

Housing Authority of the City of Redding

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2014

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, 2014, and the related notes to the financial statements, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014, and the respective changes in financial position for the year then ended in accordance 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 17, 2014, 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* in considering the Authority's internal control over financial reporting and compliance.

W.H. Scott & Company LLP

Redding, California
December 17, 2014

Housing Authority of the City of Redding

Management's Discussion and Analysis

For the year ended June 30, 2014

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 ended June 30, 2014. 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 \$545,505.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$855,585 which is a decrease of \$616,189 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 \$9,301,848 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 timing of related cash flows. Thus, revenues and expenses are reported in this statement for

Housing Authority of the City of Redding
Management's Discussion and Analysis, continued
For the year ended June 30, 2014

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 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 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 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 21-29 of this report.

Housing Authority of the City of Redding
Management's Discussion and Analysis, continued
For the year ended June 30, 2014

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, 2014 and 2013:

Condensed Statement of Net Position

	2014	2013
Current assets	\$ 1,102,882	\$ 1,721,754
Non-current capital assets	10,306	14,170
Other non-current assets	403	37,157
Total assets	<u>1,113,591</u>	<u>1,773,081</u>
Current liabilities	219,119	308,883
Non-current liabilities	69,248	93,469
Total liabilities	<u>288,367</u>	<u>402,352</u>
Net Position:		
Investment in capital assets	10,306	14,170
Restricted	52,980	597,782
Unrestricted	761,938	758,777
Total net position	<u>\$ 825,224</u>	<u>\$ 1,370,729</u>

The Authority's net position decreased to \$.82 million from \$1.37 million, a decrease of 40%. 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 \$0.51 million in HAP reserves. By June 30, 2014 this had been reduced to approximately \$0.12 million. Given that the Authority's assets have been effectively reduced through the recapturing process imposed by HUD in the previous fiscal years, staff anticipates the HCV Program funding will not be subject to further reductions. It is further anticipated that monthly funding from HUD will continue to be adjusted according to the approximate monthly HAP expenditures.

Housing Authority of the City of Redding
Management's Discussion and Analysis, continued
For the year ended June 30, 2014

The following schedule displays a comparison of 2013-14 and 2012-13 fiscal year revenues and expenses for the Authority:

Condensed Statement of Activities and Changes in Net Position

	2014	2013
Administrative	\$ 1,128,673	\$ 1,258,242
Rental assistance	8,143,123	7,614,358
Other expenses	-	129,428
Total expenses	<u>9,271,796</u>	<u>9,002,028</u>
Operating grants	8,614,888	8,159,285
Investment and Other	111,403	30,876
Total revenues	<u>8,726,291</u>	<u>8,190,161</u>
Change in net position	<u>(545,505)</u>	<u>(811,867)</u>
Beginning net position	1,370,729	2,182,596
Ending net position	<u>\$ 825,224</u>	<u>\$ 1,370,729</u>

Administrative expenses decreased in the fiscal year ending June 30, 2014. The reduction was partially attributed to the staffing reductions and workload adjustments implemented to accommodate the anticipated reduction in the published admin percentage reimbursement received per voucher as well as an anticipated overall reduction in program budget authority due to federal sequestration. Conversely, a slight increase in operating revenues was realized during 2014 Fiscal Year as a modest increase to the published admin percentage reimbursement received per voucher was implemented by HUD. Further, the Housing Authority increased lease-up activity in order to maximize the number of HCV participants, while implementing policies to decrease per-unit costs to remain strategically within the budget authority established by 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, 2014**

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 \$712,997 to \$93,647. The administrative portion of the fund decreased by \$214,532. The housing assistance (HAP) portion of the fund decreased by \$404,818.

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. However, it is anticipated that the budget authority allocations and the published admin percentage reimbursement received per voucher for the 2015 Fiscal Year will remain status quo. At June 30, 2014 the Authority has cash reserves for approximately 0 months of administrative expenses and about 0.13 months of HAP expenses. It is expected that the HAP portion will be reduced to zero by the 2015 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 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, 2014

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 774,097
Receivables:	
Interest	17
Damage claims and overpayments, net	51,061
Intergovernmental receivable	95,288
Restricted assets:	
Cash and investments	182,079
Interest receivable	340
Total current assets	<u>1,102,882</u>
Noncurrent assets:	
FSS emergency loans receivable	403
Capital assets, net of depreciation	<u>10,306</u>
Total noncurrent assets	<u>10,709</u>
Total assets	<u><u>1,113,591</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	4,763
Intergovernmental payable	124,154
Accounts payable from restricted assets	4,206
Deposits	<u>85,996</u>
Total current liabilities	<u>219,119</u>
Noncurrent liabilities:	
Intergovernmental payable	<u>69,248</u>
Total noncurrent liabilities	<u>69,248</u>
Total liabilities	<u><u>288,367</u></u>
NET POSITION	
Net investment in capital assets	10,306
Restricted for:	
Housing	52,980
Unrestricted	<u>761,938</u>
Total net position	<u><u>\$ 825,224</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, 2014

