

**HOUSING AUTHORITY  
OF THE CITY OF RICHMOND**

**BASIC COMPONENT UNIT  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

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**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
BASIC COMPONENT UNIT FINANCIAL STATEMENTS  
For the Year Ended June 30, 2006**

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**INDEPENDENT AUDITORS' REPORT ON  
BASIC FINANCIAL STATEMENTS**

Commissioners of  
Housing Authority of the City of Richmond  
Richmond, California

We have audited the basic financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the City of Richmond, a component unit of the City of Richmond, for the year ended June 30, 2006. These component unit basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. The financial statements of the Authority for the year ended June 30, 2005 were audited by other auditors whose report dated January 26, 2006 was unqualified.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 as to whether the component unit financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly in all material respects the respective financial position of the Housing Authority of the City of Richmond at June 30, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated February 16, 2007 on our consideration of the Authority's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis is required by the Government Accounting Standards Board, but is not part of the component unit financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Housing Authority of the City of Richmond. Such information has been subjected to the auditing procedures applied in our audits of the component unit financial statements, and in our opinion is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

February 16, 2007

*Maze & Associates*

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# HOUSING AUTHORITY OF THE CITY OF RICHMOND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Housing Authority of the City of Richmond (the "Authority") Management's Discussion and Analysis is designed to:

- ✓ provide an overview of the Authority's financial activity,
- ✓ identify changes in the Authority's financial position (its ability to address the next and subsequent year challenges),
- ✓ assist the reader in focusing on significant financial issues, and
- ✓ identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the attached Authority's financial statements.

### FINANCIAL HIGHLIGHTS

The Authority's net assets (or Equity) as of fiscal year ended June 30, 2006, increased by \$8.7 million or 16%. Since the Authority engages only in enterprise fund-type activities, the increment is mostly in the category of capital assets (HOPE VI revitalization and Capital Fund).

Total net assets were \$64.40 million and \$55.72 million for 2006 and 2005, respectively.

The dwelling rental activity revenue (the Authority's owned public housing units) increased by \$0.04 million or (2%) during 2006; and was \$1.60 million and \$1.56 million for 2006 and 2005, respectively. The increment is essentially due to increased rental charges.

The total expenses of all Authority programs decreased by \$2,292,900, or 2 percent. The decrease is largely the effect of a reduced Housing Assistance Payments (HAP) to Housing Choice Vouchers Program landlords.

Total expenses were \$25.76 million and \$28.05 million for 2006 and 2005 respectively.

The discrete component unit's (RHA Properties) total assets amounted to \$35 million as of June 30, 2006. Total revenue amounted to \$3.5 million during 2006 and operating expenses for the same year summed up to \$2.9 million.

## AUTHORITY-WIDE FINANCIAL STATEMENTS

The Authority-wide financial statements are designed to be corporate-like in that all enterprise fund type activities are consolidated into columns, which add to a total for the entire Authority.

The component unit (RHA Properties) financial statements are discreetly presented and included as part of the aggregate fund information of the City of Richmond Housing Authority as of June 30, 2006, which comprise the Authority's basic financial statements. RHA Properties, the discreetly presented component unit of the City of Richmond Housing Authority is a Joint Power Authority, a separate entity, created by and between the Authority and the City of Richmond, both public agencies, for the sole purpose of acquiring, owning and operating rental properties in order to maintain and increase the long-term supply of affordable and/or publicly owned housing. The component unit owns and operates "The Westridge at Hilltop Apartments", a 401-unit housing complex, purchased on August 22, 2003, located within the jurisdictions of the Authority and the City of Richmond.

These statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets." Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Assets is the "Unrestricted Net Assets" which represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority.

Net Assets are reported in three broad categories:

- Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets: This component of Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.
- Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

## FUND FINANCIAL STATEMENTS

The fund level financial statements include a Statement of Revenues, Expenses and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, maintenance, depreciation, and Non-Operating Revenue & Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the “Change in Net Assets”, which is similar to Net Income or Loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

The Department of Housing and Urban Development requires many of the funds maintained by the Authority. Others are segregated to enhance accountability and control.

## THE AUTHORITY’S FUNDS

### Business Type Funds

The following are the Authority’s major funds:

**Low Rent Public Housing** – Under the Low Rent Public Housing Program, the Authority rents units that it owns to low-income households. The Low Rent Public Housing Program is operated under an Annual Contributions Contract (ACC) with U.S. Department of Urban Development (HUD) and HUD provides Operating Subsidy and Capital Grant funding to enable the Authority to provide housing at a rent that is based on 30% of household income. The fund’s primary funding source for capital assets additions is the Capital Fund.

**Housing Choice Voucher** – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family’s rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides annual contributions funding to enable the Authority to structure a lease that sets the participants’ rent at 30% of household income.

**Hope VI** – a grant program funded by the Department of Housing and Urban Development to redevelop the Authority’s Easter Hill Village housing project.

**Capital Fund** - a grant program funded by the Department of Housing and Urban Development for capital acquisitions and improvements. This fund is the primary source for the Low Rent Public Housing Fund’s capital assets additions.

In addition to the major funds above, the Authority also maintains the following non-major funds. Non-major funds are defined as funds that have assets, liabilities, revenues, or expenses of less than 10% of the Authority's combined enterprise funds. The following are the Authority's non-major funds:

**Lead-Based Paint** - a grant program funded by the Department of Housing and Urban Development to assist rental housing on Lead Based Paint Hazard Control.

**Local Fund** - The Authority maintains a Local Fund for low-income housing development.

## AUTHORITY-WIDE STATEMENT

### Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged in Business-Type Activities only. It also includes the condensed Statement of Net Assets of RHA Properties' (discrete component unit) operations as of, and for the fiscal year ended June 30, 2006. The component unit is engaged only in Business-Type Activities.

TABLE 1  
STATEMENT OF NET ASSETS

<u>Particular</u>	<u>The Authority</u>		<u>RHA Properties</u>	
	<u>2006</u> <u>Totals</u>	<u>2005</u> <u>Totals</u>	<u>2006</u> <u>Totals</u>	<u>2005</u> <u>Totals</u>
Current and Other Assets	\$5,530,880	\$6,517,458	\$2,998,028	\$3,014,188
Capital Assets	63,856,289	54,778,968	31,902,705	32,804,809
<b>Total Assets</b>	<b>69,387,169</b>	<b>61,296,426</b>	<b>34,900,733</b>	<b>35,818,997</b>
Current Liabilities	2,149,000	2,382,942	1,135,432	1,481,541
Long-term Liabilities	2,836,854	3,190,000	33,506,977	33,730,000
<b>Total Liabilities</b>	<b>4,985,854</b>	<b>5,572,942</b>	<b>34,642,409</b>	<b>35,211,541</b>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	63,856,289	54,778,968	283,962	(1,380,191)
Restricted	176,808	171,906	2,106,257	2,074,642
Unrestricted	368,218	772,610	(2,131,895)	(86,995)
<b>Total Net Assets</b>	<b>\$64,401,315</b>	<b>\$55,723,484</b>	<b>\$258,324</b>	<b>\$607,456</b>

### Major Factors Affecting the Statement of Net Assets

Current and other assets decreased by \$986,578 in 2006 mainly due to less accruals in subsidies for the HOPE VI revitalization program. Current liabilities decreased by \$233,942, as a result of less HOPE VI payables booked as of June 30, 2006.

