

**HOUSING AUTHORITY  
OF THE CITY OF RICHMOND**

**BASIC COMPONENT UNIT  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

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

**For the Year Ended June 30, 2012**

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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 accompanying financial statements of the business-type activities and the discretely presented component unit of the Housing Authority of the City of Richmond (Authority), a component unit of the City of Richmond, as of and for the year ended June 30, 2012 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

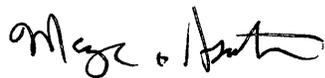
We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit, of the Housing Authority of the City of Richmond, as of June 30, 2012, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As of June 30, 2012, the Authority's current liabilities amounted to \$6.9 million and exceeded current assets by \$5.2 million. The majority of these liabilities represent accumulated payroll and benefit costs owed to the City. For the year ended June 30, 2012, operating expenses exceeded operating revenues and subsidies by \$5.8 million. These conditions raise substantial doubt about the Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 this information in accordance with generally accepted auditing standards 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.

A handwritten signature in black ink, appearing to read "Meyer & Partners" or similar, written in a cursive style.

March 19, 2013

**Richmond Housing Authority**  
**Management's Discussion and Analysis**

**June 30, 2012**

The management discussion and analysis (MD&A) will be focused on the Primary Governmental Unit referred to in this document, the financial statements as well as the notes to the financial statements as the "Authority". The MD&A is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, and (c) identify changes in the Authority's financial position for the fiscal year ended June 30, 2012.

Please read it in conjunction with the Authority's financial statements.

**Overview of the financial statements**

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The Authority's accounting records is structured as an enterprise fund with revenues recognized when earned, rather than when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and depreciated over their estimated useful lives. The accounting for enterprise funds is similar to the accounting used by businesses. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following the MD&A are the basic financial statements of the Authority together with notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's finances.

The **Statement of Net Assets** presents information similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources of 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 and non-current.

Net assets are reported in three broad categories:

**Net Assets Invested in Capital Assets, Net of Related Debt:** This component consists of all capital assets, reduced by the 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 consists of assets that are constrained by limitations placed on their use by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

**Unrestricted Net Assets:** This component consists of assets that are not restricted and do not meet the definition of Net Assets Invested in Capital Assets, Net of Related Debt.

The **Statement of Revenues, Expenditures, and Changes in Net Assets** presents information showing how the Authority's net assets changed during the year. This statement includes operating revenues, such as rental income, operating expenses, such as administrative, utilities, maintenance, and depreciation, and non-operating revenue and expenses, such as grant revenue, investment income, interest expense, and gains or losses from the sale or disposition of capital assets. The focus of the statement is the change in net assets, which is similar to net income or loss for a business entity.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

The **Statement of Cash Flows** reports net cash provided by or used by operating activities, non-capital financing activities, capital and related financing activities and investing activities.

The **Notes to Financial Statements** provide additional information that is essential to a full understanding of the information included in the financial statements.

In addition to the basic financial statements and accompanying notes, this report includes two types of supplementary information: required supplementary information and other supplementary information. Required supplementary information must be included to conform with generally accepted accounting principles. Management's discussion and analysis is the required supplementary information.

Other supplementary information is not required by generally accepted accounting principles but is presented for additional analysis purposes or to meet other requirements. The financial data schedule is required by the U.S. Department of Housing and Urban Development (HUD). The schedule of expenditures of federal awards is required by the U.S. Office of Management and Budget and *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

#### **Program information**

**Low Income Public Housing:** The Authority owns 6,564 units. Under the low income public housing program, the Authority rents units that it owns to low-income households. The program is operated under an annual contributions contract with HUD, and HUD provides operating subsidy and capital funding to enable the Authority to provide housing at a rent that is based on 30% of household income. The conventional public housing program includes the capital fund program, which is the primary funding source for physical improvements to the Authority's properties.

**Section 8 Housing Choice Vouchers:** HUD has contracted with the Authority for support for 21,000 Housing Choice Vouchers. Under the housing choice voucher program, the Authority administers contracts with landlords that own rental 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 with HUD. HUD provides an annual contribution funding to enable the Authority to structure a lease that sets the participant's rent at 30% of household income.

**HOPE VI Program:** A grant program funded by the Department of Housing and Urban Development to redevelop the Authority's Easter Hill Village housing project.

**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.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

**Financial position and analysis**

Table 1 compares the Authority's financial position for the fiscal years ended June 30, 2012 and 2011:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2012	2011	2012	2011		
<b>Assets</b>						
Cash & cash equivalents	\$ 938,160	\$ 2,335,410	\$ 355,539	\$ 300,590	\$ (1,342,301)	-50.92%
Other Current assets	768,572	1,878,976	34,208	34,667	(1,110,863)	-58.05%
Noncurrent assets	53,765,929	55,490,213	30,713,491	31,441,617	(2,452,410)	-2.82%
Total assets	55,472,661	59,704,599	31,103,238	31,776,874	(4,905,574)	-5.36%
<b>Liabilities</b>						
Current liabilities	6,864,544	4,995,399	1,844,069	1,538,971	2,174,243	33.27%
Noncurrent liabilities	2,659,987	3,935,973	30,891,724	31,663,199	(2,047,461)	-5.75%
Total liabilities	9,524,531	8,931,372	32,735,793	33,202,170	126,782	0.30%
<b>Net assets</b>						
Invested in capital assets	45,238,229	46,619,054	(1,157,617)	(1,192,112)	(1,346,330)	-2.96%
Restricted net assets	590,226	2,379,619	2,645,983	2,749,558	(1,892,968)	-36.91%
Unrestricted net assets	119,675	1,774,554	(3,120,921)	(2,982,742)	(1,793,058)	148.41%
Total net assets	\$ 45,948,130	\$ 50,773,227	\$ (1,632,555)	\$ (1,425,296)	\$ (5,032,356)	-10.20%

