

**HOUSING AUTHORITY  
OF THE COUNTY OF SANTA CRUZ  
BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011  
(Including Auditors' Report Thereon)**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Assets	12
Statement of Activities	14
Statement of Net Assets - Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Notes to the Basic Financial Statements	20
Required Supplementary Information	43
Supplemental Information:	
Schedule of Expenditures of Federal Awards	45
Notes to the Schedule of Expenditures of Federal Awards	46
Financial Data Schedule (CA072)	47
Statement of Completed Capital Fund Program Projects	55
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	58
Status of Prior Audit Findings	60
Schedule of Findings and Questioned Costs	61

# Harn & Dolan

Certified Public Accountants

2423 Stirrup Court

Walnut Creek, California 94596-6526

(925) 280-1693 Fax (925) 938-4829

## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Housing Authority of the  
County of Santa Cruz  
Santa Cruz, California

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Santa Cruz, California, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the County of Santa Cruz, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2011, 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 November 30, 2011 on our consideration of the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting and 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 the 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.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis, on pages 3 through 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the County of Santa Cruz, California's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying Financial Data Schedule (CA072) is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Real Estate Assessment Center and is also not a required part of the financial statements. The accompanying Statement of Completed Capital Fund Program Projects is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is also not a required part of the financial statements. The schedule of expenditures of federal awards, the financial data schedule, and the statement of completed capital fund program projects have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Harn & Dolan".

November 30, 2011

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements for the Housing Authority of the County of Santa Cruz (the "Authority"), and is designed to:

- (a) Assist the reader in focusing on significant financial issues.
- (b) Provide an overview of the Authority's financial activity.
- (c) Identify changes in the Authority's financial position (its ability to address the next and subsequent years' challenges).
- (d) Identify individual fund issues or concerns.

The MD&A is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements beginning on page 12.

**Financial Highlights**

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$26,192,522 (net assets). Of this amount, \$8,783,057 (unrestricted net assets) may be used to meet the Authority's ongoing obligations. The Authority's total net assets decreased by \$168,873, however the unrestricted net assets increased by just over one million dollars and current assets increased by just under one million dollars, leaving the Housing Authority in a much stronger financial position than a year ago.

Total revenues increased by \$4,211,533 (8.05%) from the prior fiscal year, due to increased funding levels for both administrative fees and housing assistance payments for the Housing Choice Voucher program by HUD. This change in HAP funding was mandated by Congressional Appropriations, and enhanced the Agency's ability to fully lease up its Housing Choice Voucher Program. Other revenues also increased significantly as a result of a new HUD requirement that reimbursements of portable HAP payments made on behalf of other Housing Authorities be recognized as revenue rather than an offset to HAP expenses.

The total expenses of all the Authority programs increased by \$3.2 million (6.09%) over the prior year. \$2 million of this was attributable to HAP expenses, due to rising average HAP costs and an increased program size as a result HUD's conversions of the Sunny Meadows units to the Housing Choice Voucher Program. Tenant services decreased by 12.94%, due to decreased funding in the Family Self Sufficiency and various local assistance programs. Extraordinary maintenance expenses increased by 116% as a result of improvements made to the wastewater treatment and daycare facilities at the Buena Vista Migrant Center.

The two leases on the 41<sup>st</sup> Avenue office building in Capitola have been renegotiated for six year terms, one commencing May 1, 2010 and the other August 1, 2010. Although market constraints have lowered the amount of rents, this building is still producing positive cash flow to add to the Authority's cash reserves. Effective April 1, 2007, the Authority also leased approximately 28% of its Mission Street office building to the Santa Cruz City School District. The School District terminated it lease as of September 30, 2010, and the space is currently vacant.

**Overview of the Financial Statements**

The Authority's basic financial statements comprise three components:

- Authority-wide financial statements – pages 12-14
- Fund financial statements – pages 15-19
- Notes to financial statements – pages 20-42

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

This report also contains other Required Supplementary Information (RSI) other than the MD&A which can be found beginning on page 43 and Supplemental Information beginning on page 44.

**Authority-Wide Financial Statements**

The authority-wide financial statements (see pages 12-14) are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

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 equal liabilities plus 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. Interfund receivables and payables of \$374,956 have been eliminated for this presentation.

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 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 of net assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, and regulations.

Unrestricted Net Assets - Consists of net assets that do not meet the definition of the other two types of net assets.

The Authority-wide financial statements also include a Statement of Activities, which is similar to an Income Statement. This Statement measures net revenue (expense) for each of the Authority's functions and reports by program. General revenue is reported separately. The activities for the enterprise funds are presented by federal program administered by the Authority. Interfund revenue and expenses in the amount of \$2,170,405 have been eliminated for this presentation. Please see Note 1(G) for additional details.

**Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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. Many of the funds maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

The Statement of Net Assets, presents information on the Authority's assets, liabilities, with the difference between the two reported as 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.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

The Statement of Revenues, Expenses and Changes in Fund Net Assets 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 and interest expense. The focus of this statement is the changes in fund 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, capital financing activities, and investing activities.

**The Authority’s Funds**

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD. Public Housing Agencies are limited by law in the amount of rent collected to no more than 30 percent of a family’s adjusted income. HUD provides Operating Subsidy to cover the gap between rents collected and annual operating expenses. This fund includes the activity of the Public Housing Capital Fund Program and American Recovery and Reinvestment Act grants received to modernize or supplement the operating costs of the Conventional Public Housing Program.

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, commonly referred to as Section 8 tenant-based assistance, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family’s rent through a Housing Assistance Payment (HAP) 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. HUD provides the Authority with two separate funding amounts; one for housing assistance payments and the other for administrative expenses to operate the program. As of July 1, 2011, HUD has combined the Veteran’s Affairs Supportive Housing (VASH) program with the Housing Choice Vouchers.

Business Activities – Represents a variety of activities and accumulated unrestricted reserves with miscellaneous revenues and expenses that are not related to specific funds or projects. This includes the Housing Authority owned office buildings. These funds collect rents in the form of an occupancy expense that is tracked and allocated to programs based on payroll dollars. The occupancy expense comprises the interest portion of debt service, taxes, insurance and the cost of repairs, building services, utilities and either the principal portion of debt service or depreciation.

Other Non-Major Funds – In addition to the major funds described above, the Authority also maintains the following non-major funds. These non-major funds account for federal dollars, but are funds that have assets, liabilities, revenues, or expenses of less than ten percent of the Authority’s total assets, liabilities, revenues or expenses.

Section 8 Moderate Rehabilitation Program  
Section 8 Moderate Rehabilitation Program - SRO  
Supportive Housing for Persons with Disabilities  
Resident Opportunity and Supportive Services  
Veteran’s Affairs Supportive Housing Program

Shelter Plus Care Housing Program  
USDA Farm Labor Housing Programs  
Supportive Housing Program  
Housing Counseling Grant  
Other State and Local Programs

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**Financial Analysis of the Authority's Funds**

Total Net Assets decreased by \$168,873 Authority-wide, restricted net assets decreased in the Housing Choice Voucher Program by \$384,089 due to HAP expenses in excess of HAP appropriated funding. The Public Housing program and the Business activity programs increased their total net assets by \$21,416 and \$118,931, respectively, the Non-Major programs show a combined decrease in net assets of \$7,211 due to the transfer of VASH voucher equity to the Housing Choice Voucher Program.

**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 only Business-Type Activities.

**Table 1  
STATEMENT OF NET ASSETS**

	2011	2010	Increase/(Decrease)	
			Amount	%
Current assets	\$ 9,002,859	\$ 8,022,383	\$ 980,476	12.22 %
Restricted assets	4,461,988	4,738,020	(276,032)	(5.83)
Capital assets	15,078,053	16,137,615	(1,059,562)	(6.57)
Other assets	<u>925,567</u>	<u>942,886</u>	<u>(17,319)</u>	<u>(1.84)</u>
Total Assets	<u>\$ 29,468,467</u>	<u>\$ 29,840,904</u>	<u>\$ (372,437)</u>	<u>(1.25)</u>
Current liabilities	\$ 973,501	\$ 1,052,939	(79,438)	(7.54)
Payable from restricted cash	367,473	367,327	146	0.04
Long-term liabilities	<u>1,934,971</u>	<u>2,059,243</u>	<u>(124,272)</u>	<u>(6.03)</u>
Total Liabilities	<u>\$ 3,275,945</u>	<u>\$ 3,479,509</u>	<u>\$ (203,564)</u>	<u>(5.85)</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 13,316,098	\$ 14,228,849	\$ (912,751)	(6.41)
Restricted	4,093,367	4,369,545	(276,178)	(6.32)
Unrestricted	<u>8,783,057</u>	<u>7,763,001</u>	<u>1,020,056</u>	<u>13.14</u>
Total Net Assets	<u>\$ 26,192,522</u>	<u>\$ 26,361,395</u>	<u>\$ (168,873)</u>	<u>(0.64)</u>

**Major Factors Affecting the Statement of Net Assets**

Current assets increased by \$980,476 and current liabilities decreased by \$79,438. The Authority's cash position has strengthened and the current ratio increased from 7.62 to 9.25. The decline in net assets invested in capital assets is due to depreciation expense, and the decrease in restricted net assets is attributable to HUD expenses for HAP in excess of HAP grant revenues.



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

Table 2 presents details on the change in Unrestricted Net Assets.

**TABLE 2  
CHANGE IN UNRESTRICTED NET ASSETS**

	<u>2011</u>	<u>2010</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Unrestricted Net Assets - beginning of the year	\$ 7,763,001	\$ 6,847,431	\$ 915,570	13.37%
Net gain (loss)	(234,589)	(1,520,807)	1,286,218	
Prior period adjustment	-	20,941	(20,941)	
Adjustments:				
Depreciation (1)	1,343,752	1,276,668	67,084	5.25%
Excess HAP (funding) use (1) (2)	421,910	1,933,767	(1,511,857)	78.18%
Principle paid on debt	(153,111)	(145,923)	(7,188)	4.93%
Deposits into restricted funds	(116,743)	(211,219)	94,476	44.73%
Change in restriction on MCC deposit	-	(8,769)	8,769	
Interest on restricted funds (1)	(20,521)	(51,236)	30,715	59.95%
Capital asset additions not funded by capital grants	(218,474)	(415,679)	197,205	47.44%
Increase in restricted migrant funds	(8,468)	(1,052)	(7,416)	
Change in interest payable on long-term debt (1)	6,300	6,300	-	0.0%
Use of restricted funds for current expenses	-	32,579	(32,579)	
Unrestricted Net Assets - end of the year	<u>\$ 8,783,057</u>	<u>\$ 7,763,001</u>	<u>\$ 1,020,056</u>	13.14%

(1) Reported as revenue or expense and is included in net gain (loss), but does not have an impact on unrestricted net assets.

(2) Grants received from HUD in excess of HAP are restricted for future HAP expense. Conversely, excess HAP expenses will offset restricted net assets rather than unrestricted net assets.

While results of operations is a significant measure of the Authority's activities, the analysis of the changes in unrestricted net assets provides a clearer change in financial well-being.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**Statement of Revenues, Expenses and Changes in Net Assets**

The following table compares the revenues and expenses for the current and previous fiscal year. The Authority is only engaged in business-type activities.