Investments in Capital Assets increased by \$9,077,321, from \$54,778,968 in 2005 to \$63,856,289 in 2006 mainly from capitalized (hard) costs of Low Rent Public Housing, HOPE VI revitalization and Capital Fund projects.

**Discrete Component Unit** - Current and restricted assets of the component unit consist mainly of \$2.1 million of restricted investments unrestricted cash of \$116,729.

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Enterprise Fund-Type Activities.

TABLE 2  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>The Authority</u>		<u>RHA Properties</u>	
	<u>2006</u> <u>Totals</u>	<u>2005</u> <u>Totals</u>	<u>2006</u> <u>Totals</u>	<u>2005</u> <u>Totals</u>
Revenues				
Tenant Revenue – Rents and Others	\$1,597,078	\$1,558,149	\$3,257,059	\$3,288,898
Operating Subsidies and Grants	32,876,153	32,707,460		
Investment Income	25,567	25,776	97,668	74,801
Other Revenues	66,267	264,167	151,176	112,892
<b>Total Revenues</b>	<b>34,565,065</b>	<b>34,555,552</b>	<b>3,505,903</b>	<b>3,476,591</b>
Expenses:				
Administrative	4,739,185	6,161,452	624,245	530,867
Tenant Services	123,357	154,290		43,056
Utilities	682,413	418,020	308,515	127,948
Maintenance	2,368,713	1,921,050	700,662	617,191
Protective Services	193,334	193,596		
General	378,830	411,000	336,716	678,376
Housing Assistance Payments	16,941,118	18,452,485		
Depreciation	334,810	342,767	881,081	880,358
Interest Expense			1,724,559	1,728,316
Amortization			62,321	27,698
<b>Total Expenses</b>	<b>25,761,760</b>	<b>28,054,660</b>	<b>4,638,099</b>	<b>4,633,810</b>
Adjustments		1,956,342		
Change in accounting method	(125,474)			
<b>Change in Net Assets</b>	<b>8,677,831</b>	<b>8,457,234</b>	<b>(1,132,196)</b>	<b>(1,157,219)</b>
Net assets – beginning of year, as restated	55,723,48	47,266,250	1,390,520	1,764,675
<b>Net Assets – end of year</b>	<b>\$64,401,315</b>	<b>\$55,723,484</b>	<b>\$258,324</b>	<b>\$607,456</b>

## Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Assets

Dwelling rental revenue increased by 2% or \$38,929.

The Housing Authority received less operating fund subsidies in fiscal 2006 for its Low-Income Public Housing (LIPH), Housing Choice Voucher Programs (HCV), and HOPE VI Revitalization Program.

Total expenses decreased by 8% or \$2,292,900 with each expense category contributing to the decrease, with the exception of Utilities and Maintenance Operations.

Dwelling rental revenue of the component unit accounts for the 12-month leasing operations, and other revenue includes garage and laundry income.

**Discrete Component Unit** - Operating expenses of the component unit include administration (contract management fees, contract salaries, etc.) tenant services, utilities, maintenance general expenses and depreciation. The John Stewart Company replaced Sares-Regis Group of Northern California, L.P., as management agent in June 2006. The company manages and directs the day-to-day operation of "The Westridge at Hilltop Apartments", herein referred to as RHA Properties.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of fiscal year ended June 30, 2006, the Authority had \$90 million invested in a variety of capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$8,955,710 or 11 % from the end of last fiscal year.

TABLE 4

	<u>The Authority</u>		<u>RHA Properties</u>	
	<u>2006 Total</u>	<u>2005 Total</u>	<u>2006 Total</u>	<u>2005 Total</u>
Land and land rights	\$5,727,915	\$5,727,915	\$10,431,153	\$10,431,153
Buildings	60,659,523	58,580,814	23,917,143	23,933,113
Equipment – Administrative	839,356	852,641	49,600	53,930
Equipment – Dwelling:	653,280	660,950		
Construction in Progress	22,455,975	15,158,020		
Accumulated Depreciation	<u>(26,479,760)</u>	<u>(26,201,372)</u>	<u>(2,495,191)</u>	<u>(1,613,387)</u>
<b>Total</b>	<b><u>\$63,856,289</u></b>	<b><u>\$54,778,968</u></b>	<b><u>\$31,902,705</u></b>	<b><u>\$32,804,809</u></b>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the Notes to the financial statements.

TABLE 5  
CHANGE IN CAPITAL ASSETS, NET

	<u>The Authority</u>	<u>RHA Properties</u>
<b>Beginning balance, July 1, 2005</b>	<b>\$54,778,968</b>	<b>\$32,804,809</b>
Additions	9,412,131	
Deductions	(56,422)	(20,300)
Current Depreciation	(278,388)	(881,804)
<b>Ending balance, June 30, 2006</b>	<b>\$63,856,289</b>	<b>\$31,902,705</b>

### Debt Outstanding

**Discrete Component Unit** - As of year ended June 30, 2006, RHA Properties had \$33,725,000 in outstanding bond indebtedness, consisting of Senior Lien Multifamily Housing Revenue Bonds (or Senior Bonds) in the amount of \$22,300,000 and Subordinate Lien Lease Revenue Bonds (or Subordinate Bonds) in the amount of \$11,425,000.

### ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supplies and demand, which can affect salary and wage rates
- Local inflationary, recession, and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs

### FINANCIAL CONTACT

The individual to be contacted regarding this report is Timothy Jones, Executive Director at (510) 621-1300. Specific requests may be submitted to Housing Authority of the City of Richmond, 330 – 24<sup>th</sup> Street, Richmond, California 94804.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Primary Government Business-Type Activities	Component Unit RHA Properties
<b>ASSETS</b>		
Current assets:		
Cash (Note 2)	\$716,825	\$116,729
Investments (Note 2)	399,187	
Accounts receivable - HUD	1,083,178	
Accounts receivable - tenants	196,623	16,161
Accounts receivable - others	371,103	
Prepaid expenses and deposits	647,541	6,409
Inventories	52,723	
Total current assets	3,467,180	139,299
Restricted assets:		
Investments (Note 2)	176,808	2,106,257
Capital assets (Note 4):		
Land	5,727,915	10,431,153
Construction in progress	22,455,975	
Buildings and improvements	60,659,523	23,917,143
Furniture and equipment	1,492,636	49,600
Less accumulated depreciation	(26,479,760)	(2,495,191)
Total capital assets, net	63,856,289	31,902,705
Other Assets:		
Other investment (Note 2c)	1,886,892	
Bond issuance costs (net of amortization)		752,472
<b>TOTAL ASSETS</b>	<b>69,387,169</b>	<b>34,900,733</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	1,064,471	63,117
Accrued compensated absences - current (Note 1F)	137,775	
Accrued and other liabilities	39,759	3,299
Tenants security deposits	128,058	243,134
Other liabilities	778,937	260,882
Current portion of bonds payable (Note 5)		565,000
Total current liabilities	2,149,000	1,135,432
Long-term liabilities:		
Long-term portion of bond payable (Note 5)		33,160,000
Accrued compensated absences - non-current (Note 1F)	433,038	
Other non-current liabilities	2,403,816	346,977
Total long term liabilities	2,836,854	33,506,977
<b>TOTAL LIABILITIES</b>	<b>4,985,854</b>	<b>34,642,409</b>
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	63,856,289	283,962
Restricted	176,808	2,106,257
Unrestricted	368,218	(2,131,895)
<b>TOTAL NET ASSETS</b>	<b>\$64,401,315</b>	<b>\$258,324</b>

See accompanying notes to basic financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense)/Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants	Capital Grants	Primary Government	Component Unit
					Business-Type Activities	RHA Properties
Business-type activities:						
Low Rent Public Housing	\$4,571,194	\$1,613,106	\$1,202,276		(\$1,755,812)	
Housing Choice Vouchers	18,746,242	47,724	19,242,266		543,748	
HOPE VI	833,159		824,392	\$8,528,538	8,519,771	
Capital Fund Program	14,620		1,298,698	400,000	1,684,078	
Lead-Based Paint	1,379,983		1,379,983			
Local	216,562	2,515			(214,047)	
Total Business-type activities	<u>\$25,761,760</u>	<u>\$1,663,345</u>	<u>\$23,947,615</u>	<u>\$8,928,538</u>	<u>8,777,738</u>	
Component unit:						
RHA Properties	<u>\$4,638,099</u>	<u>\$3,257,059</u>				<u>(\$1,381,040)</u>
	<u>\$4,638,099</u>	<u>\$3,257,059</u>				<u>(1,381,040)</u>
General Revenues:						
Other revenue						151,176
Contributions						
Investment income					25,567	97,668
Total general revenues					25,567	248,844
Income/(Loss) before transfers					8,803,305	(1,132,196)
Change in accounting method (Note 6A)					(125,474)	
Change in net assets					8,677,831	(1,132,196)
Net assets - beginning as restated (Note 6B)					55,723,484	1,390,520
Net assets - ending					<u>\$64,401,315</u>	<u>\$258,324</u>

See accompanying notes to basic financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Major Enterprise Funds				Other Enterprise Funds Non-Major	Total
	Low Rent Public Housing	Housing Choice Vouchers	HOPE VI	Capital Fund		
<b>ASSETS</b>						
Current assets:						
Cash (Note 2)	\$90,179	\$626,346	\$300			\$716,825
Investments (Note 2)	157,353	91,365	58,362		\$92,107	399,187
Accounts receivable - HUD			282,767	\$740,691	59,720	1,083,178
Accounts receivable - tenants	171,067	25,556				196,623
Accounts receivable - others		(1,090)			372,193	371,103
Prepaid expenses and deposits	233,853	413,688				647,541
Inventories	52,723					52,723
Due from other funds (Note 3)	827,194		750,000		13,945	1,591,139
<b>Total current assets</b>	<b>1,532,369</b>	<b>1,155,865</b>	<b>1,091,429</b>	<b>740,691</b>	<b>537,965</b>	<b>5,058,319</b>
Restricted assets:						
Investments (Note 2)	176,808					176,808
Capital assets (Note 4)						
Land	2,744,477		2,983,438			5,727,915
Construction in progress			20,491,873	1,485,028	479,074	22,455,975
Buildings and improvements	60,291,232			368,291		60,659,523
Furniture and equipment	1,393,829	68,807	30,000			1,492,636
Accumulated depreciation	(26,412,026)	(65,092)	(2,642)			(26,479,760)
<b>Total capital assets</b>	<b>38,017,512</b>	<b>3,715</b>	<b>23,502,669</b>	<b>1,853,319</b>	<b>479,074</b>	<b>63,856,289</b>
Other assets:						
Other investment (Note 2G)					1,886,892	1,886,892
<b>TOTAL ASSETS</b>	<b>39,726,689</b>	<b>1,159,580</b>	<b>24,594,098</b>	<b>2,594,010</b>	<b>2,903,931</b>	<b>70,978,308</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	1,064,471					1,064,471
Accrued compensated absences- current	50,246	6,819		27,393	53,317	137,775
Accrued liabilities	39,759					39,759
Tenants security deposits	128,058					128,058
Other liabilities			41,164	150,601	587,172	778,937
Due to other funds (Note 3)	763,945	118,136	131,759	562,697	14,602	1,591,139
<b>Total current liabilities</b>	<b>2,046,479</b>	<b>124,955</b>	<b>172,923</b>	<b>740,691</b>	<b>655,091</b>	<b>3,740,139</b>
Long term liabilities:						
Accrued compensated absences - non-current	308,545	55,671	68,822			433,038
Other non-current liabilities	2,126,984	251,832	25,000			2,403,816
<b>Total long term liabilities</b>	<b>2,435,529</b>	<b>307,503</b>	<b>93,822</b>			<b>2,836,854</b>
<b>TOTAL LIABILITIES</b>	<b>4,482,008</b>	<b>432,458</b>	<b>266,745</b>	<b>740,691</b>	<b>655,091</b>	<b>6,576,993</b>
<b>NET ASSETS</b>						
Investment in capital assets, net of related debt	38,017,512	3,715	23,502,669	1,853,319	479,074	63,856,289
Restricted	176,808					176,808
Unrestricted	(2,949,639)	723,407	824,684		1,769,766	368,218
<b>TOTAL NET ASSETS</b>	<b>\$35,244,681</b>	<b>\$727,122</b>	<b>\$24,327,353</b>	<b>\$1,853,319</b>	<b>\$2,248,840</b>	<b>\$64,401,315</b>

See accompanying notes to basic financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2006**