**Cash & Cash Equivalents** decreased by \$1,342,301 or 50.92% primarily due to cash spent on capital debt payments in excess of cash generated from operations and investing.

**Other Current Assets** decreased by \$1,110,863 or 58.05% primarily due to a decrease in accounts receivable from HUD for Capital Fund Program and Capital Fund Recovery Grant.

**Noncurrent Liabilities** decreased by \$2,047,461 or 5.75% primarily due to the payment of long-term debt.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

Table 2 focuses on the changes in net assets:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2012	2011	2012	2011		
Operating revenue & expense						
Operating revenue	\$ 2,354,197	\$ 2,188,501	\$ 3,679,010	\$ 3,172,490	\$ 672,216	12.54%
Operating expenses	30,886,537	27,394,536	2,998,448	2,742,510	3,747,939	12.44%
Operating income (loss)	(28,532,340)	(25,206,035)	680,562	429,980	(3,075,723)	12.41%
Non-operating revenues & expenses	23,707,243	25,757,286	(887,821)	(1,051,422)	(1,886,442)	-7.64%
Increase (decrease) in net assets	(4,825,097)	551,251	(207,259)	(621,442)	(4,962,165)	7069.52%
Net assets, beginning of year	50,773,227	50,221,976	(1,425,296)	(803,854)	(70,191)	-0.14%
Net assets, end of year	<u>\$ 45,948,130</u>	<u>\$ 50,773,227</u>	<u>\$ (1,632,555)</u>	<u>\$ (1,425,296)</u>	<u>\$ (5,032,356)</u>	<u>-10.20%</u>

Table 3 presents a summary of the Authority's revenue by source:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2012	2011	2012	2011		
Operating revenue						
Tenant revenue	\$ 1,652,159	\$ 1,634,527	\$ 3,509,159	\$ 3,035,376	\$ 491,415	10.52%
HUD Operating grants	22,742,102	23,332,167	-	-	(590,065)	-2.53%
Other Income	702,038	936,644	169,851	137,114	(201,869)	-18.80%
Total operating revenue	<u>25,096,299</u>	<u>25,903,338</u>	<u>3,679,010</u>	<u>3,172,490</u>	<u>(300,519)</u>	<u>-1.03%</u>
Non-operating revenues						
Public housing capital fund	964,998	2,015,408	-	-	(1,050,410)	-52.12%
Interest income	143	27,041	352	736	(27,282)	-98.22%
Total non-operating revenues	<u>965,141</u>	<u>2,042,449</u>	<u>352</u>	<u>736</u>	<u>(1,077,692)</u>	<u>-52.75%</u>
Total revenues	<u>\$ 26,061,440</u>	<u>\$ 27,945,787</u>	<u>\$ 3,679,362</u>	<u>\$ 3,173,226</u>	<u>\$ (1,378,211)</u>	<u>-4.43%</u>

**Tenant Revenue** increased \$491,415 or 10.52%. This is primarily due to increases in rent charged to tenants.

**Other Income** decreased by \$201,869 or 18.80%. This decrease is primarily due to the OIG Corrective Action Plan revenue being applicable to 2011 year end.

**Interest Income** decreased by \$27,282 or 98.22%. This is primarily due to a decrease in interest rates and balances earning interest.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

Table 4 presents a summary of the Authority's operating expenses:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2012	2011	2012	2011		
Administrative	5,150,229	6,048,750	620,775	543,724	(821,470)	-12.46%
Tenant services	189,168	179,587	-	-	9,581	5.34%
Utilities	711,358	719,367	245,240	190,336	46,895	5.15%
Maintenance	2,567,134	1,400,690	800,769	671,418	1,295,795	62.54%
Protective services	335,228	305,574	-	-	29,654	9.70%
General expense	319,603	319,201	430,225	455,220	(24,593)	-3.18%
Depreciation expenses	2,345,823	350,112	901,439	881,812	2,015,338	163.59%
Housing assistance payments	19,267,994	18,071,255	-	-	1,196,739	6.62%
Total expenses	<u>\$ 30,886,537</u>	<u>\$ 27,394,536</u>	<u>\$ 2,998,448</u>	<u>\$ 2,742,510</u>	<u>\$ 3,747,939</u>	<u>12.44%</u>

**Administrative** decreased by \$821,470 or 12.46%. This is primarily due to a decrease in Administrative salaries and benefits.

**Maintenance** expenses increased by \$1,295,795 or 62.54%. This increase was primarily due to increases in contract costs in the Low Income Public Housing program and Component Unit.