**TABLE 3  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS**

	2011	2010	Increase/(Decrease)	
			Amount	%
<b>Revenues:</b>				
Rents	\$ 1,918,765	\$ 1,927,123	(8,358)	(0.43) %
Grants	53,295,439	49,454,278	3,841,161	7.77 %
Interest	55,274	107,435	(52,161)	(48.55) %
Other revenues	1,242,735	811,844	430,891	53.08 %
Total revenues	<u>56,512,213</u>	<u>52,300,680</u>	<u>4,211,533</u>	<u>8.05 %</u>
<b>Expenses:</b>				
Administration	4,727,629	4,629,497	98,132	2.12 %
Tenant services	391,360	449,505	(58,145)	(12.94) %
Utilities	415,190	442,120	(26,930)	(6.09) %
Maintenance	1,018,103	871,064	147,039	16.88 %
Extra ordinary maintenance	593,147	274,522	318,625	116.07 %
General	701,131	684,106	17,025	2.49 %
Housing assistance payments	47,405,635	44,706,840	2,698,795	6.04 %
Depreciation	1,343,751	1,276,668	67,083	5.25 %
Debt service – interest	85,140	92,327	(7,187)	(7.78) %
Total expenses	<u>56,681,086</u>	<u>53,426,649</u>	<u>3,254,437</u>	<u>6.09 %</u>
Net increase (decrease) to net assets	(168,873)	(1,125,969)		
Beginning net assets	26,361,395	27,510,141		
Prior period adjustment	-	(22,777)		
Ending net assets	<u>\$ 26,192,522</u>	<u>\$ 26,361,395</u>		

**Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Assets**

Total revenues increased by \$4,211,533 (8.05%) over the prior fiscal year. Grants, and other revenues increased, while interest income decreased. The change in grant revenue is attributable to increased funding levels of the Housing Choice Voucher program by HUD, effective January 2011.

The total expenses of all the Authority programs increased by \$3,254,437 (6.09%) over the prior year. \$2,698,795 of this was attributable to HAP expenses, and the rest was due to increased expenses in most categories including maintenance, administrative and general expenses.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**Fund Net Asset Analysis**

**TABLE 4  
FUND NET ASSETS**

The following table shows an analysis of balances and transactions for the individual funds making up the agency-wide financial statements that comply with Generally Accepted Accounting Principles (GAAP).

	<u>Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Business Activities</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Net assets, beginning of year	\$ 11,788,959	\$ 3,486,761	\$ 7,738,062	\$ 3,347,613	\$ 26,361,395
Operating income (loss)	(1,129,042)	(48,707,937)	176,328	(3,180,648)	(52,841,299)
Non-operating revenue (expenses):					
Grants	1,128,084	48,162,016	-	3,939,624	53,229,724
Unrestricted interest	11,440	1,134	11,261	3,300	27,135
Restricted interest	-	13,221	-	7,335	20,556
Interest earned on notes rec	-	-	7,583	-	7,583
Extra ordinary maintenance	-	-	-	(593,147)	(593,147)
Debt-service interest	-	-	(76,241)	(8,899)	(85,140)
Net income (loss) before contributions and transfers	10,482	(531,566)	118,931	167,565	(234,588)
Capital contribution	65,715	-	-	-	65,715
Transfers in	-	229,557	9,421	54,781	293,759
Transfers out	(54,781)	-	(9,421)	(229,557)	(293,759)
Change in net assets	21,416	(302,009)	118,931	(7,211)	(168,873)
Net assets, end of year	<u>\$ 11,810,375</u>	<u>\$ 3,184,752</u>	<u>\$ 7,856,993</u>	<u>\$ 3,340,402</u>	<u>\$ 26,192,522</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**DEBT ADMINISTRATION AND CAPITAL ASSETS**

**Debt Outstanding**

As of year-end, the Authority had \$1,712,167 in debt (bonds, notes, etc.) outstanding compared to \$1,865,278 last year, a \$153,111 decrease. A more detailed presentation of the Authority's debt, summarized below in Table 5, can be found in Note 7 to the basic financial statements.

**TABLE 5  
OUTSTANDING DEBT AT YEAR END**

<u>Business-type activities</u>	<u>2011</u>	<u>2010</u>
Office Building Mortgage	\$ 1,258,356	\$ 1,382,016
USDA Farm Worker Housing	243,811	273,262
State of California HCD Loan	210,000	210,000
Total	<u>\$ 1,712,167</u>	<u>\$ 1,865,278</u>

**Capital Assets**

As of year-end, the Authority had \$15,078,053 invested in a variety of capital assets as reflected in table 6, which represents a net decrease of \$1,059,562 from the end of last year, which is the result of \$1,343,751 of depreciation expense. The \$281,189 of capital additions were for site and dwelling improvements at the Public Housing and USDA sites, tenant improvements at the 41<sup>st</sup> Avenue building computer and office equipment purchases for the Mission Street Administrative Office. Table 7 summarizes the change in capital assets, which is presented in more detail in Note 6 to the basic financial statements.

**TABLE 6  
CAPITAL ASSETS AT YEAR END  
(NET OF DEPRECIATION)**

<u>Business-type activities</u>	<u>2011</u>	<u>2010</u>
Land and land rights	\$ 6,430,082	\$ 6,430,082
Buildings	31,047,913	30,264,608
Equipment	913,109	866,459
Construction-in-progress	-	545,765
Accumulated Depreciation	<u>(23,313,051)</u>	<u>(21,969,299)</u>
Total	<u>\$ 15,078,053</u>	<u>\$ 16,137,615</u>

**TABLE 7  
CHANGE IN CAPITAL ASSETS**

Beginning Balance 7/1/2010	\$ 16,137,615
Additions	281,190
Depreciation	<u>(1,343,752)</u>
Ending Balance 6/30/2011	<u>\$ 15,078,053</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)**

**ECONOMIC FACTORS**

Significant economic factors affecting the Authority are as follows:

- Federal Funding received from the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs
- Insurance industry's spike in premiums charged and a general reluctance to cover residential property, particularly affordable housing properties

**OTHER POTENTIALLY SIGNIFICANT MATTERS**

The following events are expected to have a significant effect on the financial position of the Authority.

- (1) The Authority renegotiated its two lease agreements for the 41<sup>st</sup> Avenue Office for the term of six years. Since there is no longer any mortgage on the building, the \$137,000 or so of rental income can be used to rebuild the Authority's cash reserves, which were depleted by the purchase and renovation of the Mission Street office. See Note 17 for more detailed information.
- (2) On January 11, 2006, HUD issued *Notice PIH-2006-3*. This notice changed the policy of revenue recognition of HAP funding for the Housing Choice Voucher Program from a reimbursement basis to a block grant basis. The excess HAP funding has now been reported as revenue in the year of receipt, and "restricted net assets" rather than a liability payable to HUD.
- (3) In recent years, the Housing Choice Voucher Program has received a flat fee for administrative expenses determined by HUD based on program size, historical lease up numbers, and available appropriations. As of January 1, 2009, HUD changed the method for calculating administrative fees for the Voucher Program back to a per unit leased fee. The rates are published by HUD, and subject to quarterly and/or monthly pro-rations based on available funding levels. The pro-rations for the 2010-2011 fiscal year were roughly 87.4% of the per unit fees calculated (as opposed to 91.4% in 2009-10), and the difference is now recorded as an allowance for doubtful account on the balance sheet.
- (4) The Authority leased approximately 28% of its Mission Street Office building to the Santa Cruz City School District for \$11,419 per month plus common area maintenance costs. The School District terminated their lease as of September 30, 2010 and the space is now vacant, which may result in higher overhead costs for the Authority run programs in the 2011-12 and future fiscal years.

**FINANCIAL CONTACT**

The individual to be contacted regarding this report is:

Pamela Smith, Finance Director  
Housing Authority of the County of Santa Cruz  
2931 Mission Street, Santa Cruz, California 95060  
(831) 454-5915

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	<u>Business-type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and investments (Note 2)	\$ 8,530,444	\$ 8,530,444
Due from other agencies (net of allowance for doubtful accounts of \$1,944)	367,214	367,214
Due from related parties (Note 19)	2,373	2,373
Tenant accounts receivable (net of allowance for doubtful accounts of \$1,170)	15,534	15,534
Interest receivable	2,075	2,075
Other receivables	380	380
Prepaid expenses	77,118	77,118
Notes receivable (Note 5)	<u>7,721</u>	<u>7,721</u>
Total current assets	<u>9,002,859</u>	<u>9,002,859</u>
Restricted assets:		
Restricted cash (Note 3)	<u>4,461,988</u>	<u>4,461,988</u>
Capital assets (Note 6):		
Land	6,430,082	6,430,082
Buildings	31,047,913	31,047,913
Equipment	913,109	913,109
Accumulated depreciation	<u>(23,313,051)</u>	<u>(23,313,051)</u>
Total capital assets	<u>15,078,053</u>	<u>15,078,053</u>
Other noncurrent assets:		
Long-term notes receivable (Note 5)	726,076	726,076
Due from related parties (Note 19)	85,793	85,793
Interest on long-term notes (Note 5)	<u>113,698</u>	<u>113,698</u>
Total other noncurrent assets	<u>925,567</u>	<u>925,567</u>
 Total assets	 <u>\$ 29,468,467</u>	 <u>\$ 29,468,467</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**  
(Continued)

	<u>Business-type Activities</u>	<u>Total</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities:		
Accounts payable	\$ 112,365	\$ 112,365
Due to other agencies	302,215	302,215
Accrued salaries	206,625	206,625
Current portion of long-term debt (Note 7)	160,708	160,708
Current portion of compensated absences (Note 10)	29,546	29,546
Unearned revenue (Note 8)	<u>162,042</u>	<u>162,042</u>
Total current liabilities	<u>973,501</u>	<u>973,501</u>
Payable from restricted cash:		
Family Self Sufficient escrow	189,068	189,068
Tenant security deposits	<u>178,405</u>	<u>178,405</u>
Total amount payable from restricted cash	<u>367,473</u>	<u>367,473</u>
Noncurrent liabilities:		
Long-term debt (Note 7)	1,551,459	1,551,459
Compensated absences (Note 10)	333,724	333,724
Interest on long-term debt (Note 7)	<u>49,788</u>	<u>49,788</u>
Total noncurrent liabilities	<u>1,934,971</u>	<u>1,934,971</u>
Total liabilities	<u>3,275,945</u>	<u>3,275,945</u>
Net assets (Note 11):		
Invested in capital assets, net of related debt	13,316,098	13,316,098
Restricted	4,093,367	4,093,367
Unrestricted	<u>8,783,057</u>	<u>8,783,057</u>
Total net assets	<u>26,192,522</u>	<u>26,192,522</u>
Total liabilities and net assets	<u>\$ 29,468,467</u>	<u>\$ 29,468,467</u>