	Major Enterprise Funds				Other Enterprise Funds - Non-Major	Totals
	Low Rent Public Housing	Housing Choice Vouchers	HOPE VI	Capital Fund		
<b>OPERATING REVENUES</b>						
Rental revenue - tenant	\$1,597,078					\$1,597,078
Other revenue	16,028	\$47,724			\$2,515	66,267
<b>Total revenues</b>	<u>1,613,106</u>	<u>47,724</u>			<u>2,515</u>	<u>1,663,345</u>
<b>OPERATING EXPENSES</b>						
Administration	1,745,716	1,726,872	\$831,838	\$216,562	218,197	4,739,185
Tenant services	117,397				5,960	123,357
Utilities	682,413					682,413
Ordinary maintenance and operations	1,181,684	16,583			1,170,446	2,368,713
Protective services	193,334					193,334
General expenses	318,464	60,366				378,830
Depreciation	332,186	1,303	1,321			334,810
Housing assistance payments		16,941,118				16,941,118
<b>Total operating expenses</b>	<u>4,571,194</u>	<u>18,746,242</u>	<u>833,159</u>	<u>216,562</u>	<u>1,394,603</u>	<u>25,761,760</u>
<b>Operating (loss)/gain</b>	<u>(2,958,088)</u>	<u>(18,698,518)</u>	<u>(833,159)</u>	<u>(216,562)</u>	<u>(1,392,088)</u>	<u>(24,098,415)</u>
<b>NON-OPERATING REVENUES/(EXPENSES)</b>						
HUD PHA grants	1,202,276	19,242,266	824,392	1,298,698	1,379,983	23,947,615
Capital grants			8,528,538	400,000		8,928,538
Investment income	13,807	1,347	7,446		2,967	25,567
Interest expense						
Bond amortization costs						
<b>Non-operating revenues/(expenses)</b>	<u>1,216,083</u>	<u>19,243,613</u>	<u>9,360,376</u>	<u>1,698,698</u>	<u>1,382,950</u>	<u>32,901,720</u>
<b>Income/(loss) before transfers</b>	<u>(1,742,005)</u>	<u>545,095</u>	<u>8,527,217</u>	<u>1,482,136</u>	<u>(9,138)</u>	<u>8,803,305</u>
<b>TRANSFERS</b>						
Transfer in (Note 3)	394,200					394,200
Transfer out (Note 3)				(394,200)		(394,200)
Equity transfers	1,710,419			(1,710,419)		
<b>Net transfers</b>	<u>2,104,619</u>			<u>(2,104,619)</u>		
<b>Change in accounting method (Note 5A)</b>		<u>(100,134)</u>		<u>(25,340)</u>		<u>(125,474)</u>
<b>Change in net assets</b>	<u>362,614</u>	<u>444,961</u>	<u>8,527,217</u>	<u>(647,823)</u>	<u>(9,138)</u>	<u>8,677,831</u>
<b>Beginning Net assets</b>	<u>34,882,067</u>	<u>282,161</u>	<u>15,800,136</u>	<u>2,501,142</u>	<u>2,257,978</u>	<u>55,723,484</u>
<b>Ending Net Assets</b>	<u>\$35,244,681</u>	<u>\$727,122</u>	<u>\$24,327,353</u>	<u>\$1,853,319</u>	<u>\$2,248,840</u>	<u>\$64,401,315</u>

See accompanying notes to basic financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Major Enterprise Funds				Other Enterprise Funds - Non-Major	Totals
	Low Rent Public Housing	Housing Choice Vouchers	HOPE VI	Capital Fund		
<b>Cash flows from operating activities</b>						
Receipts from dwelling rents	\$1,530,843	(\$396,892)				\$1,133,951
Receipts from other miscellaneous sources	16,028	47,724			\$2,515	66,267
Payments for housing assistance		(16,941,118)			(5,960)	(16,947,078)
Payments for employee expenses	(1,490,027)	(1,485,519)	(\$159,825)	(\$145,730)	(216,527)	(3,497,628)
Payments for administrative expenses	(255,689)	(241,353)	(672,013)	(70,832)	(221,407)	(1,461,294)
Payments for general maintenance and other expenses	(1,758,647)	(379,059)	(1,171,373)	(9,333)	(1,170,446)	(4,488,858)
<b>Net cash (used)/provided by operating activities</b>	<u>(1,957,492)</u>	<u>(19,396,217)</u>	<u>(2,003,211)</u>	<u>(225,895)</u>	<u>(1,611,825)</u>	<u>(25,194,640)</u>
<b>Cash flows from non-capital &amp; related financing activities:</b>						
Subsidies from federal grants	1,203,788	19,374,852	10,719,301	1,517,518	1,531,529	34,346,988
Transfers to/from other funds	2,104,619	(100,134)		(2,104,619)		(100,134)
Interfund payments	(285,059)	(29,609)	(197,677)	165,173	(125,671)	(472,843)
Interfund receipts	472,843					472,843
<b>Net cash provided by non-capital and related financing activities</b>	<u>3,496,191</u>	<u>19,245,109</u>	<u>10,521,624</u>	<u>(421,928)</u>	<u>1,405,858</u>	<u>34,246,854</u>
<b>Cash flows from capital &amp; related financing activities:</b>						
Acquisition and construction of capital assets	(1,742,301)		(8,523,620)	647,823	205,967	(9,412,131)
<b>Net cash (used)/provided by capital and related financing activities</b>	<u>(1,742,301)</u>		<u>(8,523,620)</u>	<u>647,823</u>	<u>205,967</u>	<u>(9,412,131)</u>
<b>Cash flows from investing activities:</b>						
Sale/(Purchase) of investments	181,869	(3,460)	(2,239)			176,170
Interest received	13,807	1,347	7,446			22,600
<b>Net cash provided by investing activities</b>	<u>195,676</u>	<u>(2,113)</u>	<u>5,207</u>			<u>198,770</u>
<b>Net increase/(decrease) in cash</b>	<u>(7,926)</u>	<u>(153,221)</u>				<u>(161,147)</u>
<b>Cash at beginning of year</b>	<u>98,105</u>	<u>779,567</u>	<u>300</u>			<u>877,972</u>
<b>Cash at end of year</b>	<u>\$90,179</u>	<u>\$626,346</u>	<u>\$300</u>			<u>\$716,825</u>
<b>Cash flows from:</b>						
Operating (loss)/gain	(2,958,088)	(18,698,518)	(833,159)	(216,562)	(1,392,088)	(24,098,415)
<b>Adjustments to reconcile operating gain/loss to net cash (used)/provided by operating activities:</b>						
Depreciation expense and others	332,186	1,303	1,321	(25,340)		309,470
Decrease/(Increase) in grants and accounts receivable	199	(25,556)			(372,013)	(397,370)
Decrease/(Increase) in prepaid expenses and other assets	(66,434)	(371,336)				(437,770)
Decrease/(Increase) in inventory	16,506					16,506
Increase/(Decrease) in accounts payable	269,307		(1,139,521)			(870,214)
Increase/(Decrease) in accrued liabilities and other liabilities	198,335	62,490	84,986	130,002	1,670	477,483
Increase/(Decrease) in other non-current liabilities	245,815	(364,600)	(116,838)	(113,995)	150,606	(199,012)
Increase/(Decrease) in tenant security deposits	4,682					4,682
<b>Net cash (used)/provided by operating activities</b>	<u>(\$1,957,492)</u>	<u>(\$19,396,217)</u>	<u>(\$2,003,211)</u>	<u>(\$225,895)</u>	<u>(\$1,611,825)</u>	<u>(\$25,194,640)</u>

See accompanying notes to basic financial statements

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Housing Authority of the City of Richmond (the "Authority") was formed in 1941 as a separate legal entity under the provisions of the Housing Act of 1937. The Authority was established to use funds provided by the Department of Housing and Urban Development (HUD) to rehabilitate local deteriorated housing and to subsidize low-income families in obtaining decent, safe, and sanitary housing. Under State Laws, the Authority is subject to California Health and Safety Code Sections 34200 – 34606. Although the Authority is a separate legal entity from the City of Richmond, it is an integral part of the City. The City exercises significant financial and management control over the Authority, and members of the City Council serve as the governing board of the Authority. The financial statements of the Authority are included in the City of Richmond's basic financial statements.