**Depreciation Expenses** increased by \$2,015,338 or 163.59% due to a change in estimate of the useful lives of depreciable assts.

**Budgetary Analysis**

The Authority adopts a consolidated annual operating budget for all programs. The budget for Low Income Public Housing and Housing Choice Voucher are adopted on the basis of accounting prescribed by HUD, which differs in some respects from generally accepted accounting principles.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

***Low Income Public Housing***

	Budget	Actual	Variance Favorable (Unfavorable)	Percent Variance Favorable (Unfavorable)
Operating revenue				
Rental income	\$ 1,696,620	\$ 1,720,305	\$ 23,685	1.40%
Operating subsidy	2,436,024	2,424,489	(11,535)	-0.47%
Other income	222,491	229,300	6,809	3.06%
<b>Total revenue</b>	<b>4,355,135</b>	<b>4,374,094</b>	<b>18,959</b>	<b>0.44%</b>
Expenses				
Administrative	1,530,385	1,506,946	23,439	1.53%
Tenant services	183,623	179,877	3,746	2.04%
Utilities	702,092	710,645	(8,553)	-1.22%
Maintenance	1,546,343	1,540,691	5,652	0.37%
Protective services	336,458	335,228	1,230	0.37%
Insurance	113,060	112,647	413	0.37%
General expenses	95,562	95,213	349	0.37%
<b>Total expenses</b>	<b>4,507,523</b>	<b>4,481,247</b>	<b>26,276</b>	<b>0.58%</b>
<b>Income (over)/under expense</b>	<b>\$ (152,388)</b>	<b>\$ (107,153)</b>	<b>\$ 45,235</b>	<b>29.68%</b>

**Rental Income** was over budget by \$23,685 or 1.40% due to higher average daily balances of cash and investments.

**Other Income** was over budget by \$6,809 or 3.06% due to increases in fraud recovery.

**Utilities** were over budget by \$8,553 or 1.22% primarily due to expenses related to the Component Unit.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

***Housing Choice Voucher***

	Budget	Actual	Variance Favorable (Unfavorable)	Percent Variance Favorable (Unfavorable)
<b>Revenue</b>				
Operating subsidy	\$ 17,755,579	\$ 17,671,503	\$ (84,076)	-0.47%
Administrative fees	1,508,984	1,501,839	(7,145)	-0.47%
Other income	227,204	226,288	(916)	-0.40%
<b>Total revenue</b>	<b>19,491,767</b>	<b>19,399,630</b>	<b>(92,137)</b>	<b>-0.47%</b>
<b>Expenses</b>				
Administrative	1,439,547	1,415,986	23,561	1.64%
Maintenance	64,806	64,569	237	0.37%
General expense	33,315	33,193	122	0.37%
HAP expense	19,338,674	19,267,994	70,680	0.37%
<b>Total expenses</b>	<b>20,876,342</b>	<b>20,781,742</b>	<b>94,600</b>	<b>34.00%</b>
<b>Income (over)/under expense</b>	<b>\$ (1,384,575)</b>	<b>\$ (1,382,112)</b>	<b>\$ 2,463</b>	<b>0.18%</b>

**Administrative Fee** income was under budget by 7,145 or 0.47%. This is due to a lower number of vouchers utilized compared to the prior year.

**Administrative Fee** expenses were under budget by \$23,561 or 1.64% primarily due to a decrease in office expenses.

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

**Capital assets**

Table 7 summarizes the Authority's investment in capital assets:

	The Authority		RHA Properties		Increase (Decrease)	Percent Variance
	2012	2011	2012	2011		
Land	\$ 6,124,107	\$ 6,124,107	\$ 10,431,153	\$ 10,431,153	\$ -	0.00%
Buildings, improvements and equipment	63,785,153	62,204,469	24,245,648	24,138,079	1,688,253	1.96%
Construction in progress	2,548,475	3,164,161	209,224	29,930	(436,392)	-13.66%
	<u>72,457,735</u>	<u>71,492,737</u>	<u>34,886,025</u>	<u>34,599,162</u>	<u>1,251,861</u>	<u>1.18%</u>
Less: accumulated depreciation	<u>(27,219,506)</u>	<u>(24,873,683)</u>	<u>(7,784,026)</u>	<u>(6,882,586)</u>	<u>(3,247,263)</u>	<u>10.23%</u>
Capital assets, net	<u>\$ 45,238,229</u>	<u>\$ 46,619,054</u>	<u>\$ 27,101,999</u>	<u>\$ 27,716,576</u>	<u>\$ (1,995,402)</u>	<u>-2.68%</u>

Acquisitions are capitalized at cost and depreciated using the straight-line method of depreciation. Additional information and details can be found in the Notes to the Financial Statements.

Capital funding available for 2012 is as follows:

	Grant	Total Budget	Expended through 6/30/2012	Budget Remaining at 6/30/2012
Capital Fund Program 2009	501-09	953,889	922,108	31,781
Capital Fund Program 2010	501-10	956,915	956,915	-
Capital Fund Program 2011	501-11	803,684	352,168	451,516
Capital Fund Program 2012	501-12	745,045	-	745,045
Capital Fund Recovery Grant 2009	CFRG-09	1,446,269	1,446,269	-
				<u>\$ 1,228,342</u>

**Richmond Housing Authority**  
**Management's Discussion and Analysis**  
**June 30, 2012**

**Analysis of Debt Activity**

In April of 2007, the Authority entered in an agreement with the City of Richmond for operating assistance and services provided by the City. Monthly payments were made as resources became available.