**The accompanying notes are an integral part of this statement.**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program revenue</u>			<u>Net (expenses) revenue and changes in net assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Business-type Activities</u>
<b>Business-Type Activities:</b>					
<b>Federal Grant Programs:</b>					
Housing Choice Voucher	\$ 49,313,227	\$ 837,275	\$ 48,162,016	\$ -	\$ (313,936)
Public Housing	2,371,265	1,290,002	656,230	-	(425,033)
Public Housing Capital Fund	-	-	464,485	-	464,485
Supportive Housing for Persons with Disabilities	1,004,344	89	1,031,058	-	26,803
Section 8 Moderate Rehabilitation	719,566	-	744,572	-	25,006
USDA Rural Rental Assistance	690,815	583,319	49,372	-	(58,124)
Shelter Plus Care	347,472	-	349,200	-	1,728
Resident Opportunity and Supportive Services	122,311	-	74,307	-	(48,004)
HUD-Veterans Affairs Supportive Housing	107,855	1,200	312,212	-	205,557
Supportive Housing	97,007	28,591	57,303	-	(11,113)
Section 8 Moderate Rehabilitation - SRO	87,431	-	90,716	-	3,285
Public Housing Capital Fund Stimulus Grant	7,217	-	7,370	65,715	65,868
<b>Other State and Local Programs:</b>					
State of California - Migrant Housing	929,493	43,074	951,413	-	64,994
Other State and Local	271,846	17,745	279,470	-	25,369
Business Activities	611,237	380,726	-	-	(230,511)
<b>Total Business-Type Activities</b>	<u>56,681,086</u>	<u>3,182,021</u>	<u>53,229,724</u>	<u>65,715</u>	<u>(203,626)</u>
<b>Total Primary Government</b>	<u>\$ 56,681,086</u>	<u>\$ 3,182,021</u>	<u>\$ 53,229,724</u>	<u>\$ 65,715</u>	<u>(203,626)</u>

General revenue:

Unrestricted interest	27,170
Interest on long-term notes receivable	<u>7,583</u>
Total general revenue	<u>34,753</u>

Change in net assets (168,873)

Net assets - beginning of the year 26,361,395

Net assets - end of the year \$ 26,192,522

**The accompanying notes are an integral part of this statement**



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2011**

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
<b><u>ASSETS</u></b>					
Current assets:					
Cash and investments (Note 2)	\$ 3,743,395	\$ 536,691	\$ 3,213,010	\$ 1,037,348	\$ 8,530,444
Due from other agencies	-	23,047	-	346,111	369,158
Allowance for doubtful accounts	-	(1,944)	-	-	(1,944)
Due from other funds (Note 4)	-	-	374,956	-	374,956
Due from related parties (Note 19)	-	-	2,373	-	2,373
Tenant accounts receivable	8,977	-	6,264	1,463	16,704
Allowance for doubtful accounts	(889)	-	-	(281)	(1,170)
Interest receivable	931	-	913	231	2,075
Other receivables	-	-	380	-	380
Prepaid expenses	13,996	13,155	38,972	10,995	77,118
Notes receivable (Note 5)	-	-	7,721	-	7,721
Total current assets	<u>3,766,410</u>	<u>570,949</u>	<u>3,644,589</u>	<u>1,395,867</u>	<u>9,277,815</u>
Restricted assets:					
Restricted cash (Note 3)	<u>177,928</u>	<u>3,163,647</u>	<u>4,935</u>	<u>1,115,478</u>	<u>4,461,988</u>
Capital assets (Note 6):					
Land	4,104,506	-	1,912,500	413,076	6,430,082
Buildings	19,855,941	-	5,291,590	5,900,382	31,047,913
Equipment	287,833	10,838	614,438	-	913,109
Accumulated depreciation	(15,970,089)	(10,838)	(2,967,806)	(4,364,318)	(23,313,051)
Total capital assets	<u>8,278,191</u>	<u>-</u>	<u>4,850,722</u>	<u>1,949,140</u>	<u>15,078,053</u>
Other noncurrent assets:					
Long-term notes receivable (Note 5)	-	-	726,076	-	726,076
Due from related party (Note 19)	-	-	85,793	-	85,793
Interest on long-term notes (Note 5)	-	-	113,698	-	113,698
Total other noncurrent asserts	<u>-</u>	<u>-</u>	<u>925,567</u>	<u>-</u>	<u>925,567</u>
Total assets	<u>\$ 12,222,529</u>	<u>\$ 3,734,596</u>	<u>\$ 9,425,813</u>	<u>\$ 4,460,485</u>	<u>\$ 29,843,423</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2011**  
(Continued)

	<u>Business-type Activities</u>				<u>Total</u>
	<u>Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Business Activities</u>	<u>Non-major Enterprise Funds</u>	
<b><u>LIABILITIES</u></b>					
Current liabilities:					
Accounts payable	\$ 57,433	\$ 3,124	\$ 20,850	\$ 30,958	\$ 112,365
Due to other funds (Note 4)	-	-	115,878	259,078	374,956
Due to other agencies	97,379	-	-	204,836	302,215
Accrued salaries	17,408	101,080	68,318	19,819	206,625
Current portion of long-term debt (Note 7)	-	-	130,960	29,748	160,708
S/T portion compensated absences (Note 10)	4,271	14,080	8,138	3,057	29,546
Unearned revenue (Note 8)	9,494	144,674	417	7,457	162,042
Total current liabilities	<u>185,985</u>	<u>262,958</u>	<u>344,561</u>	<u>554,953</u>	<u>1,348,457</u>
Payable from restricted cash:					
Family self sufficient escrow	61,209	127,859	-	-	189,068
Tenant security deposits	116,719	-	4,935	56,751	178,405
Total payable from restricted cash	<u>177,928</u>	<u>127,859</u>	<u>4,935</u>	<u>56,751</u>	<u>367,473</u>
Noncurrent liabilities:					
Long-term debt (Note 7)	-	-	1,127,396	424,063	1,551,459
Compensated absences (Note 10)	48,241	159,027	91,928	34,528	333,724
Interest on long-term debt (Note 7)	-	-	-	49,788	49,788
Total noncurrent liabilities	<u>48,241</u>	<u>159,027</u>	<u>1,219,324</u>	<u>508,379</u>	<u>1,934,971</u>
Total liabilities	<u>412,154</u>	<u>549,844</u>	<u>1,568,820</u>	<u>1,120,083</u>	<u>3,650,901</u>
<b><u>NET ASSETS</u></b> (Note 11)					
Invested in capital assets, net of debt	8,278,191	-	3,592,365	1,445,542	13,316,098
Restricted	-	3,035,788	-	1,057,579	4,093,367
Unrestricted	3,532,184	148,964	4,264,628	837,281	8,783,057
Total net assets	<u>11,810,375</u>	<u>3,184,752</u>	<u>7,856,993</u>	<u>3,340,402</u>	<u>26,192,522</u>
Total liabilities and net assets	<u>\$ 12,222,529</u>	<u>\$ 3,734,596</u>	<u>\$ 9,425,813</u>	<u>\$ 4,460,485</u>	<u>\$ 29,843,423</u>

**The accompanying notes are an integral part of this statement**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
<b>Operating revenue:</b>					
Rents and other tenant revenue	\$ 1,287,738	\$ -	\$ 11,004	\$ 628,723	\$ 1,927,465
Other	<u>2,264</u>	<u>824,054</u>	<u>2,540,128</u>	<u>37,994</u>	<u>3,404,440</u>
Total operating revenue	<u>1,290,002</u>	<u>824,054</u>	<u>2,551,132</u>	<u>666,717</u>	<u>5,331,905</u>
<b>Operating expenses:</b>					
Administrative	610,721	3,681,925	1,938,807	620,789	6,852,242
Tenant services	21,728	71,136	500	297,996	391,360
Utilities	203,615	-	60,297	151,278	415,190
Maintenance	610,396	30,471	81,129	323,287	1,045,283
General	196,525	389,828	19,415	105,274	711,042
Housing assistance payments	-	45,358,631	-	2,055,704	47,414,335
Depreciation (Note 6)	<u>776,059</u>	<u>-</u>	<u>274,656</u>	<u>293,037</u>	<u>1,343,752</u>
Total operating expenses	<u>2,419,044</u>	<u>49,531,991</u>	<u>2,374,804</u>	<u>3,847,365</u>	<u>58,173,204</u>
Operating income (loss)	(1,129,042)	(48,707,937)	176,328	(3,180,648)	(52,841,299)
<b>Nonoperating revenue (expenses):</b>					
Grants	1,128,084	48,162,016	-	3,939,624	53,229,724
Interest - unrestricted	11,440	1,134	11,261	3,335	27,170
Interest - restricted	-	13,221	-	7,300	20,521
Int. earned on L/T notes (Note 5)	-	-	7,583	-	7,583
Extra ordinary maintenance	-	-	-	(593,147)	(593,147)
Debt service - interest (Note 7)	<u>-</u>	<u>-</u>	<u>(76,241)</u>	<u>(8,899)</u>	<u>(85,140)</u>
Net income (loss) before contributions and transfers	10,482	(531,566)	118,931	167,565	(234,588)
Capital contributions	65,715	-	-	-	65,715
Transfers in (out)	<u>(54,781)</u>	<u>229,557</u>	<u>-</u>	<u>(174,776)</u>	<u>-</u>
Change in net assets	21,416	(302,009)	118,931	(7,211)	(168,873)
Net assets - beginning of year	<u>11,788,959</u>	<u>3,486,761</u>	<u>7,738,062</u>	<u>3,347,613</u>	<u>26,361,395</u>
Net assets - end of year	<u>\$ 11,810,375</u>	<u>\$ 3,184,752</u>	<u>\$ 7,856,993</u>	<u>\$ 3,340,402</u>	<u>\$ 26,192,522</u>

**The accompanying notes are an integral part of this statement.**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
Cash flows from operating activities:					
Tenant receipts	\$ 1,287,738	\$ -	\$ 2,304	\$ 632,934	\$ 1,922,976
Other receipts	2,264	808,770	253,429	37,793	1,102,256
Migrant rent collected in deficit of disbursements to HCD	-	-	-	(1,757)	(1,757)
Payroll and benefit expenditures	(675,162)	(3,536,264)	(30,452)	(731,854)	(4,973,732)
Administrative expenditures	(58,672)	(300,175)	9,547	(57,850)	(407,150)
Tenant services expenditures	(8,295)	(323)	(500)	(229,336)	(238,454)
Utilities expenditures	(203,615)	-	(60,297)	(151,278)	(415,190)
Maintenance expenditures	(477,433)	(30,471)	(66,832)	(243,319)	(818,035)
General expenditures	(131,475)	(51,297)	(18,315)	(34,001)	(235,088)
Housing assistance payments	-	(45,332,382)	-	(2,055,704)	(47,388,086)
Net cash provided (used) by operating activities	(264,650)	(48,442,142)	88,884	(2,834,352)	(51,452,260)
Cash flows from noncapital financing activities:					
Operating grants received	1,130,823	48,416,423	-	3,631,995	53,179,241
Related party transactions	-	-	54,191	-	54,191
Repayment of notes issued	-	-	17,154	-	17,154
Extra-ordinary maintenance expenditures	-	-	-	(593,147)	(593,147)
Issuance of notes receivable	-	-	(11,231)	-	(11,231)
Interfund transactions	(111,194)	10,792	132,085	(31,683)	-
Net cash provided by noncapital financing activities	1,019,629	48,427,215	192,199	3,600,312	52,646,208
Cash flows from capital financing activities:					
Capital grants received	90,814	-	-	-	90,814
Acquisition of capital assets	(182,109)	-	(90,339)	(23,341)	(295,789)
Principal paid on debt	-	-	(123,660)	(29,451)	(153,111)
Interest paid on debt	-	-	(76,241)	(2,599)	(78,840)
Net cash used by capital financing activities	(91,295)	-	(290,240)	(55,391)	(436,926)
Cash flows from investing activities:					
Interest receipts	11,591	1,134	11,409	3,373	27,507
Interest on restricted cash	-	13,221	-	7,300	20,521
Net cash provided by investing activities	11,591	14,355	11,409	10,673	48,028
Net increase (decrease) to cash	675,275	(572)	2,252	128,095	805,050
Cash at beginning of year	3,246,048	3,700,910	3,215,693	2,024,731	12,187,382
Cash at end of year	\$ 3,921,323	\$ 3,700,338	\$ 3,217,945	\$ 2,152,826	\$ 12,992,432