**Discretely Presented Component Unit** - RHA Properties is responsible for providing housing units within the Authority's jurisdiction. The members of RHA Properties' governing board are elected by the Authority and the City. However, the Authority is financially accountable for the RHA Properties because the Authority's Board approves RHA Properties' budget, and must approve any debt issuances. RHA Properties is presented as a business-type activity. Separate financial statements for RHA Properties can be obtained from the Authority.

**B. Basis of Presentation**

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities display information about the Authority (and its component unit, RHA Properties). These statements include the financial activities of the overall Authority. The Authority's business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as grants and investment earnings, result from nonexchange transactions or ancillary activities.

**C. Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Authority may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Authority's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

The Authority follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors issued on or before November 30, 1989, in accounting for its business-type activities, unless those pronouncements conflict with Government Accounting Standards Board pronouncements.

***D. Major Funds***

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. Major business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. The Authority reported the following major funds in the accompanying financial statements:

**Low-Rent Public Housing Program (LRPH)** - The Low-Rent Public Housing Program provides low cost housing within the city limits of the City of Richmond, California. Housing consists of apartments owned and operated by the Authority. Tenant rent payments and United States Department of Housing and Urban Department (HUD) subsidies provide funding for the program.

**Housing Choice Vouchers Program** - Under the Authority's contract with HUD, the latter provides Housing Assistance Payments (HAP) to Housing Choice Vouchers landlords on behalf of the families registered under the program. The HAP includes administrative fees provided by HUD to the Authority for administering the program.

Under the Housing Choice Vouchers Program, tenants lease directly with private owners after being certified as eligible under program guidelines. Tenants make direct lease payments to property owners and the Authority makes monthly payments to the landlords. The Housing Choice Vouchers Program has an Annual Contribution Contract (ACC) with HUD.

**Revitalization of Severely Distressed Public Housing (HOPE VI)** - The Richmond HOPE VI project is a \$120 million dollar neighborhood revitalization with the Easter Hill Village Public Housing development as the cornerstone. Both physical and social accomplishments will help transform the neighborhood over the next 4-5 years. Funding sources include a HUD grant of \$35 million. Other funding will be provided by tax credits and other mixed financing.

**Modernization Program and Capital Fund (Capital Fund)** - All substantial additions to land, structures, and equipment are accomplished through the Authority's Modernization Program, funded under the Comprehensive Grant or Capital Fund. The Modernization Program replaces or materially upgrades deteriorated portions of the Authority's housing units.

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

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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**E. Non-Major Funds**

In addition to the major funds above, the Authority also maintains the following non-major funds. Non-major funds are defined as funds that have assets, liabilities, revenues, or expenses less than 10% of the Authority's total assets, liabilities, revenues or expenses:

**Project Real Program (Lead-Based Paint)** - Under this program, HUD provides funding to assist rental housing on Lead Based Paint Hazard Control.

**Local Fund** - The Authority maintains a Local Fund to promote low-income housing development.

**F. Compensated Absences**

Vacation and related benefits fully vest as earned and are paid in full upon termination. Vested vacation obligations are recorded as accrued compensated absences until paid. Changes in compensated absences during fiscal year ending June 30, 2006, are presented as follows:

	Business-Type Activities
Beginning Balance	\$575,755
Additions	67,778
Payments	(72,720)
Ending Balance	\$570,813
Due within one year	\$137,775

**G. Taxes**

The Authority is exempt from federal and state income taxes. The Authority is also exempt from property taxes, but makes payments to the City of Richmond for sewer fees. There is neither a cooperative agreement between the Housing Authority and the City of Richmond nor existing Payment in Lieu of Taxes (PILOT).

**H. Accounts Receivable - tenants**

Accounts receivables consist of Low Rent Public Housing tenants' unpaid rents and Housing Choice Vouchers overpayments to landlords and tenant fraud. Allowances for uncollectible accounts have been established for both receivables.

**I. Inventories**

Inventories are valued at cost using the weighted average method. Inventories consist of maintenance, repair, and operating materials and supplies held for consumption. The cost is recorded as expenditure in the funds at the time individual inventory item is consumed rather than when purchased.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***J. Other Non-Current Liabilities***

Other non-current liabilities represent the balance due to the City of Richmond for payroll expenses, sewer fees, PILOT expenses, and other charges. The transactions that make up the amount are from April 2002 through June 2006.

**NOTE 2 - CASH AND INVESTMENTS**

***A. Policies***

California Law generally requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution. As of June 30, 2006 the Authority's cash in bank was insured or collateralized as discussed above.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

***B. Classification***

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of the Authority's debt instruments.

Authority:	
Cash on hand	\$716,825
LAIF	346,072
Certificates of Deposit	229,923
Total Cash and investments	\$1,292,820
RHA Properties:	
Unrestricted Cash in Bank	\$116,729
Restricted investments:	
Money Market Funds	\$1,201,724
Guaranteed Investment Contracts	904,533
Subtotal	\$2,106,257

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

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

*C. Investments Authorized by the California Government Code and the Authority's Investment Policy*

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following provided the credit ratings of the issuers are acceptable to the Authority; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code.

Authorized Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Credit Quality
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Bankers' Acceptances	180 days	40 percent	None
Commercial Paper - Select Agencies	270 days	40 percent	A1/P1
Commercial Paper - Others Agencies	270 days	25 percent	A1/P1
Negotiable Certificates of Deposit	5 years	30 percent	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements & Securities Lending Agreements	92 days	20 percent	None
Medium-Term Notes	5 years	30 percent	A
Mutual Funds	N/A	20 percent	Multiple
Money Market Mutual Funds	N/A	20 percent	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20 percent	AA
Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds	N/A	None	None

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

The Authority does not have reverse repurchase agreements.