As of June 30, 2012, the Component Unit had \$30,905,599 in outstanding bond indebtedness, consisting of Senior Lien Lease Revenue Bonds and Subordinate Lien Lease Revenue Bonds.

	<u>The Authority</u>	<u>RHA Properties</u>
June 30, 2011	\$ 3,639,910	\$ 31,658,246
Current year debt paid	(460,640)	(752,647)
June 30, 2012	<u>\$ 3,179,270</u>	<u>\$ 30,905,599</u>

**Significant economic factors affecting the Authority are as follows:**

- The Department of Housing and Urban Development (HUD) has historically been underfunded to meet the subsidy needs of public housing authorities (PHAs). We do not expect this consistent trend to change.
- Even if HUD was fully funded for both the Operating and Capital Funds, it is unlikely that Congress would appropriate adequate funding. Pressure on the federal budget will remain in the form of both record deficits and competing funding needs. Further, funding for the Departments of Defense and Homeland Security will probably result in reduced appropriations for all other domestic program spending.
- Rising cost of utility rates, supplies, and other costs may impact our budgets in future years.

**Request for Information**

This financial report is designed to provide a general overview of the Authority's accountability for all those interested. If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Richmond Housing Authority  
 Attn: Tim Jones, Executive Director  
 330 24<sup>th</sup> Street  
 Richmond, CA 94804

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	Primary Government Business-Type Activities	Component Unit RHA Properties
<b>ASSETS</b>		
Current assets:		
Cash (Note 2)	\$938,160	\$355,539
Investments (Note 2)	427,486	
Accounts receivable - HUD	122,796	
Accounts receivable - tenants, net of allowance (Note 1F)	169,310	29,921
Prepaid expenses and deposits	14,756	4,287
Inventories	34,224	
Total current assets	1,706,732	389,747
Restricted assets:		
Cash and investments (Note 2)	199,732	2,645,983
Capital assets (Note 3):		
Land	6,124,107	10,431,153
Construction in progress	2,548,475	209,224
Buildings and improvements	62,122,836	24,067,825
Furniture and equipment	1,662,317	177,823
Less accumulated depreciation	(27,219,506)	(7,784,026)
Total capital assets, net	45,238,229	27,101,999
Other Non Current Assets:		
Other receivables, net of allowance for collectability (Note 2I)	448,653	
Due from developer (Note 10A)	7,879,315	
Bond issuance costs (net of amortization)		965,509
<b>TOTAL ASSETS</b>	<b>55,472,661</b>	<b>31,103,238</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	207,146	313,707
Accrued and other liabilities	5,530,764	17,157
Tenants security deposits	167,631	315,179
Other liabilities	183,367	483,026
Accrued compensated absences (Note 1D)	25,636	
Current portion of long-term obligations (Note 4)	750,000	715,000
Total current liabilities	6,864,544	1,844,069
Long-term liabilities:		
Other non-current liabilities (Note 10B)		701,125
Long-term portion of long-term obligations (Note 4)	2,429,270	30,190,599
Accrued compensated absences (Note 1D)	230,717	
Total long term liabilities	2,659,987	30,891,724
<b>TOTAL LIABILITIES</b>	<b>9,524,531</b>	<b>32,735,793</b>
<b>NET ASSETS (Note 5)</b>		
Investment in capital assets, net of related debt	45,238,229	(1,157,617)
Restricted	590,226	2,645,983
Unrestricted	119,675	(3,120,921)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$45,948,130</b>	<b>(\$1,632,555)</b>

See accompanying notes to basic financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Primary Government Business-Type Activities</u>	<u>Component Unit RHA Properties</u>
Operating Revenues		
Rental revenue - tenant	\$1,652,159	\$3,509,159
Other revenue	702,038	169,851
Total Operating Revenues	<u>2,354,197</u>	<u>3,679,010</u>
Operating Expenses		
Administrative	5,150,229	620,775
Tenant service	189,168	
Utilities	711,358	245,240
Ordinary maintenance and operations	2,567,134	800,769
Protective services	335,228	
General expenses	319,603	430,225
Housing assistance payments	19,267,994	
Depreciation	2,345,823	901,439
Total Operating Expenses	<u>30,886,537</u>	<u>2,998,448</u>
Operating Income (Loss)	<u>(28,532,340)</u>	<u>680,562</u>
Non-Operating Revenues (Expenses)		
Investment earnings	143	352
HUD PHA grants	22,742,102	
Interest expense and fiscal expenses		(845,846)
Amortization expense		(42,327)
Total Non-Operating Revenues (Expenses)	<u>22,742,245</u>	<u>(887,821)</u>
Income (Loss) Before Capital Grants	(5,790,095)	(207,259)
Capital Grants	<u>964,998</u>	
Changes in Net Assets	(4,825,097)	(207,259)
Net Assets (Deficit), Beginning of the Fiscal Year	<u>50,773,227</u>	<u>(1,425,296)</u>
Net Assets (Deficit), End of the Fiscal Year	<u>\$45,948,130</u>	<u>(\$1,632,555)</u>