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Continued)

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
Cash and investments	\$ 3,743,395	\$ 536,691	\$ 3,213,010	\$ 1,037,348	\$ 8,530,444
Restricted cash	<u>177,928</u>	<u>3,163,647</u>	<u>4,935</u>	<u>1,115,478</u>	<u>4,461,988</u>
Total	<u>\$ 3,921,323</u>	<u>\$ 3,700,338</u>	<u>\$ 3,217,945</u>	<u>\$ 2,152,826</u>	<u>\$ 12,992,432</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (1,129,042)	\$ (48,707,937)	\$ 176,328	\$ (3,180,648)	\$ (52,841,299)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	776,059	-	274,656	293,037	1,343,752
Interfund transactions	40,561	218,765	(330,597)	71,271	-
Related party transactions	-	-	(12,000)	-	(12,000)
Migrant rent collected in deficit of payments made to HCD	-	-	-	(1,757)	(1,757)
(Increase) Decrease in:					
Tenants accounts receivable	5,961	-	18,012	(262)	23,711
Due from other governments	-	18,275	-	-	18,275
Other receivables	-	3	1,573	-	1,576
Prepaid expenses	(2,006)	848	(10,492)	(4,640)	(16,290)
Increase (Decrease) in:					
Accounts payable	31,139	(3,108)	(14,595)	(25,488)	(12,052)
Due to other agencies	(6,582)	-	-	-	(6,582)
Tenant security deposits	2,196	-	-	530	2,726
Accrued salaries	3,328	27,999	15,719	2,415	49,461
Unearned revenues	(8,156)	-	(27,220)	3,743	(31,633)
FSS escrows	13,433	(16,013)	-	-	(2,580)
Compensated absences	<u>8,459</u>	<u>19,026</u>	<u>(2,500)</u>	<u>7,447</u>	<u>32,432</u>
Net cash provided (used) by operating activities	<u>\$ (264,650)</u>	<u>\$ (48,442,142)</u>	<u>\$ 88,884</u>	<u>\$ (2,834,352)</u>	<u>\$ (51,452,260)</u>

**Noncash Transactions:**

- Interest of \$6,300 was accrued on the loan owed to HCD. The interest is deferred, unless cash is generated. No interest was paid to HCD during the current fiscal year.
- Interest revenue of \$7,583 was accrued on the loan from Merrill Road Associates. Payments on this loan depend on the generation of surplus cash by the project. No payments were received on this loan during the current fiscal year.

**The accompanying notes are an integral part of this statement.**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**(A) General Statement**

The Housing Authority of the County of Santa Cruz (the Authority) was established in 1969, by a resolution of the Santa Cruz County Board of Supervisors. The Authority is governed by a seven member Board of Commissioners. At-large commissioners are appointed for terms of four years and tenant commissioners are appointed for terms of two years by the Santa Cruz County Board of Supervisors.

**(B) Financial Reporting Entity**

The Authority's basic financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- \* The organization is legally separate (can sue and be sued in their own name)
- \* The Authority holds the corporate powers of the organization
- \* The Authority appoints a voting majority of the organization's board
- \* The Authority is able to impose their will on the organization
- \* The organization has the potential to impose a financial benefit/burden on the Authority
- \* There is financial dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

**(C) Basis of Presentation**

**Government-wide Financial Statements:**

The Statement of Net Assets and Statement of Activities display information about the Authority as a whole. They include all funds of the Authority except for fiduciary funds. The statements distinguish between government and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Authority's activities are strictly business-type.

**Fund Financial Statements:**

Fund financial statements of the Authority are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses/expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority considers all of its funds to be proprietary. An emphasis is placed on major funds. A fund is considered major

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 1 (continued)**

if it is the primary operating fund of the Authority or if total assets, liabilities, revenues, or expenses of the individual fund are at least 10 percent of the Authority-wide total.

The various funds are grouped by fund type in the combined basic financial statements as follows:

**PROPRIETARY FUND TYPES**

**Enterprise Funds** - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are also used when the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**(D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred. Under this basis of accounting and measurement focus, the Authority applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The Authority reports the following major enterprise funds:

**Public Housing Program Fund** - The Authority has contracted with HUD to provide housing for low-income families pursuant to the United State Housing Act of 1937 and the Department of Housing and Urban Development Act. Under this program, the Authority has used loans and grants from HUD to develop and maintain housing units which it rents to qualified low-income families, the disabled, and seniors. This fund includes grants received under the Public Housing Capital Fund Program and the Public Housing Capital Fund Stimulus Grant, as well as operating subsidy received under the Public Housing Program. The Authority utilizes the Capital Fund and operating subsidy grants to fund the operating expenses of the Public Housing Program. The Stimulus Grant was used to modernize the housing units.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 1 (continued)**

Housing Choice Voucher Program Fund - The Authority has contracted with HUD to provide rental subsidy for low and moderate income families pursuant to the United State Housing Act of 1937 and the Department of Housing and Urban Development Act. Under this program, the Authority receives funding from HUD for the purpose of subsidizing the rental payments of qualified low and moderate income families, the disabled, and seniors. These clients are responsible for obtaining a suitable rental unit, for which the Authority subsidizes the rent.

Business - The primary activity of the Authority's Business Fund is the maintenance of the administration buildings. Three quarters of one building is currently occupied by the Authority's staff, while the other one quarter is available for lease. The other building is leased to two commercial tenants.

Interfund activity has been eliminated from the government-wide financial statements. See Note 1.H. below for more information.

Amounts included as program revenue include: (1) charges to tenants for dwelling rent and other services, interest on restricted reserves and other revenue, (2) operating grants and contributions, and (3) capital grants and contributions. General revenue consists of interest earned on unrestricted cash held by banks and interest on long-term notes receivable.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of the Authority's enterprise funds is dwelling rental income. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. The principal operating expenses of the Authority's enterprise funds are salaries, benefits, utilities, maintenance of the dwelling units, housing assistance payments, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

For the Housing Choice Voucher Program, when both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed. For the USDA, Supportive Housing, and Migrant Farm Labor Housing Programs, when both restricted and unrestricted resources are available for use, it is the Authority's policy to use unrestricted resources first, then restricted as they are needed. When restricted resources are intended to be used for any program other than the Housing Choice Voucher Program, prior approval is requested from the appropriate governmental entity. No approval is required to expend the restricted funds of the Housing Choice Voucher Program, which can only be used for housing assistance payments.



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 1 (continued)**

**(E) Cash and Investments**

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, cash in checking accounts, interest-bearing deposits, and highly liquid investments (LAIF). Investments are stated at fair value for all funds.

**(F) Capital Assets**

Capital assets are valued at historical cost. Contributed capital assets are recorded at fair market value at the time received. Interest expense incurred during the development period is capitalized.

Capital assets, which include land, buildings, and equipment, acquired for Proprietary Funds are capitalized in the respective funds to which they apply. The Authority has an established capitalization policy which requires all acquisitions of property and equipment in excess of \$5,000 be capitalized. Depreciation of exhaustible capital assets used by Proprietary Funds is charged as an expense against operations, and accumulated depreciation is reported on the Proprietary Funds' statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Generally, buildings are being depreciated over a useful life of thirty years, modernization and site improvements over ten years, and dwelling and other equipment over five years. The exceptions are that the 41<sup>st</sup> Avenue administration building is being depreciated over 25 years, the remodeling of the building is being depreciated over 17-19 years, and the hard wired equipment in the building is being depreciated over 10 years. Salvage value on all depreciable equipment is assumed to be insignificant and therefore valued at \$0.

**(G) Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, including accrued interest. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**(H) Interfund Transactions**

**Interfund assets/liabilities:**

Short-term amounts owed between funds are classified as "Due to/from other funds". For the purpose of the Authority-wide Statement of Net Assets, the due to/from other funds in the amount of \$374,956, have been eliminated. See also Note 4.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

(Continued)

**Note 1 (continued)**

**Interfund revenue/expenses:**

For the purpose of the Authority-wide Statement of Activities, the following interfund revenue and expenses have been eliminated:

The Authority accumulates various administrative overhead costs in a separate fund. These costs are allocated to all programs. The elimination is entirely within the Business Enterprise Fund.	\$ 1,832,828
The Authority accumulates the costs of maintaining the administrative office building in a fund separate from all other funds. These costs are allocated to all programs. See also Note 15	294,232
The Migrant Enterprise Fund pays an administrative fee to the Business Activities Enterprise Fund.	34,645
The majority of the rent for the Authority owned Spruce Street unit is housing assistance payments received from the Housing Choice Voucher Program.	<u>8,700</u>
Total interfund revenue/expenses	<u>\$ 2,170,405</u>

**Interfund transfers:**

An interfund transfer of \$54,781, was made to satisfy the matching requirement of the ROSS program. An interfund equity transfer, in the amount of \$229,557, was made to close out the HUD-Veteran's Affairs Supportive Housing Program in anticipation of its combination with the Housing Choice Voucher Program beginning July 1, 2011, per instruction from HUD. Intra-fund transfers were also made to transfer operating grants from the Public Housing Capital Fund Program to the Public Housing Program and between two funds within the Business Activities Enterprise Fund. An intra-fund equity transfer, in the amount of \$65,715, was made to report capital additions funded by the Capital Fund Stimulus Grant as fixed assets of the Public Housing Program. See the Financial Data Schedule beginning on page 47 for the specific amounts.

**(I) Encumbrances**

Encumbrance accounting is not employed by the Authority.

**(J) Income Taxes**

The Authority is exempt from Federal Income and California Franchise Taxes.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 1 (continued)**

**(K) Grant Restrictions**

The Authority has received loans and grants from the U.S. Department of Housing and Urban Development, the U.S. Department of Agriculture, and the California Department of Housing and Community Development to build and improve housing projects. These grants require that only individuals and families that meet various income, age and employment standards be aided.