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

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

***D. Investments Authorized by Debt Agreements***

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Repurchase Agreements	N/A	Highest Rating Category	No Limit	No Limit
Government Obligations	N/A	N/A	N/A	N/A
U.S. Government Agency Obligations	N/A	N/A	N/A	N/A
State Obligations	N/A	Highest Rating Category	No Limit	No Limit
Commercial Paper	N/A	Highest Rating Category	No Limit	No Limit
Negotiable Certificates of Deposit	N/A	Highest Rating Category	No Limit	No Limit
Time Deposit	N/A	Highest Rating Category	No Limit	No Limit
Bankers Acceptances	N/A	Highest Rating Category	No Limit	No Limit
Guaranteed Investment Contracts	N/A	Highest Rating Category	No Limit	No Limit
Money Market Mutual Funds	N/A	Aaa	No Limit	No Limit

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

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

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

***E. Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority invests in cash, money market funds or guaranteed investment contracts which may be drawn down as needed, subject to terms of the underlying debt indenture.

***F. Local Agency Investment Fund***

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2006, these investments matured in an average of 152 days.

***G. Other Investments***

The amount of \$1,886,892 represents the investment by the Authority's Local Fund in its component unit, RHA Properties.

**NOTE 3 – INTERFUND TRANSACTIONS**

***A. Transfers between Funds***

During fiscal 2005-2006, \$394,200 was transferred from the Low Rent Housing Fund to the Capital Fund to cover the expenses incurred for the Conventional Housing Program.

***B. Current Interfund Balances***

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Interfund balances were as follows as of June 30, 2006:

Interfund Receivable	Interfund Payable	Amount
Low Rent Public Housing Fund	HOPE VI Fund	\$131,759
	Local Fund	14,602
	Capital Fund	562,697
	Housing Choice Vouchers Fund - Section 8	118,136
HOPE VI Fund	Low Rent Public Housing Fund	750,000
Lead-Based Paint Fund- Project REAL	Low Rent Public Housing Fund	5,185
Local Fund	Low Rent Public Housing Fund	8,760
		\$1,591,139

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

**NOTE 4 – CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Outlays for capital assets in excess of \$1,000 for the Authority and PHA Properties, respectively, are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Buildings and Improvements	20-50 years
Furniture and Equipment – Operations	15 years
Furniture and Equipment – Administration	10 years

Changes in the Authorities capital assets are summarized below:

	Balance at June 30, 2005	Additions	Retirements	Tranfers	Balance at June 30, 2006
Capital assets not being depreciated:					
Land	\$5,727,915				\$5,727,915
Construction in progress	15,158,020	\$9,077,800		(\$1,779,845)	22,455,975
Total capital assets not being depreciated:	20,885,935	9,077,800		(1,779,845)	28,183,890
Capital assets being depreciated:					
Buildings and improvements	58,580,814	298,864		1,779,845	60,659,523
Furniture and equipment - operations	660,950	22,994	\$30,664		653,280
Furniture and equipment - administration	852,641	12,473	25,758		839,356
Total capital assets being depreciated:	60,094,405	334,331	56,422	1,779,845	62,152,159
Less accumulated depreciation for:					
Buildings and improvements	25,000,771	300,377			25,301,148
Furniture and equipment - operations	466,546	12,649	30,664		448,531
Furniture and equipment - administration	734,055	21,784	25,758		730,081
Total accumulated depreciation	26,201,372	334,810	56,422		26,479,760
Net capital assets being depreciated	33,893,033	(479)		1,779,845	35,672,399
Total capital assets, net	\$54,778,968	\$9,077,321			\$63,856,289

The Authority had outstanding construction commitments on capital projects totaling \$22,455,975 at June 30, 2006.

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

**NOTE 4 – CAPITAL ASSETS (Continued)**

RHA Properties has assigned the useful lives listed below to its capital assets:

Buildings and Improvements	27.5 years
Furniture and Equipment	5 years

Changes in the RHA Properties capital assets are summarized below:

	Balance at June 30, 2005	Additions	Retirements	Balance at June 30, 2006
Capital assets not being depreciated:				
Land	\$10,431,153			\$10,431,153
Total capital assets not being depreciated:	10,431,153			10,431,153
Capital assets being depreciated:				
Buildings and improvements	23,933,113		\$15,970	23,917,143
Furniture and equipment	53,930		4,330	49,600
Total capital assets being depreciated:	23,987,043		20,300	23,966,743
Less accumulated depreciation for:				
Buildings and improvements	1,594,767	\$871,018		2,465,785
Furniture and equipment	18,620	10,786		29,406
Total accumulated depreciation	1,613,387	881,804		2,495,191
Net capital assets being depreciated	22,373,656	(881,804)	20,300	21,471,552
Total capital assets, net	\$32,804,809	(\$881,804)	\$20,300	\$31,902,705

**NOTE 5 – LONG TERM DEBT**

The following is a summary of RHA Properties long-term debt transactions of the business activities for the year ended June 30, 2006:

	Original Issue Amount	Balance June 30, 2005	Retirements	Balance June 30, 2006	Amount due within one year
Multifamily Housing					
Revenue Bonds					
2003 Series A Bonds	\$23,000,000	\$22,600,000	(\$300,000)	\$22,300,000	\$400,000
2003 Series A-S Bonds	12,000,000	11,580,000	(155,000)	11,425,000	165,000
Total Long-Term Debt	\$35,000,000	\$34,180,000	(\$455,000)	\$33,725,000	\$565,000

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

**NOTE 5 – LONG TERM DEBT (Continued)**

The Affordable Housing Agency, a financial intermediary, issued Variable Rate Demand Multifamily Housing Revenue Bonds (Westridge at Hilltop Apartments), 2003 Series A (Senior Bonds), in the initial aggregate principal amount of \$23,000,000, and Subordinate Multifamily Housing Revenue Bonds, 2003 Series A-S (Subordinated Bonds), in the initial aggregate principal amount of \$12,000,000 and has loaned the proceeds to RHA Properties which used the proceeds to acquire a 401-unit multifamily apartment project.

Pursuant to lease and sublease agreements, RHA Properties remits lease payments to a trustee acting on behalf of the financial intermediary which are sufficient in timing and amount to be used to pay debt service on the bonds. In substance RHA Properties is repaying these Bonds and they have therefore been included in these financial statements.

The *Senior Bonds* were issued August 1, 2003, mature on September 15, 2033 and bear a variable rate of interest (3.97% at June 30, 2006) with interest payments due monthly commencing September 15, 2003.

Interest rates on the Senior Bonds are reset periodically, using the "put" mechanism described below. The Senior Bonds are periodically subject to repurchase at par, referred to as a "put". Once a put occurs, a remarketing agent resells the Senior Bonds at par by setting new interest rates and repurchase dates. RHA Properties has obtained an irrevocable transferable credit enhancement instrument which expires September 20, 2033 in the amount of \$23,000,000 to be used in the event the remarketing agent is unable to resell any Senior Bonds and to ensure RHA Properties will not be required to repurchase the Senior Bonds before they mature. RHA Properties paid the agent an annual fee equal 0.10% of the average aggregate principal amount of Bonds outstanding for the immediately preceding 12 months period.

