)
Administration	1,258,242	-	4,271	1,075,876	158	(177,937)
Business activity	129,428	-	-	-	-	(129,428)
Other	-					
<b>Total governmental activities:</b>	<b>\$ 9,002,028</b>	<b>\$ 8,954</b>	<b>\$ 8,541</b>	<b>\$ 8,159,285</b>	<b>\$ 537</b>	<b>\$ (824,711)</b>

<b>General revenues:</b>		
	FSS emergency loan fees/copy fees/Port	75
	Admin Study	7,000
x	Other revenue not recorded as receivable	538
	Unrestricted investment earnings	5,231
	<b>Total general revenues and transfers</b>	<b>12,844</b>
	<b>Change in net position</b>	<b>(811,867)</b>
	<b>Net position - beginning of year</b>	<b>2,182,596</b>
	<b>Net position - end of year</b>	<b>\$ 1,370,729</b>

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, 2013**

	General Fund	Housing Choice Voucher Special Revenue	Total Governmental Funds
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 687,310	\$ 379,551	\$ 1,066,861
Receivables:			
Interest	-	17	17
Damage claims and overpayments, net	-	10,429	10,429
Intergovernmental	35,119	-	35,119
Restricted assets:			
Cash and investments	-	608,477	608,477
Interest	-	851	851
Non current assets:			
Intergovernmental receivables	36,348	-	36,348
FSS emergency loans receivable	-	809	809
<b>Total assets</b>	<b>\$ 758,777</b>	<b>\$ 1,000,134</b>	<b>\$ 1,758,911</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ -	\$ 4,707	\$ 4,707
Intergovernmental payable	-	140,129	140,129
Accounts payable from restricted assets	-	10,929	10,929
Intergovernmental payable - restricted assets	-	2,274	2,274
Unearned revenue	-	20,749	20,749
Deferred revenue	-	10,429	10,429
Deposits	-	97,920	97,920
<b>Total liabilities</b>	<b>-</b>	<b>287,137</b>	<b>287,137</b>
<b>Fund Balances:</b>			
Nonspendable			
Noncurrent advances	37,157		37,157
Restricted			
Housing		712,997	712,997
Unassigned	721,620	-	721,620
<b>Total fund balances</b>	<b>758,777</b>	<b>712,997</b>	<b>1,471,774</b>
<b>Total liabilities and fund balances</b>	<b>\$ 758,777</b>	<b>\$ 1,000,134</b>	<b>\$ 1,758,911</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 Position**  
**June 30, 2013**

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<b>Total Fund Balances - Total Governmental Funds</b>	\$ 1,471,774
Capital assets have not been included as financial resources in governmental fund activities.	14,170
Accrued vacation and other leave (compensated absences) for City of Redding employees is not included in intergovernmental payables as reported in governmental funds, but is recorded as expense in the Statement of Activities.	(125,644)
Revenue reported as deferred revenue in the governmental funds was recorded as revenue in the Statement of Activities.	<u>10,429</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 1,370,729</u></u>

**Housing Authority of the City of Redding**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2013**

	General Fund	Housing Choice Voucher Special Revenue	Total Governmental Funds
<b>REVENUES:</b>			
Intergovernmental revenues	\$ -	\$ 8,159,285	\$ 8,159,285
Interest revenue	5,231	537	5,768
Other revenue	-	28,774	28,774
<b>Total revenues</b>	<b>5,231</b>	<b>8,188,596</b>	<b>8,193,827</b>
<b>EXPENDITURES:</b>			
Administration	16,075	1,180,608	1,196,683
Professional services	-	-	-
Rental assistance payments	113,353	7,614,358	7,727,711
FSS services coordinator	-	58,542	58,542
<b>Total expenditures</b>	<b>129,428</b>	<b>8,853,508</b>	<b>8,982,936</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(124,197)</b>	<b>(664,912)</b>	<b>(789,109)</b>
<b>FUND BALANCES:</b>			
Beginning of year	882,974	1,377,909	2,260,883
End of year	<b>\$ 758,777</b>	<b>\$ 712,997</b>	<b>\$ 1,471,774</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**  
**For the year ended June 30, 2013**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ (789,109)
 Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position. It did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	 (6,138)
 Capital outlay and losses on sales of assets are expenditures on the governmental fund statements, but are reported as changes to capital assets on the government-wide statements.	 -
 Damage claims and overpayments (fraud) receivable 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 Position the change is recorded as a revenue, reduction in revenue, or bad debt expense.	 (3,666)
 Compensated absences (for City of Redding employees who work for the Housing Authority) in the Statement of Activities is reported as an expense but is not reported in the governmental funds.	 <u>(12,954)</u>
 <b>Change in Net Position of Governmental Activities</b>	 <u><u>\$ (811,867)</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 year ended June 30, 2013

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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 Housing Choice Vouchers (HCV) 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 an HCV 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 the Successor Housing Agency (SHA) (formerly the Housing elements of the City's redevelopment agencies -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 SHA and 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 year ended June 30, 2013**

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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 HCV Special Revenue Fund is for all activity in the 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. Damage Claims and Overpayments Receivable***

The Authority records an allowance for doubtful accounts on damage claims and overpayments receivable based on the experience method.