Further, if the net assets of the Authority's U.S. Department of Agriculture programs exceed certain levels, the payments on the notes payable to the U.S. Department of Agriculture must be increased. During the current fiscal year excess cash was generated by these programs and placed in the restricted project replacement reserves.

**Note 2 - CASH AND INVESTMENTS**

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 8,530,444
Restricted cash	<u>4,461,988</u>
Total cash and investments	<u><u>\$ 12,992,432</u></u>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 350
Demand deposits	<u>12,992,082</u>
Total cash and investments	<u><u>\$ 12,992,432</u></u>

**Investments Authorized by the Authority's Investment Policy**

The Authority's investment policy allows surplus cash to be invested in HUD approved securities, all of which are backed by the full faith and credit of, or a guarantee of principal and interest by, the U.S. Government, a Government agency or issued by a Government-sponsored agency.

The approved types of investments are:

- Direct obligations - Treasury Bills, Notes, and Bonds
- Obligations of Federal Government Agencies - GNMA, Small Business Administration Debentures, Tennessee Valley Authority Power bonds and notes, Maritime Administration bonds, notes, and obligations
- Securities of Government Sponsored agencies - FNMA, U.S. Postage Service bonds
- Demand and savings deposits
- Certificates of deposit

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 2 (continued)**

**Disclosures Related to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. The Authority considers the deposit with LAIF to be cash equivalent, due to the fact that it can be converted to cash within a twenty-four hour period. The Authority has several term deposits with Comerica Bank. Each have a term of less than one year. The penalty for early withdrawal is the loss of a portion of the interest earned on the account. The Authority does not consider these deposits to be investments.

**Disclosures Related to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder on the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires California banks and savings and loan associations to secure the Authority's deposits not covered by federal deposit insurance by pledging mortgages or government securities as collateral. The market value of mortgages must equal at least 150% of the face value of deposits. The market value of government securities must equal at least 110% of the face value of deposits. Such collateral must be held in the pledging bank's trust department in a separate depository in an account for the Authority.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (broker-dealer, etc) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The Housing Authority of the County of Santa Cruz executed a "General Depository Agreement" with Comerica Bank on September 8, 2010. This agreement states that "any portion of the PHA funds not insured by a Federal insurance organization shall be fully (100%) and continuously

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 2 (continued)**

collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD. Such securities shall be pledged and set aside in accordance with applicable law or Federal regulation.”

The Authority’s exposure to custodial credit risk is as follows:

Demand deposits with banks fully insured	\$ 370,193
Demand deposits with Comerica Bank, in excess of the amount insured, but covered by the depository agreement	11,134,128
Deposits with LAIF, at market value	<u>1,751,329</u>
Total deposits	13,255,650
Portion of demand deposit attributable to related parties:	
Housing Authority of the City of Hollister	(262,863)
Merrill Road Associates	<u>(705)</u>
Total deposits - Santa Cruz County Housing Authority	<u><u>\$ 12,992,082</u></u>

**Investment in State Investment Pool**

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each government agency may invest up to \$30,000,000 in each account in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest or principal. The full faith and credit of the State of California secure investments in LAIF.

At June 30, 2011, an account was maintained in the name of the Housing Authority of the County of Santa Cruz for \$1,748,573. The total cost value of investment in LAIF was \$1,748,573. The total fair value of investments in LAIF was \$1,751,329. The fair value total includes a realized gain of 2,756. The gains were based on a fair value adjustment factor of 1.001576470 that was calculated by the State of California Treasurer’s Office.

LAIF is a part of the State of California Pooled Money Investment Account (PMIA). At June 30, 2011, the fair value of the State of California Pooled Money Investment Account (PMIA), including accrued interest, was \$66,515,727,874. The PMIA portfolio had securities in the form of structured notes totaling \$1,100,000,000 and asset-backed securities totaling \$2,221,706,000. The PMIA has policies, goals and objectives for the portfolio to make certain that the goals of safety, liquidity, and yield are not jeopardized. These policies are formulated by investment staff and reviewed by both the PMIA and LAIF Advisory Boards on an annual basis.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 2 (continued)**

During 2002, California Government code was added to the LAIF's enabling legislation stating that "the right of a city, county...special district...to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any state official or state agency based upon the State's failure to adopt a State Budget by July 1 of each new fiscal year." In addition, it has been determined that the State of California cannot declare bankruptcy under Federal regulations. This allows other government code stating that "money placed with the state treasurer for deposit in the LAIF shall not be subject to ...transfer or loan...or impound or seizure by any state official or state agency" to stand.

**Note 3 - RESTRICTED CASH**

Restricted cash consists of funds that cannot be disbursed by the Authority unless approval is obtained from another government agency and funds held by the Authority on behalf of its clients. These balances are as follows:

Offset by restricted net assets:	
Housing Choice Voucher excess HAP funds	\$ 2,806,531
HUD-VA supportive housing excess HAP funds	229,257
USDA project replacement	925,651
Brommer Street replacement	59,073
Migrant operations	55,905
Migrant tenant council funds	9,294
Mortgage Credit Certificate program deposit	8,804
Offset by payable from restricted assets:	
FSS program participants' escrow funds	189,068
Tenant security deposits	<u>178,405</u>
Total restricted cash	<u><u>\$ 4,461,988</u></u>

The amounts held for the replacement of the USDA and Brommer projects cannot be disbursed without the prior written approval of either the USDA, Rural Economic and Community Development Department or the State of California, Department of Housing and Community Development. Cash for the USDA replacement reserves is greater than net assets. The Migrant tenant council funds are being held in an account for the Council's benefit and can be used only with their approval.

With the exception of the cash held for tenant security deposits and migrant operations, the above balances are maintained in a separate savings account for each fund. These savings accounts earn interest ranging from 0.05% to 0.30% per annum. The interest earned on the FSS escrow funds is payable to the participants and is not shown in the financial statements as revenue. The cash held for tenant security deposits and migrant operations is co-mingled with the Authority's other cash.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 4 - INTERFUND BALANCES**

The programs below owe the Business fund the following as of June 30, 2011:

Shelter Plus Care	\$	27,126
Resident Opportunities for Self Sufficiency (ROSS)		7,258
Other State/Local		224,694
Business activities		<u>115,878</u>
Total owed to Business activities	\$	<u><u>374,956</u></u>

**Note 5 - NOTES RECEIVABLE**

The following is a summary of the Authority's changes in notes receivable for the fiscal year ended June 30, 2011:

	Balance <u>7/1/2010</u>	Loans <u>Made</u>	Payments <u>Received</u>	Balance <u>6/30/2011</u>	S/T <u>Portion</u>
MRA Land Loan	\$ 252,763	\$ -	\$ -	\$ 252,763	\$ -
MRA Permanent Loan	451,509	-	-	451,509	-
Arista Lane	5,000	-	(5,000)	-	-
Arroyo Verde	19,504	-	-	19,504	-
Employee computer loans	<u>10,943</u>	<u>11,232</u>	<u>(12,154)</u>	<u>10,021</u>	<u>7,721</u>
Totals	<u>\$ 739,719</u>	<u>\$ 11,232</u>	<u>\$ (17,154)</u>	<u>\$ 733,797</u>	<u>\$ 7,721</u>

The notes from Merrill Road Associates, a California limited partnership (MRA) are secured by deeds of trust on the property owned by MRA. The land loan accrues interest at the rate of three percent per annum. The permanent loan bears no interest. Annual principal and interest payments on these notes depend on the surplus cash from operations of the project for each calendar year. Therefore, the current portion of these notes, if any, is not readily determinable. No surplus cash was generated and no principle payment received during the fiscal year ended June 30, 2011. Interest has been accrued on the land loan in the amount of \$113,698. Of this amount, \$7,583 was recorded as revenue of the current period. As explained in Note 19.B., the Authority can exercise significant influence over the management of MRA.

Loans have been made by the Authority to moderate and lower income, first-time homebuyers, qualified to purchase homes in the Arroyo Verde and Arista Lane projects. These loans are secured by deeds of trust. Payment on the loans are deferred until the property is sold or transferred, the borrower defaults on the note, or the first and second liens are refinanced. Interest on each loan is based on the appreciation of the property at the time of the payoff. The final Arista Lane loan was paid off during the current fiscal year. This loan was secured by property which had a change in title in 2002. Although the property was not sold, the change in title should have triggered the repayment

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 5 (continued)**

of this note. The Authority became aware of the title change during the current fiscal year. The Authority could not determine the appreciation on the property. Therefore payment on the loan was requested for the principal only. No interest was collected on this debt.

The Authority has established a revolving loan program for its employees. This program allows employees to borrow funds to purchase computers for home use. These interest free loans, are to be paid back through payroll deductions over a period of not more than two years.

**Note 6 - CAPITAL ASSETS**

Capital asset activity for the year ending June 30, 2011 is as follows:

	<u>Balance</u> <u>7/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>6/30/2011</u>
<b>Capital assets, not being depreciated:</b>					
Land	\$ 6,430,082	\$ -	\$ -	\$ -	\$ 6,430,082
Construction-in-progress	<u>545,765</u>	<u>89,056</u>	<u>-</u>	<u>(634,821)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>6,975,847</u>	<u>89,056</u>	<u>-</u>	<u>(634,821)</u>	<u>6,430,082</u>
<b>Capital assets depreciated:</b>					
Buildings	30,264,608	148,484	-	634,821	31,047,913
Equipment	<u>866,459</u>	<u>46,650</u>	<u>-</u>	<u>-</u>	<u>913,109</u>
Total capital assets being depreciated	<u>31,131,067</u>	<u>195,134</u>	<u>-</u>	<u>634,821</u>	<u>31,961,022</u>
Total capital assets	<u>38,106,914</u>	<u>284,190</u>	<u>-</u>	<u>-</u>	<u>38,391,104</u>
<b>Accumulated depreciation:</b>					
Buildings	(21,165,069)	(1,312,027)	-	-	(22,477,096)
Equipment	<u>(804,230)</u>	<u>(31,725)</u>	<u>-</u>	<u>-</u>	<u>(835,955)</u>
Total accumulated depreciation	<u>(21,969,299)</u>	<u>(1,343,752)</u>	<u>-</u>	<u>-</u>	<u>(23,313,051)</u>
Total capital assets depn, net	<u>9,161,768</u>	<u>(1,148,618)</u>	<u>-</u>	<u>634,821</u>	<u>8,647,971</u>
Total capital assets, net	<u>\$ 16,137,615</u>	<u>\$ (1,059,562)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,078,053</u>



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 6 (continued)**

The changes by project are as follows:

	Balance <u>7/1/2010</u>	Additions	Deletions	Transfers	Balance <u>6/30/2011</u>
<b>Capital assets:</b>					
Public Housing	\$ 24,077,771	\$ 170,509	\$ -	\$ -	\$ 24,248,280
Hsg Choice Voucher	10,838	-	-	-	10,838
USDA	5,496,163	23,341	-	-	5,519,504
Supportive Housing	793,954	-	-	-	793,954
Business	<u>7,728,188</u>	<u>90,340</u>	<u>-</u>	<u>-</u>	<u>7,818,528</u>
	<u>\$ 38,106,914</u>	<u>\$ 284,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,391,104</u>
<b>Depreciation:</b>					
Public Housing	\$ (15,194,030)	\$ (776,059)	\$ -	\$ -	\$ (15,970,089)
Hsg Choice Voucher	(10,838)	-	-	-	(10,838)
USDA	(3,810,230)	(264,275)	-	-	(4,074,505)
Supportive Housing	(261,051)	(28,762)	-	-	(289,813)
Business	<u>(2,693,150)</u>	<u>(274,656)</u>	<u>-</u>	<u>-</u>	<u>(2,967,806)</u>
	<u>\$ (21,969,299)</u>	<u>\$ (1,343,752)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,313,051)</u>

**Note 7 - LONG-TERM DEBT**

Following is a summary of the Authority's changes in long-term debt for the year ended June 30, 2011:

	Balance <u>7/1/2010</u>	Additions	Deletions	Balance <u>6/30/2011</u>	Short-term Portion
U.S. Department of Agriculture	\$ 273,262	\$ -	\$ (29,451)	\$ 243,811	29,748
Office building mortgage	1,382,016	-	(123,660)	1,258,356	130,960
State of California HCD loans	<u>210,000</u>	<u>-</u>	<u>-</u>	<u>210,000</u>	<u>-</u>
	<u>\$ 1,865,278</u>	<u>\$ -</u>	<u>\$ (153,111)</u>	<u>\$ 1,712,167</u>	<u>\$ 160,708</u>

Following is a schedule of debt payment requirements to maturity for the above long-term debt:

Year Ending <u>June 30</u>	<u>Mortgage</u>		<u>USDA Notes</u>		<u>HCD Loans</u>		<u>Total</u>
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>	
2012	\$ 130,960	\$ 68,940	\$ 29,748	\$ 2,311	\$ -	\$ -	\$ 231,959
2013	138,694	61,206	29,917	2,142	-	-	231,959
2014	146,882	53,018	28,838	1,843	-	-	230,581
2015	155,554	44,346	28,453	1,554	-	-	229,907
2016	164,738	35,162	28,738	1,270	-	-	229,908
2017-2021	521,528	44,088	80,552	2,827	-	-	648,995
Thereafter	-	-	17,565	275	210,000	346,500	574,340
	<u>\$ 1,258,356</u>	<u>\$ 306,760</u>	<u>\$ 243,811</u>	<u>\$ 12,222</u>	<u>\$ 210,000</u>	<u>\$ 346,500</u>	<u>\$ 2,377,649</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 7 (continued)**

The U.S. Department of Agriculture Notes accrue interest at 1% per annum and require monthly payments of \$2,671. Interest expenses in the amount of \$2,599 was incurred, paid, and shown as nonoperating expense for the fiscal year ended June 30, 2011.

On March 29, 2004, the Authority borrowed \$2,000,000 to purchase an administrative building located on Mission Street in Santa Cruz. The note is amortized over fifteen years, requires monthly payments of \$16,658 and accrues interest at a rate of 5.75% per annum. Interest of \$76,241 was incurred, paid, and included as nonoperating expenses for the year ended June 30, 2011.

The Authority signed a promissory note with the California Department of Housing and Community Development dated October 31, 2001. This \$210,000 note carries a simple interest rate of 3% per annum. The payment of principle and interest on this note is deferred until November 30, 2056. Interest totaling \$49,788 has been accrued and reported as a long-term liability as of June 30, 2011. Of this amount, \$6,300 was incurred and expensed during the current fiscal year.

During the fiscal year ended June 30, 2000, HUD directed the Authority to remove all HUD-guaranteed debt from its books of accounts. This debt included \$958,676 of HUD permanent notes and \$956,792 of interest accrued on these notes. These HUD-guaranteed notes have not been forgiven by HUD. The Public Housing Programs' Annual Contributions Contract (ACC) states that all debt service requirements related to these notes will be HUD's responsibility. It is therefore management's opinion, that the Authorities are not liable for these notes unless the federal government fails to honor the ACC. Accordingly, these amounts have been removed from the Authorities' books of accounts.

**Note 8 - UNEARNED REVENUE**

Unearned revenue in the amount of \$17,368, consists of the prepaid rent for the Authority's various rental housing programs and the rental of commercial office space. The remaining amount of the unearned revenue recorded is associated with the Housing Choice Voucher Program. HUD estimates the amount of administrative fees due to each authority and, at a later date, reconciles this amount with actual amounts earned per information provided through the Voucher Management System (VMS). The Authority estimates that \$144,674 in administrative fees received had not been earned as of fiscal year end.

**Note 9 - DEFERRED COMPENSATION PLAN**

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all permanent employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 9 (continued)**

attributable to those amounts, property, and rights are held in trust for the exclusive benefit of participants and their beneficiaries.

The Authority maintains two plans which are administered by the Hartford Life Insurance Company and the California Public Employees' Retirement System. A total of \$2,292,726 is being held by these companies/agencies on behalf of the Authority's employees. These funds are not recorded as assets of the Authority since they are held in trust for the exclusive benefit of participants and their beneficiaries and are not subject to claims of the Authority's general creditors.

**Note 10 - COMPENSATED ABSENCES**

It is the Authority's policy to permit employees to accumulate earned but unused vacation leave, which will be paid to employees upon separation from the Authority's service or used in future periods. The Authority permits employees to accumulate earned but unused sick leave. This leave will either be used in future periods or paid to employees upon separation from the Authority in the amount of 50%, after five years of service; 75%, after ten years of service; and 100%, after fifteen years of service, of the value of the unused sick leave. Accrued vacation and vested sick leave have been valued by the Authority, allocated to all the programs, and recorded as "Compensated Absences" at \$363,270, as of June 30, 2011. Of this amount, \$29,546 was recorded as a current liability.

**Note 11 - NET ASSETS**

A. Investment in Capital Assets, Net of Related Debt

Investment in capital assets, net of related debt consists of the following:

Capital assets, net of depreciation (see Note 6)	\$ 15,078,053
Long-term debt (see Note 7)	(1,712,167)
Accrued interest on long-term debt (See Note 7)	<u>(49,788)</u>
Investment in capital assets, net of related debt	<u>\$ 13,316,098</u>

B. Restricted Net Assets

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 11 (continued)**

The Authority has reported the following as restricted net assets:

Excess HAP funding	\$	3,035,788
USDA replacement reserve		924,503
Brommer Street replacement reserve		59,073
Funds held for Migrant operations		55,905
Funds held in trust for the migrant tenant council		9,294
Funds held on deposit for MCC guarantees		8,804
		<u>8,804</u>
	\$	<u>4,093,367</u>

On January 11, 2006, HUD issued *Notice PIH 2006-03*. On January 30, 2008, HUD issued *Notice PIH 2008-9*. Both notices address the proper manner in which HUD receipts should be accounted for and reported to HUD REAC. *Notice PIH 2006-03* instructed PHAs to no longer account for the Housing Choice Voucher grant as a cost reimbursement grant. All HUD funding received for this grant were to be retained by the Authority, with any excess HAP funding restricted as to its use - "may only be used to assist additional families up to the number of units under contract." While *Notice PIH 2008-09* clarified the fact that all unused HAP funding should be reported as "restricted net assets."

The revenue recognition directives contained in the Notices are a departure from the revenue recognition policy prior to the fiscal year ended June 30, 2005. Prior to that year, HUD grant revenue was recognized only to the extent that HAP expenses were incurred. During the years since, HUD grant revenue has been recognized when received, regardless of whether or not HAP expenses have been incurred. Changes to the excess HAP funding balance for the year are as follows:

	Housing Choice Voucher	HUD-VA Supportive Housing
Balance as of June 30, 2010	\$ 3,419,876	\$ 24,000
Excess funding used	(681,906)	204,357
Interest earned on the restricted funding	13,221	600
FSS forfeitures	15,287	-
Fraud recovery	40,053	300
Transfer	229,257	(229,257)
Balance as of June 30, 2011	<u>\$ 3,035,788</u>	<u>\$ -</u>

The net assets of the HUD-Veteran's Affairs Supportive Housing Program were combined with the Housing Choice Voucher Program at year end per HUD instruction. This program will become part of the CFDA #14.871 beginning July 1, 2011.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 11 (continued)**

The restricted reserves are fully funded (see Note 3). The replacement reserves are imposed on the Authority by the USDA or HCD for the future replacement or renovation of certain capital assets. These reserves can not be used without the prior written approval of the appropriate agency. The migrant operating reserves can only be used to cover the costs of operations at the Buena Vista Migrant Center and can not be used without the prior written approval of HCD. The migrant reserves are held for the exclusive use of the migrant tenant counsel. The final amount is a performance deposit for the Authority's Mortgage Credit Certificate program.

**Note 12 - BOND ISSUES**

The Authority has issued a number of tax exempt bonds. These issuances total approximately \$23,000,000 and consist of Multifamily Rental Housing Revenue Bonds and Single Family Mortgage Revenue Bonds. The multifamily bond proceeds were used by developers to construct and permanently finance multifamily rental housing projects. The single family bond proceeds were intended to be used to finance the purchase of the single family homes in specific developments. A portion of the units must be rented or sold to lower income families. The majority of the single family bonds were not used and became void in whole or in part. The Authority is responsible for compliance monitoring to insure that the bonds maintain their tax exempt status. The bonds are limited obligations of the Authority, payable solely from the revenues, receipts, and security pledged in the bond indentures. The bonds are not included as liabilities in this report.

**Note 13 - DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

All eligible Authority employees participate in the California Public Employees Retirement System (PERS), an agent multi-employer public employee defined benefit pension plan. 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. PERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least five years of PERS-credited service. Benefit provisions and all other requirements are established by State statutes within the Public Employees' Retirement Law. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from their executive office - 400 P Street - Sacramento, CA 95814.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 13 (continued)**

**B. Funding Policy**

Participants in the first tier are required to contribute 8% of their annual covered salary, while participants in the second tier contribute 7%. The Authority is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rates were 25.118% and 9.868% of annual covered payroll for the first and second tier, respectively. The current contribution rate has increased to 28.494% and 10.861%, the rate beginning July 1, 2012 will be 29.081% and 11.040% for the two tiers, while the rate beginning July 1, 2013 is projected to be 29.3% and 11.2% for the two tiers. The contribution requirements of plan members and the Authority are established and may be amended by PERS.

**Employer Side Fund with PERS**

In 2003, when the Authority was required by PERS to be part of a risk pool, a side fund was created to account for the difference between the funded status of the risk pool and the funded status of the Authority's plan (3% at 60 - tier 1). As of June 30, 2010, the Authority's side fund had a negative balance of \$2,673,805, which will cause the Authority's required contribution rate to be increased by the amortization of the side fund. PERS intends to amortize the negative balance in the side fund over the next 10 years. This amortization accounts for 12.634% and 12.746% points of the 28.494% and 29.081% rate for the tier 1 members as of July 1, 2011 and 2012, respectively.