See accompanying notes to financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Primary Government Business-Type Activities	Component Unit RHA Properties
Cash flows from operating activities:		
Receipts from dwelling rents	\$1,651,475	\$3,531,323
Receipts from other miscellaneous sources	702,038	169,851
Payment for housing assistance	(19,267,994)	
Payment for employee expenses	(5,150,229)	
Payments for administrative expenses		(477,230)
Payments for general maintenance and other expenses	(3,111,507)	(1,355,214)
	(25,176,217)	1,868,730
Net cash flows from operating activities		
Cash flows from non-capital & related financing activities:		
Subsidies from federal grants	23,934,828	
Repayment of loans	(460,640)	
	23,474,188	
Net cash flows from non-capital and related financing activities		
Cash flows from capital & related financing activities:		
Collected from developer	409,874	
Principal paid on capital debt		(785,000)
Interest and fiscal charges paid on capital debt		(845,846)
Subsidies from federal capital grants	964,998	
Acquisition and construction of capital assets	(964,998)	(286,863)
	409,874	(1,917,709)
Net cash flows from capital & related financing activities		
Cash flows from investing activities:		
Purchase of investments	(105,240)	
Interest received	145	353
	(105,095)	353
Net cash flows from investing activities		
Net change in cash flows	(1,397,250)	(48,626)
Cash at beginning of year	2,335,410	3,050,148
Cash at end of year	\$938,160	\$3,001,522
Cash flows from:		
Operating income (loss)	(\$28,532,340)	\$680,562
Adjustments to reconcile operating gain (loss) to net cash provided by operating activities:		
Depreciation expense	2,345,823	901,439
Decrease/(Increase) in accounts receivable	64,584	1,695
Decrease/(Increase) in other receivable	(65,268)	
Decrease/(Increase) in inventory	(34,224)	
Decrease/(Increase) in prepaid expenses	(8,589)	(1,236)
Increase/(Decrease) in accounts payable	(204,409)	143,545
Increase/(Decrease) in accrued liabilities and other liabilities	1,249,750	122,256
Increase/(Decrease) in tenant security deposits	8,456	20,469
	(25,176,217)	1,868,730
Net cash flows from operating activities		
NONCASH TRANSACTIONS		
Cost of issuance amortization		(\$42,327)

See accompanying notes to basic financial statements

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**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**  
**For the Year Ended June 30, 2012**

**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. 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, 2012, are presented as follows:

	Business-Type Activities
Beginning Balance	\$641,148
Additions	71,259
Payments	(456,054)
Ending Balance	\$256,353
Due within one year	\$25,636

***E. Taxes***

The RHA Properties 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 RHA Properties and the City of Richmond nor existing Payment in Lieu of Taxes (PILOT).

***F. 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.

***G. 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**  
**For the Year Ended June 30, 2012**

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

*H. Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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.

*I. Reclassifications*

Certain balances presented in the current year financial statements reflect reclassifications from prior year presentations as a result to the Authority implementing a new general ledger system.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**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, 2012 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. Cash, Cash Equivalents and Investments**

For purposes of reporting cash flows, the Authority considers each entity's share of cash to be cash and cash equivalents.

**C. 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. RHA Properties money market funds were rated AAAM as of June 30, 2012.

	Authority	RHA - Properties
Cash in bank	\$938,160	\$355,539
Investments:		
Unrestricted	427,486	
Restricted	199,732	2,645,983
Total cash and investments	\$1,565,378	\$3,001,522
Composition:		
Cash in bank	\$938,642	\$1,971,834
Money Market funds		1,029,688
Local Agency Investment Fund	56,015	
Certificates of Deposit	199,732	
U.S. Treasury Notes	370,989	
Total Cash and investments	\$1,565,378	\$3,001,522

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

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

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

The California Government Code allows the Authority to invest in the following; 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 Fund	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**  
**For the Year Ended June 30, 2012**

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

*E. 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:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
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
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$50,000,000 per account	\$50,000,000 per account

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**  
**For the Year Ended June 30, 2012**

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

***F. 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 and U.S. Treasury Notes which may be drawn down as needed, subject to terms of the underlying debt indenture. The maturity date of the U.S. Treasury Note held by the Authority is July 6, 2012.

***G. 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, 2012, these investments matured in an average of 237 days.

***H. Concentration Risk***

Significant investments in the securities of any individual issuers, other than U. S. Treasury securities, or mutual funds are required to be disclosed when they exceeds five percent of the total portfolio. The Authority has no investments meeting this definition.