***E. Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

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

*E. Capital Assets, Continued*

<u>Asset Types</u>	<u>Useful Life (in years)</u>
Public domain infrastructure	50
Utility plants	20-50
Buildings	10-30
Improvements other than buildings	5-40
Equipment, furnishings and vehicles	5-10
Assets under capital lease	4-30
System infrastructure	30

*F. 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.

*G. Net Position or Fund Balance*

**Net Position**

For government-wide reporting as well as in proprietary funds, fund equity is called net position. Net position is comprised of three components: net investment in capital assets; restricted; and unrestricted.

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

*Restricted* net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

*Unrestricted* net position is the net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

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

**Fund Equity**

In the fund financial statements, governmental funds aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications; restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed ordinances of the City Council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

*Assigned fund balance.* This classification reflects the amounts constrained by the City Council ‘s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council and City Manager have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use externally restricted resources first, the unrestricted resources-committed, assigned, and unassigned-in order as needed.

***H. 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.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

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

*I. New Pronouncements*

In 2013, the City adopted a new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement (GASB):

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Revenues, Deferred Inflows of Resources, and Net Position* - this statement provides financial reporting guidance for deferred outflows and resources and deferred inflows of resources. It also amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

**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, 2013, the carrying amount of the Authority's deposits (unrestricted and restricted combined) was \$720,603. Bank balances before reconciling items were \$730,613 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.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

**3. CASH AND INVESTMENTS, Continued**

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 may invest in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2013, 1.96% 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, 2013, 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 1.000273207. No rating is available from a nationally recognized statistical rating organization for LAIF.

**C. Summary of Cash and Investments**

As of June 30, 2013, 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	\$ 622,945	\$ 622,945
Total deposits	<u>622,945</u>	<u>622,945</u>
<i>Investments:</i>		
Local Agency Investment Funds	443,916	443,916
Total investments	<u>443,916</u>	<u>443,916</u>
<b>Total Cash and Investments</b>	<u>\$ 1,066,861</u>	<u>\$ 1,066,861</u>
<b>Restricted Cash:</b>		
<i>Deposits:</i>		
Cash in bank	\$ 97,920	\$ 97,920
Total deposits	<u>97,920</u>	<u>97,920</u>
<i>Investments:</i>		
Local Agency Investment Funds	510,557	510,557
Total investments	<u>510,557</u>	<u>510,557</u>
<b>Total Restricted Cash and Investments</b>	<u>\$ 608,477</u>	<u>\$ 608,477</u>

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

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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 57% 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.

**4. DAMAGE CLAIMS AND OVERPAYMENTS RECEIVABLE**

Damage claims and overpayments, net, at June 30, 2013 consisted of \$274,959 of receivables and an allowance for doubtful accounts of \$264,530.

**5. INTERGOVERNMENTAL RECEIVABLE**

The Authority has prepaid rent to the City of Redding. These costs are recorded as intergovernmental receivable in the amount of \$74,467.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

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**6. CAPITAL ASSETS**

Changes in capital assets consisted of the following:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Vehicles & Equipment	\$ 47,023	\$ -	\$ 12,533	\$ 34,490
Total	<u>47,023</u>	<u>-</u>	<u>12,533</u>	<u>34,490</u>
Accumulated Depreciation	26,715	6,138	12,533	20,320
Total	<u>26,715</u>	<u>6,138</u>	<u>12,533</u>	<u>20,320</u>
Net Capital Assets	<u>\$ 20,308</u>	<u>\$ (6,138)</u>	<u>\$ -</u>	<u>\$ 14,170</u>

Depreciation expense was \$6,138.

**7. INTERGOVERNMENTAL PAYABLES**

Housing & Urban Development	\$ 2,274
City of Redding	<u>\$ 140,129</u>
Total	<u>\$ 142,403</u>

The Authority's personnel costs and other administrative costs are paid by the City of Redding. These costs are recorded as intergovernmental payables to the City of Redding. Payments are typically made on those payables the month following the expense.