**C. Annual Pension Cost**

For the fiscal year ended June 30, 2011, the Authority's annual pension cost of \$740,849 for PERS was equal to the Authority's required contributions. The Authority made payments to PERS totaling \$1,018,790. These payments consisted of \$278,023 contributions made by employees, \$740,849 contributions made by the Authority on behalf of its employees, less \$82 in adjustments. The required contribution for the fiscal year ended June 30, 2011, was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method with the contributions determined as a level percent of payroll. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, duration of service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include 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 fifteen year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

(Continued)

**Note 13 (continued)**

**D. Trend Information for PERS**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	\$ 604,402	100%	\$ 0
6/30/07	640,051	100%	0
6/30/08	619,132	100%	0
6/30/09	644,811	100%	0
6/30/10	690,506	100%	0

**Note 14 - POST RETIREMENT HEALTHCARE BENEFITS**

**Plan Description:** The Authority provides post-retirement pre-Medicare health care benefits for retirees. These benefits are provided for those retirees who are enrolled in a medical plan at the time of retirement and file an application for monthly retirement benefits through PERS at the time of separation. The Authority pays a portion of the premiums for the medical insurance for retirees.

**Eligibility:** As of June 30, 2011, eleven employees were eligible to receive these benefits. The authority had another 64 employees who are eligible for the program, but are not receiving benefits due to the fact that they are not retired from the Authority as of June 30, 2011.

**Requirements of GASB 45:** The Government Accounting Standards Board (GASB) has mandated disclosure of other post employment benefit (OPEB) liabilities for all government employers beginning, for the Authority, June 30, 2009. During the prior fiscal years, the Authority had administered this program on a pay-as-you-go basis. Actual program costs were expensed in the period incurred. To comply with GASB 45, the Authority received an actuarial report for the program which estimated the present value of the projected benefits of the OPEB program. The actuarial report was performed by Bickmore Risk Services & Consulting. The Authority also contracted with CalPERS to administer the funding of the projected benefits in a California Employers Retiree Benefit Trust (CERBT).

**Funding Policy:** The goal of GASB 45 is to match recognition of retiree medical expense with the periods during which the benefit is earned. The entry age normal cost method effectively meets this goal in most circumstances. The Authority has adopted an entry age normal cost prefunding approach to the funding of their other post employment benefit (OPEB) liability. The Authority makes actual payments of \$108 per month, per eligible retiree, to the healthcare benefit provider. The Authority then makes deposits into their CERBT held by CalPERS for the difference between the actuarially determined annual OPEB cost and the out-of-pocket payments made to the healthcare benefit provider. This funding policy assumes an interest rate of 7.75% and is amortized as a level percentage over 30 years, beginning January 1, 2009. Normal costs are based on estimated covered payroll. Covered payroll is estimated to increase 3.5% annually.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 14 (continued)**

**Annual OPEB Cost, Net OPEB Obligation, and Funding Status:**

	<u>6/30/2009</u>	<u>6/30/2010</u>	<u>6/30/2011</u>
Actuarial Present Value of Projected Benefits (APVPB)	\$ 675,959	\$ 715,023	\$ 663,532
Actuarial Accrued Liability (AAL)	\$ 484,356	\$ 535,397	\$ 494,942
Annual Required Contribution (ARC)			
Normal Costs	\$ 24,897	\$ 25,706	\$ 21,623
Amortization of unfunded AAL	28,021	28,931	22,902
Interest to June 30	1,984	2,049	1,670
Total ARC (annual OPEB costs)	<u>\$ 54,902</u>	<u>\$ 56,686</u>	<u>\$ 46,195</u>
OBEP payments made on behalf of participants	\$ 11,197	\$ 10,946	\$ 13,104
Deposit made to CalPERS trust (CERBT)	42,895	46,550	33,091
ARC funded during the year ended June 30, 2011	<u>\$ 54,092</u>	<u>\$ 57,496</u>	<u>\$ 46,195</u>
CERBT balance as of July 1	\$ -	\$ 42,893	\$ 94,399
Deposits made	42,895	46,550	33,091
Investment earnings	(2)	4,956	25,333
CERBT balance as of June 30	<u>\$ 42,893</u>	<u>\$ 94,399</u>	<u>\$ 152,823</u>
Actuarial Accrued Liability (AAL) unfunded at the end of the period	<u>\$ 441,463</u>	<u>\$ 440,998</u>	<u>\$ 342,119</u>
Covered payroll	<u>\$ 3,159,614</u>	<u>\$ 3,262,301</u>	<u>\$ 3,700,989</u>
Normal costs as a percent of payroll	0.79%	0.79%	0.58%
ARC as a percent of payroll	1.74%	1.74%	1.25%
Unfunded AAL as a percent of payroll	14.0%	13.5%	9.24%
Percent of ARC funded during the year	98.5%	101.4%	100.0%

No liability has been recorded for the unfunded AAL. The OPEB expense of \$46,195 was included in the current year operations. The trust balance of \$152,823 is not recorded as an assets of the Authority since the funds are placed in trust for the benefit of the employees.



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 15 - INTRA-AUTHORITY RENT**

In October 2004, the Authority moved into its new administrative building on Mission Street. Its staff was consolidated in the new building upon vacating the two previously occupied administrative buildings. The rent for the Mission Street building is an allocation of actual costs incurred to maintain the building, including debt service payments and omitting depreciation. These costs are allocated based on direct salaries charged to the Authority's programs. The amounts charged for the current fiscal year are as follows:

Housing Choice Voucher	\$	210,065
Public Housing		40,408
Capital Fund Stimulus Grant		152
USDA		12,018
Section 8 Moderate Rehabilitation		3,971
Disabled Voucher		5,374
ROSS		6,778
Shelter Plus Care		1,728
Supportive Housing		994
Section 8 Moderate Rehabilitation - SRO		589
Other State and Local		5,175
Business		<u>6,980</u>
Total Authority wide revenue/expense		294,232
Related parties (City of Hollister PHA)		<u>18,505</u>
Total	\$	<u><u>312,737</u></u>

Rent revenue was recorded in the Business Enterprise Fund. Office rent expenditures were recorded in the above noted Enterprise Funds. With the exception of the related party amounts, these interfund type transactions were eliminated in the Authority-wide Statement of Activities, but have not been eliminated in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

**Note 16 - INTRA-AUTHORITY HAP**

A tenant of the Authority's Housing Choice Voucher Program (CFDA #14.871) has chosen to live in a housing unit owned by the Authority. This Housing Assistance Payment (HAP) is recorded as expenditures of the Housing Choice Voucher Program Enterprise Fund and revenue of the Business Enterprise Fund. These transactions totaled \$8,700 for the fiscal year ended June 30, 2011. This interfund type transaction was eliminated in the Authority-wide Statement of Activities, but was not eliminated in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

(Continued)

**Note 17 - LEASES**

- A. The Authority leases office space owned in the City of Capitola to two tenants. These commercial leases were renegotiated in 2010, with a combined expected revenue of \$10,432 per month commencing in August 2010. The lease terms are six year terms with rent increases occurring annually at a rate of 3.5% per year. Rent for the year of \$125,195 was reported as revenue of the Business Enterprise Fund. This building is valued on the books of accounts as of June 30, 2011 as follows:

	Historical Cost	Accumulated Depreciation	Net
Land	\$ 537,500	\$ -	\$ 537,500
Building	1,368,103	(1,134,593)	233,510
Equipment	14,000	(14,000)	-
Total	<u>\$ 1,919,603</u>	<u>\$ (1,148,593)</u>	<u>\$ 771,010</u>

- B. During 2007, the Authority leased approximately 28% of its office building located on Mission Street in Santa Cruz to the Santa Cruz City School District. The lease began April 1, 2007 for a term of one year with an option for renewal for two additional years. The base rent increases by 3% on each anniversary of the commencement date of the lease. The monthly rent for the building space was \$11,419 as of June 30, 2010, plus maintenance expense incurred. The School District terminated their lease agreement as of September 30, 2010. The space is currently vacant, but being marketed by a local agent. Rent for the year of \$39,255 was reported as revenue of the Business Enterprise Fund.

**Note 18 - CONTINGENT LIABILITIES**

The Authority has received funds from various federal, state, and local grant programs. It is possible that at some future date it may be determined that the Authority was not in compliance with applicable grant requirements. The amount, 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.

**Note 19 - RELATED PARTIES**

**A. Housing Authority of the City of Hollister**

The Authority administers the Section 8 program for the Housing Authority of the City of Hollister (Hollister Authority). The Hollister Authority receives two types of funding from two different funding sources. Funding is received for HAPs from HUD and for administrative fees from HUD and the City of Hollister Redevelopment Agency. The Authority has been fully reimbursed for all HAP expenditures made on behalf of the Hollister Authority. However, funding for administrative expenditures has been in deficit of actual costs incurred for the past

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 19 (continued)**

several years. As of June 30, 2011, the Hollister Authority had deficit unrestricted net assets of \$62,504. The Hollister Authority is able to operate with a deficit due to loans received from the Authority. As of June 30, 2011, the Hollister Authority owed the Authority \$85,793, a decrease of \$20,000 from the prior year. The Authority considers the amount receivable from the Hollister Authority to be long-term.

**B. Merrill Road Associates**

Merrill Road Associates (MRA), a California limited partnership, was organized on September 15, 1995, with Merrill Road Housing Corporation (MRHC), a California nonprofit public benefit corporation, as the general partner. On September 15, 1996, Edison Capital Housing Investments, a California corporation, became the sole limited partner.

The purpose of MRA is to acquire, construct, own, hold for investment, operate, manage, lease or sell partnership property for low and very low income persons. MRA currently owns and operates a fifteen unit apartment complex in Aptos, California. The project qualifies for federal low income tax credits under section 42 of the Internal Revenue Code.

The Authority shares common board members with MRHC which is the general partner of MRA. Also the Authority was the developer of the project, the initial limited partner and currently administers the project for MRA. Accordingly, the Authority can exercise significant influence over MRA.

MRA pays the Authority a management fee of \$12,000 per year. MRA also reimburses the Authority for various costs paid by the Authority on its behalf. As of June 30, 2011, MRA owed the Authority \$2,373 as a result of the Authority's administration of the project. Also, as noted in Note 5 to the basic financial statements, MRA owes the Authority \$817,970 in principle and interest, for two loans secured by deeds of trust on the project.

After fiscal year end, the tax credit compliance period for this project ended. The Authority has first right of refusal on this property and can choose to purchase the project. In September 2011, the Board of Commissioners authorized the Authority's Executive Director, acting on the Authority's behalf, to enter into an agreement with MRA to replace Edison Capital as the sole limited partner of the entity.

**Note 20 - INSURANCE**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries insurance.

The Authority is a member of the Housing Authority Risk Retention Pool (HARRP). HARRP was established by public housing authorities participating in an intergovernmental cooperation agreement pursuant to specific statutes in Oregon, Washington, California and Nevada for the purpose of operating and maintaining a cooperative program of risk management and loss

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(Continued)

**Note 20 (continued)**

indemnification. HARRP offers property, general liability, automobile, fidelity, and officers' liability insurance to participants. There were 90 member public housing authorities at December 31, 2010. The relationship between the Authority and HARRP is such that HARRP is not a component unit of the Authority for financial reporting purposes.