<u>Functions/Programs</u>	Expenses	Program Revenues				Net (Expenses) Revenue and Change in Net Position
		Charges for Services		Operating Grants & Contributions		
		FSS Forfeitures	Overpayments & Damage Claims	Grants	Restricted Interest	
Governmental activities:						
Rental assistance	\$ 8,143,123	\$ 41,034	\$ 36,610	\$ 7,680,917	\$ 59	\$ (384,503)
Administration	1,128,673	-	30,454	933,971	-	(164,248)
Total governmental activities:	\$ 9,271,796	\$ 41,034	\$ 67,064	\$ 8,614,888	\$ 59	\$ (548,751)

General revenues:

FSS emergency loan fees/copy fees/Port	85
Unrestricted investment earnings	3,161
Total general revenues and transfers	3,246
Change in net position	(545,505)
Net position - beginning of year	1,370,729
Net position - end of year	\$ 825,224

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, 2014

	General Fund	Housing Choice Voucher Special Revenue	Total Governmental Funds
ASSETS			
Current assets:			
Cash and investments	\$ 725,590	\$ 48,507	\$ 774,097
Receivables:			
Interest	-	17	17
Damage claims and overpayments, net	-	51,061	51,061
Intergovernmental	36,348	58,940	95,288
Restricted assets:			
Cash and investments	-	182,079	182,079
Interest	-	340	340
Non current assets:			
FSS emergency loans receivable	-	403	403
Total assets	\$ 761,938	\$ 341,347	\$ 1,103,285
LIABILITIES AND FUND BALANCES			
Current liabilities:			
Accounts payable	\$ -	\$ 4,763	\$ 4,763
Intergovernmental payable	-	101,674	101,674
Accounts payable from restricted assets	-	4,206	4,206
Deposits	-	85,996	85,996
Total liabilities	-	196,639	196,639
Deferred inflows of resources:			
Unavailable revenues	-	51,061	51,061
Fund balances:			
Restricted			
Housing		93,647	93,647
Unassigned	761,938	-	761,938
Total fund balances	761,938	93,647	855,585
Total liabilities and fund balances	\$ 761,938	\$ 341,347	\$ 1,103,285

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, 2014

Total Fund Balances - Total Governmental Funds	\$ 855,585
Capital assets have not been included as financial resources in governmental fund activities.	10,306
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.	(91,728)
Unavailable revenues reported in the governmental funds was recorded as revenue in the Statement of Activities.	<u>51,061</u>
Net Position of Governmental Activities	<u><u>\$ 825,224</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, 2014

	General Fund	Housing Choice Voucher Special Revenue	Total Governmental Funds
REVENUES:			
Intergovernmental revenues	\$ -	\$ 8,614,888	\$ 8,614,888
Interest revenue	3,161	59	3,220
Other revenue	-	67,551	67,551
Total revenues	3,161	8,682,498	8,685,659
EXPENDITURES:			
Administration	-	1,123,166	1,123,166
Rental assistance payments	-	8,143,123	8,143,123
FSS services coordinator	-	35,559	35,559
Total expenditures	-	9,301,848	9,301,848
REVENUES OVER (UNDER) EXPENDITURES	3,161	(619,350)	(616,189)
FUND BALANCES:			
Beginning of year	758,777	712,997	1,471,774
End of year	\$ 761,938	\$ 93,647	\$ 855,585

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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (616,189)

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. (3,864)

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. 40,632

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. 33,916

Change in Net Position of Governmental Activities \$ (545,505)

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, 2014

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, 2014

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, 2014

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. 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. The Authority has no unearned revenue as of June 30, 2014.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position and the fund financial statements include a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify as Deferred Outflows.

In addition to liabilities, the statements of position and the fund financial statements include a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future reporting periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item, unavailable revenues, that qualifies for reporting in this category, which is related to damage claims and overpayments due from Housing program participants.

In subsequent periods, when both revenue recognition criteria (“measureable” and “available”) are met, or when the Authority has a legal claim to the resources, the Deferred Inflow is removed from the balance sheet and revenue is recognized.

H. 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,

Housing Authority of the City of Redding
Notes to the Basic Financial Statements
For the year ended June 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements
For the year ended June 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. 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.

J. New Pronouncements

In 2013, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements (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.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* - this statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement required changes in account captions in the statements of net position and balance sheets.