The *Subordinate Bonds* were issued August 1, 2003, mature December 15, 2033 and are subordinates in payment and security to the Senior Bonds. The Subordinate Bonds bear interest at 6.375% per year, payable semi-annually commencing December 15, 2003.

Debt Services on the Bonds are scheduled to mature as follows:

For The Year Ending June 30	Principal	Interest	Total
2007	\$565,000	\$1,611,104	\$2,176,104
2008	475,000	1,584,546	2,059,546
2009	585,000	1,561,320	2,146,320
2010	595,000	1,533,487	2,128,487
2011	610,000	1,504,857	2,114,857
2012-2016	3,770,000	7,040,096	10,810,096
2017-2021	5,135,000	6,009,069	11,144,069
2022-2026	6,985,000	4,597,882	11,582,882
2027-2031	9,655,000	2,676,094	12,331,094
2032-2036	5,350,000	402,052	5,752,052
Total payments due	<u>\$33,725,000</u>	<u>\$28,520,507</u>	<u>\$62,245,507</u>

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

**NOTE 6 – NET ASSETS**

Net Assets is the excess of all the Authority's assets over all its liabilities, regardless of fund. Net Assets are divided into the following captions on the Statement of Net Assets.

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the Authority's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which RHA Properties cannot unilaterally alter. These principally include capital projects and debt service requirements.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**A. Change in Accounting Method**

As of June 30, 2005, the Authority had recorded \$100,134 and \$25,340 as accounts receivable from HUD in the Housing Choice Vouchers Fund and Capital Fund respectively. These amounts were receivable from the U.S. Department of Housing and Urban Development (HUD) which the Authority believed were earned during the fiscal year 2005. In fiscal 2005-2006, HUD issued guidance informing housing authorities that HUD would no longer settle these receivable amounts. Therefore an adjustment to reflect this change in accounting method has been recorded to eliminate this prior year accounts receivable from HUD and to decrease fund balance.

**B. Beginning Net Assets Restatements**

As of June 30, 2006, RHA Properties restated beginning net assets and increased it by \$783,064 due to the write-off of balances of unsupported accrued liabilities recorded in prior year.

**NOTE 7 – PENSION PLANS**

The Authority, an integral part of the City of Richmond (City), participates in the California Public Employees' Retirement System (PERS). The Authority's employees are included in Plans the City has with CALPERS. Data for these city-wide plans are disclosed below.

**A. Plan Description and Provisions**

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that covers substantially all eligible City employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

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

**NOTE 7 – PENSION PLANS (Continued)**

***B. Funding Policy***

Active plan members are required by state statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City as employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$10,474,319 for the year ended June 30, 2006. The City as employer was required to contribute for period from July 1, 2005 to January 31, 2006 at an actuarially determined rate of 20.417% and 34.045% of annual covered payroll for miscellaneous and safety employees, respectively. The employer contribution rate was changed on February 1, 2006. From February 1, 2006 to June 30, 2006, the City was required to contribute an actuarially determined rate of 11.328% and 16.485% of annual covered payroll for miscellaneous and safety employees, respectively.

***C. Annual Pension Cost***

For 2005-2006, the City's annual pension cost of \$10,474,319 for PERS was equal to the City's required and actual contributions. The required contribution was determined by PERS using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization periods at June 30, 2006, were 30 years for both the miscellaneous and the safety employees plans for prior and current service unfunded liability.

The City uses the actuarially determined percentages of payroll to calculate and pay contributions to PERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by PERS, for the last three fiscal years were:

**THREE-YEAR TREND INFORMATION FOR PERS**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2004	\$8,608,154	100%	-
6/30/2005	12,284,671	100%	-
6/30/2006	10,474,319	100%	-

The City prepaid its pension contributions with proceeds from the 2005 Pension Obligation Bonds. These prepaid contributions are reflected in the City's financial statements as Prepaid Pension Obligations which amounted to \$111,531,446 at June 30, 2006. During fiscal 2006, the City's amortization of the prepayment increased the actuarially required contributions by \$2,345,571 to arrive at the City's Annual Pension Costs of \$12,819,890. For years prior to fiscal 2006, Annual Pension Costs equal the Actuarially Required Contributions disclosed above.

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

**NOTE 7 – PENSION PLANS (Continued)**

**SCHEDULE OF FUNDING PROGRESS - CALPERS**

*Safety Plan:*

Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
06/30/03	\$296,958,521	\$234,512,373	\$62,446,148	79%	\$28,428,911	219.7%
06/30/04	314,203,424	247,622,760	66,580,664	79%	23,992,233	277.5%
06/30/05	326,157,639	259,483,882	66,673,757	80%	22,128,726	301.3%

*Miscellaneous Plan:*

Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
06/30/03	\$236,909,194	\$202,599,016	\$34,310,178	86%	\$36,800,434	93.2%
06/30/04	258,035,928	212,933,212	45,102,716	83%	32,316,594	139.6%
06/30/05	269,183,479	221,754,486	47,428,993	82%	28,600,241	165.8%

*Significant Accounting Policies*

City contributions for all plans are recognized when due and the City has made a formal commitment to provide contributions. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the Plan. Assets are valued at fair value based on available market information obtained from independent sources.

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 6, the City also provides postretirement health care benefits, in accordance with City ordinances, to all employees who retire from the City on or after attaining retirement age (50 for policemen, 50 for firemen, and 55 for all other employees) and who have at least ten years of service. At June 30, 2006, 11 retirees met those eligibility requirements. The City funds these benefits on a pay-as-you-go basis. During fiscal year 2006, expenditures of \$35,104 were recognized for post employment health care benefits by the Authority.

**NOTE 9 – DEFERRED COMPENSATION PLANS**

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

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

**NOTE 10 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The Authority joined together with other entities and participates in the California Housing Authority Risk Management Authority (CHARMA), a public entity risk pool currently operating as a common risk management and insurance program for its member entities. The purpose of CHARMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The Authority pays annual premiums to CHARMA for its general, liability, property damage and workers compensation insurance.

CHARMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

The following is a summary of the insurance coverage for the Authority as of June 30, 2006

Type of Coverage	Annual Aggregate Limits	Deductible
General Liability/ Errors and Omissions	\$10,000,000	\$25,000
Excess Liability	10,000,000	250,000
Property Liability	100,000,000	25,000
Automobile/ Physical Damage	5,000,000	2,500
Employment Practices Liability	1,000,000	50,000

Claims and judgments, including provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the Authority has coverage for such claims, but it had retained the risk for the deductible or uninsured portion of these claims.

The Authority has not exceeded its insurance coverage limits in any of the last three years.

**NOTE 11 – COMMITMENT AND CONTINGENCIES**

The Authority participates in a number of federally assisted grant programs, principal of which are the Section 8 Housing Assistance and the HOPE VI Revitalization Grant. It is possible that at some future date, it may be determined that the Authority is not in compliance with applicable grant requirements. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority does not expect such disallowed amounts, if any, to materially affect the financial statements.