***I. Other Investments***

As of June 30, 2012, the Authority had invested \$1,000,000 in start up contributions and had advanced \$701,125 in cash flow advances to Richmond Housing Authority Properties (RHAP). As of June 30, 2012, RHAP has accumulated deficits of \$1,632,555, which indicated that the collection of these sums by the Authority within a reasonable period of time is not likely to occur. Generally accepted accounting principles require that interfund receivables which are not expected to be collected within a reasonable period not be reflected as interfund receivables; therefore these amounts have been offset with a reserve for collectability in the amount of \$1,252,472 to reflect that repayment is not expected within a reasonable period of time. This treatment in the financial statement does not affect the legal claims of funds, but rather recognized balance sheet valuation for financial statement purposes.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 3 – 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. During the fiscal year ended June 30, 2012, management had a change in estimate and determined the remaining useful lives of certain capital assets should be decreased, which resulted in a current year increase in accumulated depreciation. 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

**A. Capital Assets Additions and Retirements**

Changes in the Authority's capital assets are summarized below:

	Balance at June 30, 2011	Additions	Transfers	Balance at June 30, 2012
Capital assets not being depreciated:				
Land	\$6,124,107			\$6,124,107
Construction in progress	3,164,161	\$964,998	(\$1,580,684)	2,548,475
Total capital assets not being depreciated	9,288,268	964,998	(1,580,684)	8,672,582
Capital assets being depreciated:				
Buildings and improvements	60,542,152		1,580,684	62,122,836
Furniture and equipment - operations	707,632			707,632
Furniture and equipment - administration	954,685			954,685
Total capital assets being depreciated	62,204,469		1,580,684	63,785,153
Less accumulated depreciation for:				
Buildings and improvements	24,039,188	2,167,252		26,206,440
Furniture and equipment - operations	296,537	165,356		461,893
Furniture and equipment - administration	537,958	13,215		551,173
Total accumulated depreciation	24,873,683	2,345,823		27,219,506
Net capital assets being depreciated	37,330,786	(2,345,823)	1,580,684	36,565,647
Total capital assets, net	\$46,619,054	(\$1,380,825)		\$45,238,229

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 3 – 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
Vehicles	5 years

Changes in the RHA Properties capital assets are summarized below:

	Balance at June 30, 2011	Additions	Balance at June 30, 2012
Capital assets not being depreciated:			
Land	\$10,431,153		\$10,431,153
Construction in process	29,930	\$179,294	209,224
	10,461,083	179,294	10,640,377
Capital assets being depreciated:			
Buildings and improvements	24,056,145	11,680	24,067,825
Furniture and equipment	81,934	87,896	169,830
Vehicles		7,993	7,993
	24,138,079	107,569	24,245,648
Less accumulated depreciation for:			
Buildings and improvements	6,823,531	884,186	7,707,717
Furniture and equipment	59,055	16,321	75,376
Vehicles		933	933
	6,882,586	901,440	7,784,026
Net capital assets being depreciated	17,255,493	(793,871)	16,461,622
Total capital assets, net	\$27,716,576	(\$614,577)	\$27,101,999

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 4 – LONG TERM OBLIGATION**

The following is a summary of long-term debt transactions for the year ended June 30, 2012:

	Original Issue Amount	Balance June 30, 2011	Retirements	Balance June 30, 2012	Amount due within one year
<b>City of Richmond</b>					
<b>Promissory Notes</b>	\$4,511,017	\$3,639,910	(\$460,640)	\$3,179,270	\$750,000
<b>Component Unit -</b>					
<b>RHA Properties:</b>					
Multifamily Housing					
Revenue Bonds					
2003 Series A Bonds	23,000,000	20,425,000	(475,000)	19,950,000	405,000
2007 Series S Bonds	12,540,000	11,945,000	(310,000)	11,635,000	310,000
Less: amount deferred on refunding		(711,754)	32,353	(679,401)	
<b>Total Revenue Bonds</b>	<b>35,540,000</b>	<b>31,658,246</b>	<b>(752,647)</b>	<b>30,905,599</b>	<b>715,000</b>
<b>Total Long-Term Debt</b>	<b>\$40,051,017</b>	<b>\$35,298,156</b>	<b>(\$1,213,287)</b>	<b>\$34,084,869</b>	<b>\$1,465,000</b>

**A. City of Richmond Promissory Note**

On April 30, 2007 the Authority entered into an agreement with the City of Richmond for the repayment of the operating assistance and services provided by the City. Since the establishment of the Agreement, it has been reclassified as long-term debt. The Authority agreed to reimburse the City \$12,531 monthly commencing June 1, 2007 until April 1, 2010 and increase the payment to \$30,000 from May 1, 2010 until July 1, 2021, with a final payment of \$22,446 on August 21, 2021. During fiscal 2011-12, the payment increased to \$50,000 from July 1, 2011 until July 1, 2017, with a final payment of \$429,760. As of June 30, 2012, the principal payment due was \$600,000; but the Authority made a payment of only \$450,000. The remaining \$150,000 has been included as current.

**B. Component Unit – RHA Properties**

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 *2003 Series A Senior Bonds* were issued August 1, 2003, mature on September 15, 2033 and bear a variable rate of interest (2.14% at June 30, 2012) with interest payments due monthly commencing September 15, 2003.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 4 – LONG TERM OBLIGATION (Continued)**

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 month period.

The *2007 Series Subordinate Bonds* bear interest from 3.850% to 5% per annum, payable semi-annually commencing June 15, 2007. Net proceeds were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 Series A-S Bonds.