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, 2014, the carrying amount of the Authority's deposits (unrestricted and restricted combined) was \$712,160. Bank balances before reconciling items were \$726,979 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.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements
For the year ended June 30, 2014

3. CASH AND INVESTMENTS, Continued

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

B. Investments

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

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

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

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, 2014, 1.86% 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, 2014, 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 1.00029875. 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
For the year ended June 30, 2014

3. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments

As of June 30, 2014, the Authority had the following cash and investments:

	Fair Value	Investment Maturity in Year Less Than One Year
Cash and Investments:		
<i>Deposits:</i>		
Cash in bank	\$ 626,164	\$ 626,164
Total deposits	626,164	626,164
<i>Investments:</i>		
Local Agency Investment Funds	147,933	147,933
Total investments	147,933	147,933
Total Cash and Investments	\$ 774,097	\$ 774,097
Restricted Cash:		
<i>Deposits:</i>		
Cash in bank	\$ 85,996	\$ 85,996
Total deposits	85,996	85,996
<i>Investments:</i>		
Local Agency Investment Funds	96,083	96,083
Total investments	96,083	96,083
Total Restricted Cash and Investments	\$ 182,079	\$ 182,079

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,

Housing Authority of the City of Redding
Notes to the Basic Financial Statements
For the year ended June 30, 2014

3. CASH AND INVESTMENTS, Continued

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 26% 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, 2014 consisted of \$296,815 of receivables and an allowance for doubtful accounts of \$245,754.

5. INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable consists of \$36,348 prepaid rent to the City of Redding, a \$57,653 receivable from HUD, and a \$1,287 receivable from other housing authorities.

Housing Authority of the City of Redding
Notes to the Basic Financial Statements
For the year ended June 30, 2014

6. CAPITAL ASSETS

Changes in capital assets consisted of the following:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Vehicles & Equipment	\$ 34,490	\$ -	\$ -	\$ 34,490
Total	<u>34,490</u>	<u>-</u>	<u>-</u>	<u>34,490</u>
Accumulated Depreciation	20,320	3,864	-	24,184
Total	<u>20,320</u>	<u>3,864</u>	<u>-</u>	<u>24,184</u>
Net Capital Assets	<u>\$ 14,170</u>	<u>\$ (3,864)</u>	<u>\$ -</u>	<u>\$ 10,306</u>

Depreciation Expense was \$3,864.

7. INTERGOVERNMENTAL PAYABLES

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 payments the month following the expense. In the governmental fund financial statements, the intergovernmental payables at June 30, 2014 consisted of \$101,674 payable to the City of Redding.

8. DEFERRED INFLOWS OF RESOURCES

In the governmental fund financial statements the deferred inflows of resources balance at June 30, 2014 was \$51,061. The balance consisted of the following:

- ◆ \$51,061 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.

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, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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

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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THIS PAGE IS LEFT IN AS A PLACEHOLDER FOR Auditor's Report

SUPPLEMENTARY INFORMATION

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Housing Authority of the City of Redding

Required Supplementary Information

For the year ended June 30, 2014

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, 2014

Community development	9,610,100	9,610,100	9,273,521	336,579
Total expenditures	<u>9,610,100</u>	<u>9,610,100</u>	<u>9,273,521</u>	<u>336,579</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,756,360)</u>	<u>(1,756,360)</u>	<u>(668,305)</u>	<u>1,088,055</u>
Net change in fund balance	<u>(1,756,360)</u>	<u>(1,756,360)</u>	<u>(668,305)</u>	<u>1,088,055</u>
Beginning fund balance	<u>1,471,772</u>	<u>1,471,772</u>	<u>1,471,772</u>	<u>-</u>
Budgetary fund balance (deficit), end of year	\$ <u><u>(284,588)</u></u>	\$ <u><u>(284,588)</u></u>	\$ <u><u>803,467</u></u>	\$ <u><u>1,088,055</u></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

	\$ 855,585
(1) Fair market value adjustments to investments are not recorded in budgetary accounts.	189
(2) Accounts payable accruals are reflected in GAAP based financial statements but are not included in budgetary expenditures.	(6,668)
(3) The Authority budgets for grants on a cash basis.	(78,402)
(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.	(2,625)
(5) The Authority budgets for interest income on notes receivable on a cash basis.	(2,232)
(6) The Authority budgeted and prepaid rent in a prior year, but adjusts the prepayment for the current year portion.	37,620
Budgetary fund balance, end of year	<u><u>\$ 803,467</u></u>

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



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Ron Massey, CPA
Odd H. Rustand, CPA
Curtis P. Hoekstra, CPA

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

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, 2014, 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 17, 2014.

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 was not designed to identify all deficiencies in internal control 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.

A handwritten signature in black ink that reads "D. H. Scott & Company LLP". The signature is written in a cursive, flowing style.

Redding, California
December 17, 2014



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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, 2014, and have issued our report thereon dated December 17, 2014. 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 17, 2014, 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. H. Scott & Company LLP

Redding, California
December 17, 2014