In June 2000, the Richmond Housing Authority received a \$35 million grant (HOPE VI Grant) from the U.S. Department of Housing and Urban Development (“HUD”) for the revitalization of the former Easter Hill Public Housing project. The original Easter Hill site, owned by the Richmond Housing Authority, included 300 units on 21 acres in the Cortez/Stege neighborhood of Richmond.

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

**NOTE 11 – COMMITMENT AND CONTINGENCIES (Continued)**

The California Tax Credit Committee, City of Richmond, Bank of America, Silicon Valley, Federal Home Loan Bank, California Housing Finance Agency, the Richmond Housing Authority along with the \$35 million dollar HUD grant financed this \$120 million revitalization effort. Physical costs are estimated to be approximately \$108 million and life services, relocation, acquisition, administrative and other costs are estimated to be approximately \$12 million. The physical development includes approximately 382 rental and homeownership units to replace the 300 rental units originally at the site and 273 remaining units at the time of grant approval. Amenities at the revitalized site include a pool and a 5,000 square feet community room with facilities for an after school program, computer center, gymnasium and conference room.

In 2002, the Authority entered into a Master Development Agreement with the McCormack Baron Salazar, Inc. and Em Johnson Interest, Inc. to develop the site. Em Johnson Interest has developed the 82 homeownership units affordable to low, moderate and market rate buyers. McCormack Baron was charged with the development of 300 rental units, affordable to households 60% or below the area median income for Contra Costa County.

All new construction rental units at the former Easter Hill site have been developed. 36 rehabilitation rental units at the site are underway. 134 of the rental units have been leased. Similarly, all 82 homeownership units at the former Easter Hill and Cortez sites have been constructed. Cortez development is more than 85% sold out. Easter Hill development is more than 30% sold out.

The third phase of the project is anticipated to begin in April 2007. The final determination of whether the phase will remain rental or be converted to homeownership housing is being considered.

**NOTE 12– MAJOR VENDOR**

The RHA Properties Project is managed pursuant to an agreement with a third party vendor who was paid \$149,763 during fiscal 2005-2006 for its services.

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*SUPPLEMENTARY INFORMATION*

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
NON-MAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<u>Local</u>	<u>Lead-Based Paint</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Investments	\$92,107		\$92,107
Accounts receivable - HUD		\$59,720	59,720
Accounts receivable - others	372,193		372,193
Due from other funds	<u>8,760</u>	<u>5,185</u>	<u>13,945</u>
Total current assets	<u>473,060</u>	<u>64,905</u>	<u>537,965</u>
Non-current assets:			
Other investment	1,886,892		1,886,892
Capital assets:			
Construction in progress	<u>479,074</u>		<u>479,074</u>
Total non-current assets	<u>2,365,966</u>		<u>2,365,966</u>
<b>TOTAL ASSETS</b>	<u>2,839,026</u>	<u>64,905</u>	<u>2,903,931</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accrued compensated absences - current		53,317	53,317
Due to other funds	14,602		14,602
Other current liabilities	<u>575,584</u>	<u>11,588</u>	<u>587,172</u>
Total current liabilities	<u>590,186</u>	<u>64,905</u>	<u>655,091</u>
<b>TOTAL LIABILITIES</b>	<u>590,186</u>	<u>64,905</u>	<u>655,091</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	479,074		479,074
Unrestricted	<u>1,769,766</u>		<u>1,769,766</u>
<b>TOTAL NET ASSETS</b>	<u>\$2,248,840</u>		<u>\$2,248,840</u>

HOUSING AUTHORITY OF THE CITY OF RICHMOND  
NON-MAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Local</u>	<u>Lead-Based Paint</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Other revenue	<u>\$2,515</u>	<u>          </u>	<u>\$2,515</u>
Total operating revenues	<u>2,515</u>	<u>          </u>	<u>2,515</u>
<b>OPERATING EXPENSES</b>			
Administration	14,620	\$203,577	218,197
Tenant services		5,960	5,960
Ordinary maintenance and operations		<u>1,170,446</u>	<u>1,170,446</u>
Total operating expenses	<u>14,620</u>	<u>1,379,983</u>	<u>1,394,603</u>
Operating income/(loss)	(12,105)	(1,379,983)	(1,392,088)
<b>NON-OPERATING REVENUES</b>			
HUD PHA grants		1,379,983	1,379,983
Investment income	<u>2,967</u>	<u>          </u>	<u>2,967</u>
Non-operating revenues	<u>2,967</u>	<u>1,379,983</u>	<u>1,382,950</u>
Income before transfers	(9,138)		(9,138)
Change in net assets	(9,138)		(9,138)
Beginning net assets	<u>2,257,978</u>	<u>          </u>	<u>2,257,978</u>
Ending net assets	<u>\$2,248,840</u>	<u>          </u>	<u>\$2,248,840</u>

**HOUSING AUTHORITY OF THE CITY OF RICHMOND  
 PROPRIETARY FUNDS  
 COMBINING STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Local</u>	<u>Lead-Based Paint</u>	<u>Totals</u>
Cash flows from operating activities			
Receipts from other miscellaneous sources	\$2,515		\$2,515
Payments for tenant services		(\$5,960)	(5,960)
Payments for employee expenses	(14,620)	(201,907)	(216,527)
Payments for administrative expenses	(198,126)	(23,281)	(221,407)
Payments for general maintenance and other expenses		(1,170,446)	(1,170,446)
Net cash (used)/provided by operating activities	<u>(210,231)</u>	<u>(1,401,594)</u>	<u>(1,611,825)</u>
Cash flows from non-capital & related financing activities:			
Subsidies from federal grants		1,531,529	1,531,529
Receipts (payments) of interfund borrowings	4,264	(129,935)	(125,671)
Net cash provided by non-capital & related financing activities	<u>4,264</u>	<u>1,401,594</u>	<u>1,405,858</u>
Cash flows from capital & related financing activities:			
Acquisition and construction of capital assets	205,967		205,967
Net cash (used)/provided by capital & related financing activities	<u>205,967</u>		<u>205,967</u>
Cash flows from investing activities:			
Sale/(Purchase) of investments	(2,967)		(2,967)
Interest received	2,967		2,967
Net cash provided by investing activities			
Net increase/(decrease) in cash			
Cash at beginning of year			
Cash at end of year			
Cash flows from:			
Operating loss	(\$12,105)	(\$1,379,983)	(\$1,392,088)
Adjustments to reconcile operating gain/loss to net cash( used)/provided by operating activities:			
Decrease/(Increase) in accounts receivable - others	(372,193)	180	(372,013)
Increase/(Decrease) in accrued compensated absences		1,670	1,670
(Increase)/Decrease in other current liabilities	174,067	(23,461)	150,606
Net cash (used)/provided by operating activities	<u>(\$210,231)</u>	<u>(\$1,401,594)</u>	<u>(\$1,611,825)</u>