**C. Debt Service Requirement**

Debt Services for all long-term debt are scheduled to mature as follows:

<u>For The Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$1,465,000	\$987,100	\$2,452,100
2014	1,440,000	964,573	2,404,573
2015	1,455,000	939,488	2,394,488
2016	1,565,000	913,638	2,478,638
2017	1,614,270	884,933	2,499,203
2018-2022	5,805,000	3,933,148	9,738,148
2023-2027	7,810,000	2,885,320	10,695,320
2028-2032	10,290,000	1,497,105	11,787,105
2033-2034	3,320,000	116,786	3,436,786
Total payments due	<u>\$34,764,270</u>	<u>\$13,122,091</u>	<u>\$47,886,361</u>

Reconciliation of long-term debt principal:

Principal requirement as reported above	\$34,764,270
Less deferred amount on refunding	<u>(679,401)</u>
Total long-term debt principal, net	<u>\$34,084,869</u>

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 5 – NET ASSETS**

Net Assets is the excess of all the Authority's assets over all its liabilities. 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 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 the Authority, or 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.

**NOTE 6 – 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. During fiscal 2011-2012, the Authority paid \$261,026 representing its shared pension cost to the City. Detail of these plans and funding policies may be found in the City's Comprehensive Annual Financial Report.

**NOTE 7 – 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. June 30, 2012, 21 retirees met those eligibility requirements. During fiscal year 2012, expenditures of \$56,770 were recognized for post employment health care benefits costs by the Authority. Detail of these plans and funding policies may be found in the City's Comprehensive Annual Financial Report.

**NOTE 8 – 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**  
**For the Year Ended June 30, 2012**

**NOTE 9 – 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 Housing Authority Insurance Group, a public entity risk pool currently operating as a common risk management and insurance program for its member entities. The purpose of the Housing Authority Insurance Group 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 Housing Authority Insurance Group for its property damage insurance.

Property	Building and Personal Property Premium	Annual Premium	Deductible
Westridge Hilltop	\$32,535	\$37,277	\$25,000
Triangle Court	11,880	12,216	25,000
Nevin Plaza (#1)	3,108	3,184	25,000
Friendship Manor	4,883	5,086	25,000
Hacienda	10,842	11,092	25,000
Nystrom Village	10,714	11,054	25,000
Administration Office	316	316	25,000

To satisfy loan requirements for the Westridge Hilltop property, general liability insurance coverage has been purchased for this location only. The policy renews on March 1<sup>st</sup> of each year. The premium for the 2011/2012 policy was \$12,534 for coverage limits of \$5 million per occurrence and in the aggregate. All of the Housing Authority properties are included for general liability coverage under the CJPRMA program.

The Authority is covered by the City of Richmond’s general liability and worker’s compensation insurance. The Authority pays annual premiums to California Joint Powers Risk Management Authority (CJPRMA) for general liability and the California State Association of Counties Excess Insurance Authority (CSAC EIA) for worker’s compensation.

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; general liability; errors and omissions; injuries to employees; natural disasters; and inverse condemnation. The Authority began self-insuring its workers’ compensation in 1976. In July 2009 the Authority joined the California Joint Powers Risk Management Authority (CJPRMA) for general liability and employment practices coverage. In April 2009 the Authority joined the California State Association of Counties Excess Insurance Authority (CSAC EIA) for worker’s compensation insurance. The Authority has chosen to establish a risk financing internal service fund where assets are accumulated for claim settlements and expenses associated with the above risks of loss up to certain limits.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 9 – RISK MANAGEMENT (Continued)**

Excess coverage for the risk categories excluding inverse condemnation is provided by policies with various commercial insurance carriers. Self-insurance and insurance company limits are as follows:

Type of Coverage	Self-Insurance / Deductible	Coverage Limit	Insurance Carrier
Difference in Conditions	10% pre-1970, 5% post-1970 of total insured value of each building; minimum \$100,000	\$50,000,000 inclusive of deductible	Various
Crime/Employee Dishonesty	\$10,000 per claim	\$1,000,000 inclusive of deductible	National Union Fire
Property	\$10,000 per claim	\$1,000,000,000 inclusive of deductible	Insurance Company of Lexington
Boiler and Machinery	\$5,000 per claim	\$100,000,000 inclusive of deductible	Lexington
Port Liability	\$25,000 per claim	\$50,000,000 inclusive of deductible \$1,000,000 per occurrence;	Starr Indemnity & Liability
Special Events Program	N/A	\$2,000,000 aggregate	Evanston Insurance
Compensation	N/A	Statutory excess of \$50,000,000	Various
Student Volunteer	N/A	\$50,000 per accident	Zurich Insurance Co

**CJPRMA**

The CJPRMA provides coverage against the following types of loss risks under the terms of a joint-powers agreement with the Authority as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$500,000)	\$40,000,000
Employment Practices (\$500,000)	8,000,000

Once the City's self-insured retention for general liability claims is met, CJPRMA becomes responsible for payment of all claims up to the limit. During fiscal year ended June 30, 2012, the Authority participated with the City in paying premiums of \$777,663 for the year ended June 30, 2012. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Audited financial statements for the CJPRMA are available from CJPRMA, 3201 Doolan Road, Suite 285, Livermore, CA 94551.