**8. DEFERRED REVENUES**

In the governmental fund financial statements the deferred revenue balance at June 30, 2013 was \$10,429. The balance consisted of the following:

- ◆ \$10,429 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.
- ◆ \$20,749 that was received from HUD during the year for a specific purpose but not used. It is expected that HUD will reduce 2013-14 grant payments by this amount or that the amounts will be earned.

In the government-wide financial statements the Authority has recognized the \$10,429 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 \$10,429 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 year ended June 30, 2013**

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**9. 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.

**10. 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.

**Housing Authority of the City of Redding**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2013**

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Housing Authority of the City of Redding**  
**Required Supplementary Information**  
**For the year ended June 30, 2013**

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Insert Redding Housing 6 - RSI File for pages 31 & 32

**Housing Authority of the City of Redding**  
**Required Supplementary Information**  
**For the year ended June 30, 2013**

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## **SUPPLEMENTARY INFORMATION**

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# Housing Authority of the City of Redding

## Required Supplementary Information

### For the year ended June 30, 2013

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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.

##### 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, 2013**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental revenues	\$ 9,925,990	\$ 8,936,720	\$ 8,184,142	\$ (752,578)
Interest revenue	10,000	10,000	3,627	(6,373)
Other	20,000	20,000	31,183	11,183
Total revenues	<u>9,955,990</u>	<u>8,966,720</u>	<u>8,218,952</u>	<u>(747,768)</u>
<b>EXPENDITURES:</b>				
Current:				
Community development	<u>10,054,850</u>	<u>9,516,000</u>	<u>8,960,594</u>	<u>555,406</u>
Total expenditures	<u>10,054,850</u>	<u>9,516,000</u>	<u>8,960,594</u>	<u>555,406</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(98,860)</u>	<u>(549,280)</u>	<u>(741,642)</u>	<u>(192,362)</u>
Net change in fund balance	<u>(98,860)</u>	<u>(549,280)</u>	<u>(741,642)</u>	<u>(192,362)</u>
Beginning fund balance	<u>2,260,883</u>	<u>2,260,883</u>	<u>2,260,883</u>	<u>-</u>
Budgetary fund balance (deficit), end of year	\$ <u>2,162,023</u>	\$ <u>1,711,603</u>	\$ <u>1,519,241</u>	\$ <u>(192,362)</u>

Explanation of differences between the end of year fund balance reported on the Statement of Revenues, Expenditures and Changes in Fund Balances and the Budgetary fund balance, end of year.

**Fund balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance**

	\$ 1,471,772
(1) Fair market value adjustments to investments are not recorded in budgetary accounts.	1,440
(2) Accounts payable accruals are reflected in GAAP based financial statements but are not included in budgetary expenditures.	1,216
(3) The Authority budgets for grants on a cash basis.	27,266
(4) 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.	(13,713)
(5) The Authority budgets for interest income on notes receivable on a cash basis.	(6,360)
(6) The Authority budgeted and prepaid rent in a prior year, but adjusts the prepayment for the current year portion.	37,620
<b>Budgetary fund balance, end of year</b>	<u>\$ 1,519,241</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.



**D. H. SCOTT & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY PARTNERSHIP

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Lori Goyne, CPA/ABV  
Cheryl Hull, CPA  
Gerald R. Tadtina, CPA

**REPORT OF INDEPENDENT AUDITORS  
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**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, and each major fund of the Housing Authority of the City of Redding (Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 20, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*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. *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*D. H. Scott & Company LLP*

Redding, California  
December 20, 2013



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**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

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

We have performed the procedures described in the second paragraph of this report, which was agreed to by the Housing Authority of the City of Redding (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 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 procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have 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 procedures will indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the chart below:

Procedure	UFRS Rule Information	Hard Copy documents	Agreed	Does not Agree
1	Balance Sheet and Revenue Expense (data line items 111 to 13901)	Financial Data Schedule, all CFDAs	X	
2	Footnotes (G5000-010)	Footnotes to Audited Basic Financial Statements	X	
3	Type of opinion on the Financial Statements and auditor reports (G3100-040)	Auditors' 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 and 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	

We were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the City of Redding, which the Authority is a component unit of, as of and for the year ended June 30, 2013, and have issued our report thereon dated December 20, 2013. 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 December 20, 2013, was expressed in relation to the basic financial statements of the Housing Authority taken as a whole.

A copy of the financial statement package and the FDS, which includes the auditors' reports, is available in its entirety from the 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 Housing Authority of the City of Redding 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.

*D.A. Scott & Company LLP*

Redding, California  
December 20, 2013