**CSAC EIA**

CSAC EIA is a public entity risk pool of cities and counties within Northern California. The CSAC EIA provides workers' compensation coverage up to the statutory limit and the City retains a self insured retention of \$750,000. Loss contingency reserves established by the CSAC EIA are funded by contributions from member agencies. The City pays an annual contribution to the CSAC EIA, which includes its pro-rata share of excess insurance premiums, charges for pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the risk pool. The City paid premiums of \$208,859 for the year ended June 30, 2012. CSAC EIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained. CSAC EIA has never made an additional assessment and is currently fully funded. No provision has been made on these financial statements for liabilities related to possible additional assessments.

Audited financial statements for CSAC EIA are available from CSAC EIA, 75 Iron Point Circle, Suite 200, Folsom, CA 95630.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2012**

**NOTE 10 – COMMITMENT AND CONTINGENCIES**

*A. Hope VI Project*

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.

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 320 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 addition, pursuant to the same agreement, the Authority is entitled to receive reimbursement for certain costs it has incurred in development of these projects. Upon completion of the project, the Authority recorded \$8,628,540, representing reimbursement from the developer which had been recorded in the accompanying financial statements as due from developer. The balance outstanding as of June 30, 2012 is \$7,879,315.

In 2002, the Authority chose the development team of 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.

Thus far, all new construction rental units at the former Easter Hill site have been developed. Thirty-six rehab rental units at the site are underway. The remaining 202 rental units at the site have been leased. Similarly, all 82 homeownership units at the former Easter Hill and Cortez sites have been constructed. With the exception of one unit at the Cortez site, all homeownership units have been sold.

Due to the City Council’s action to not allow the Authority to retain the Fire Training site originally anticipated for phase III of the project, the third phase is being revised to include the Authority’s Nystrom Village and Hacienda Public Housing sites. This will include the demolition and reconstruction of the 252 rental units presently existing at the two sites. As the proposal and conceptual plans are being developed, the final financial and construction plans are not determined at this time.

**HOUSING AUTHORITY OF THE CITY OF RICHMOND**  
**NOTES TO BASIC COMPONENT UNIT FINANCIAL STATEMENTS**  
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**NOTE 10 – COMMITMENT AND CONTINGENCIES (Continued)**

***B. Contingent Liability***

During fiscal 2009-10, the Office of Inspector General (OIG) from the Department of Housing and Urban Development (HUD), conducted an extensive audit of the Authority's procurement activities. In its report, OIG listed twenty four findings covering procurement activities performed over a ten year period, applicable to three programs and disallowed costs approximating \$2.5 million. Staff and a consultant prepared responses to the findings, including assembling and providing additional documentation to HUD as well as performing numerous corrective actions and meeting to negotiate a settlement with HUD.

On November 19, 2010, staff and the HUD San Francisco Field Office Director met to discuss the matter further and resolve HUD's remaining concerns. As of that date, HUD agreed to recommend to OIG that cost disallowances totaling \$605,866 be waived and cost disallowances totaling \$548,575 be repaid. HUD requested additional documentation for the remaining findings and remaining cost disallowances included in the OIG audit and has stated that ultimate resolution is conditioned upon the Authority successfully following through with HUD's request for additional data and completing certain corrective actions.

During fiscal 2011-12, OIG issued a final report and found that despite the Authority's intentions to have cost disallowances waived, the Authority was required to use non-federal resources to pay \$165,905 to the U.S. Treasury and \$2,257,799 to its own Public Housing/Section 8 Programs. Accordingly, the Authority reduced its liability estimate by \$382,670 as of June 30, 2011. The repayment terms for the amount owed to the U.S. Treasury is 12 equal monthly payments which are to commence July 1, 2012; and the repayment terms for the Public Housing/Section 8 Programs is 56 equal quarterly payments which are to commence July 1, 2013.

**NOTE 11 – MAJOR VENDOR**

The RHA Properties Project is managed pursuant to an agreement with a third party vendor who was paid \$168,558 during fiscal 2011-2012 for its services.

**NOTE 12 – SUBSEQUENT EVENT**

***A. Public Housing Agency Recovery and Sustainability (PHARS) 2013 Recovery Agreement and Action Plan***

Annually the U.S. Department of Housing and Urban Development (HUD) evaluates public housing authority's management of its public housing program using four tools, referred to collectively as the Public Housing Assessment System (PHAS). On the basis of an annual PHAS score, the Authority has been designated troubled or substandard for financial, physical and/or management indicators, or other such deficiencies as HUD has identified.

Due to the Authority's financially troubled rating, HUD assigned a PHARS team to identify causes of the Authority's troubled financial performances and to work with the Authority to develop a recovery action plan to move from a troubled status to a sustainability standard or higher performance status. The Authority and HUD entered in the recovery agreement and action plan as of February 5, 2013.

***B. Sequestration - Housing Choice Voucher Program***

In February 2013, the Department of Urban Development (HUD) issued a letter to the Authority in response to sequestration cuts enacted by the Federal Government. Due to the Authority's heavy reliance on revenue sources from HUD, cuts to future funding to the Housing Choice Voucher program will severely curtail the amount of money allotted to the Authority in fiscal year 2013 and beyond. Estimating the exact dollar amount of revenue loss from this action cannot be determined until further information becomes available.