The Authority paid premiums to HARRP totaling approximately \$64,400 for property, general liability, automobile, errors and omissions, and fidelity for the policy term of the year ended December 31, 2011. The loss limits for the various types of insurance were "stated value" for property with a \$1,000 deductible per occurrence (\$300,000 mold claim sub limit); \$2,000,000 for general liability (\$2,000,000 aggregate) with no deductible per occurrence; \$2,000,000 for errors and omissions with a 10% co-pay deductible; \$1,000,000 for automobile with actual cash value for comprehensive and collision coverage and a \$250 and \$500 deductible, respectively; \$100,000 for fidelity with a \$1,000 deductible.

The Authority is also insured through a private insurance company for umbrella insurance which brings all limits up to \$5,000,000 with a \$10,000 deductible. The Authority paid private insurance companies approximately \$8,500 for this coverage.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
REQUIRED SUPPLEMENTARY INFORMATION  
AS OF JUNE 30, 2011**

**Schedule of Funding Progress for PERS**

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess) Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
Tier 1 - 3% at 60 risk pool valuation:						
6/30/06	\$ 620,492,183	\$ 501,707,110	\$ 118,785,073	80.9%	\$ 126,049,770	94.237 %
6/30/07	699,663,524	576,069,687	123,593,837	82.3%	139,334,562	88.703 %
6/30/08	776,166,719	641,167,624	134,999,095	82.6%	155,115,302	87.031 %
6/30/09	883,394,429	694,384,975	189,009,454	78.6%	161,972,631	116.692 %
6/30/10	945,221,095	754,858,961	190,362,134	79.9%	159,156,834	119.607 %
Tier 2 - 2% at 55 risk pool valuation:						
6/30/06	\$ 2,754,396,608	\$ 2,492,226,176	\$ 262,170,432	90.5%	\$ 699,897,835	37.458%
6/30/07	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.104%
6/30/08	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.830%
6/30/09	3,104,798,222	2,758,511,101	346,287,121	88.9%	742,981,488	46.608%
6/30/10	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.458%

**Schedule of Funding Progress for OPEB**

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/09	\$ 484,356	\$ 42,893	\$ 441,463	8.9%	\$ 3,159,614	13.97 %
6/30/10	535,397	94,399	440,998	17.6%	3,262,301	13.52 %
6/30/11	494,942	152,823	342,119	30.9%	3,700,989	9.24 %

## **SUPPLEMENTAL INFORMATION**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development (HUD)</u>		
Direct Programs:		
Supportive Housing for Persons with Disabilities	14.181	\$ 1,009,718
Supportive Housing Program	14.235	57,303
Shelter Plus Care Program	14.238	349,200
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	88,019
Public and Indian Housing Program	14.850a	656,230
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	723,538
Housing Choice Voucher Program	14.871	48,855,372 *
HUD-Veteran's Affairs Supportive Housing Program	14.VSH	107,855
Public Housing Capital Fund Program	14.872	464,484
Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services Program	14.877	74,307
Public Housing Capital Fund Stimulus Grant	14.885	<u>73,085</u>
Subtotal HUD		<u>52,459,111</u>
<u>United States Department of Agriculture (USDA)</u>		
Direct Programs:		
Rural Rental Assistance Payments Program	10.427	<u>49,372</u>
Total federal awards expended		<u>\$ 52,508,483</u>

\* Tested as Type A Fund (major federal financial assistance program)

**The accompanying Independent Auditors' Report and notes are an integral part of this statement.**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2011**

1. The schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the County of Santa Cruz, California, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Public and Indian Housing and the Rural Rental Assistance Payments Programs expenditures reported consist only of the operating/rental subsidy amount received from HUD/USDA for the fiscal year.
3. The expenditures reported for the Housing Choice Voucher Program represent HUD funding to the extent that the funding has been expended by the Authority. HUD funding for this program was received as two types (1) HAP funding and (2) funding for administrative costs and FSS coordinator.

Beginning July 1, 2010, the Authority recorded HAP paid on tenants porting-in from other jurisdictions as an expenditure when paid and as a revenue when reimbursed from the initiating housing authority. These expenditures are not an expenditure of the Federal awards received by the Authority directly from HUD. These amounts are therefore not shown as an expenditure in the Schedule of Expenditures of Federal Awards.

The following represents a comparison of the funding to the actual expenditures. Noted in bold are the amounts reported as expenditures of Federal awards, these Federal awards have been both received and expended.

	HUD Funding	Program Expenditures	Federal funds Expended
Housing Assistance Payments	\$ 44,000,105	\$ <b>44,682,011</b>	\$ <b>44,682,011</b>
Administrative Costs /FSS /Homeownership	4,161,911	<b>4,173,361</b>	<b>4,173,361</b>
Reimbursed by other housing authorities	-	676,620	-
	<b>\$ 48,162,016</b>	<b>\$ 49,531,992</b>	<b>\$ 48,855,372</b>

Excess HAP funding is reported as restricted net assets as required by HUD (See Note 11 to the Basic Financial Statements).

4. The expenditures reported for the Section 8 Moderate Rehabilitation, Section 8 Moderate Rehabilitation Single Room Occupancy, HUD-Veteran's Administration Supportive Housing, and Supportive Housing for Persons with Disabilities programs represent each programs' operating expenditures in their entirety, regardless of the amount of HUD annual contributions earned.
5. Expenditures for the Public Housing Capital Fund Program and the Stimulus Grant agree with actual revenues and expenditures, including operating transfers made to the Public Housing Program, for the fiscal year.
6. Expenditures for the Public Housing Family Self Sufficiency under Resident Opportunities and Supportive Services Program, Shelter Plus Care Program, and Supportive Housing Program consist only of the Federal grant funds received.



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**FINANCIAL DATA SCHEDULE (CA072)**  
**BALANCE SHEET**  
**JUNE 30, 2011**

	Public Housing (LRPH and Capital Fund)	Supportive Housing for Persons w/ Disabilities	State/Local	Business Activities	Housing Choice Vouchers	Supportive Housing Program
111 Cash - Unrestricted	\$ 3,743,395	\$ 155,479	\$ 379,821	\$ 3,213,010	\$ 536,691	\$ 17,303
112 Cash - Restricted - Modernization and Development						\$ 59,073
113 Cash - Other Restricted	\$ 61,209		\$ 74,003		\$ 3,163,647	
114 Cash - Tenant Security Deposits	\$ 116,719		\$ 10,300	\$ 4,935		\$ 1,795
100 Total Cash	\$ 3,921,323	\$ 155,479	\$ 464,124	\$ 3,217,945	\$ 3,700,338	\$ 78,171
121 Accounts Receivable - PHA Projects					\$ 2,790	
122 Accounts Receivable - HUD Other Projects					\$ 20,257	\$ 8,758
124 Accounts Receivable - Other Government			\$ 289,258			
125 Accounts Receivable - Miscellaneous				\$ 2,753		
126 Accounts Receivable - Tenants	\$ 8,977		\$ 330	\$ 6,264		\$ 40
126.1 Allowance for Doubtful Accounts - Tenants	\$ (889)		\$ -	\$ -		\$ -
126.2 Allowance for Doubtful Accounts - Other			\$ -	\$ -	\$ (1,944)	\$ -
127 Notes, Loans, & Mortgages Receivable - Current				\$ 7,721		
128 Fraud Recovery		\$ 1,034			\$ 252,319	
128.1 Allowance for Doubtful Accounts - Fraud		\$ (1,034)			\$ (252,319)	
129 Accrued Interest Receivable	\$ 931			\$ 913		
120 Total Receivables, Net of Allow for Doubtful Accounts	\$ 9,019	\$ -	\$ 289,588	\$ 17,651	\$ 21,103	\$ 8,798
142 Prepaid Expenses and Other Assets	\$ 13,996	\$ 340	\$ 5,807	\$ 38,972	\$ 13,155	\$ 395
144 Inter Program Due From				\$ 374,956		
150 Total Current Assets	\$ 3,944,338	\$ 155,819	\$ 759,519	\$ 3,649,524	\$ 3,734,596	\$ 87,364
161 Land	\$ 4,104,506			\$ 1,912,500		\$ 289,000
162 Buildings	\$ 19,855,941			\$ 5,291,590		\$ 504,954
164 Furniture, Equipment & Machinery - Administration	\$ 287,833			\$ 614,438	\$ 10,838	
166 Accumulated Depreciation	\$ (15,970,089)			\$ (2,967,806)	\$ (10,838)	\$ (289,813)
160 Total Capital Assets, Net of Accumulated Depreciation	\$ 8,278,191	\$ -	\$ -	\$ 4,850,722	\$ -	\$ 504,141
171 Notes, Loans and Mortgages Receivable - Non-Current				\$ 726,076		
174 Other Assets				\$ 199,491		
180 Total Non-Current Assets	\$ 8,278,191	\$ -	\$ -	\$ 5,776,289	\$ -	\$ 504,141
190 Total Assets	\$ 12,222,529	\$ 155,819	\$ 759,519	\$ 9,425,813	\$ 3,734,596	\$ 591,505

Shelter Plus Care	Section 8 Moderate Rehab SRO	Formula Capital Fund Stimulus Grant	Rural Rental Assistance Payments	HUD-Veterans Affairs Supportive Housing Program	ROSS	Section 8 Moderate Rehab	Subtotal	Elimination	Total
	\$ 12,789		\$ 98,530			\$ 373,426	\$ 8,530,444		\$ 8,530,444
			\$ 925,651				\$ 984,724		\$ 984,724
							\$ 3,298,859		\$ 3,298,859
			\$ 44,656				\$ 178,405		\$ 178,405
\$ -	\$ 12,789	\$ -	\$ 1,068,837	\$ -	\$ -	\$ 373,426	\$ 12,992,432	\$ -	\$ 12,992,432
							\$ 2,790		\$ 2,790
\$ 29,325					\$ 14,353		\$ 72,693		\$ 72,693
			\$ 4,417				\$ 293,675		\$ 293,675
			\$ 1,093				\$ 16,704		\$ 16,704
			\$ (281)				\$ (1,170)		\$ (1,170)
\$ -			\$ -				\$ (1,944)		\$ (1,944)
							\$ 7,721		\$ 7,721
							\$ 253,353		\$ 253,353
							\$ (253,353)		\$ (253,353)
						\$ 231	\$ 2,075		\$ 2,075
\$ 29,325	\$ -	\$ -	\$ 5,229	\$ -	\$ 14,353	\$ 231	\$ 395,297	\$ -	\$ 395,297
	\$ 37		\$ 4,127			\$ 289	\$ 77,118		\$ 77,118
							\$ 374,956	\$ (374,956)	\$ -
\$ 29,325	\$ 12,826	\$ -	\$ 1,078,193	\$ -	\$ 14,353	\$ 373,946	\$ 13,839,803	\$ (374,956)	\$ 13,464,847
			\$ 124,076				\$ 6,430,082		\$ 6,430,082
			\$ 5,395,428				\$ 31,047,913		\$ 31,047,913
							\$ 913,109		\$ 913,109
			\$ (4,074,505)				\$ (23,313,051)		\$ (23,313,051)
\$ -	\$ -	\$ -	\$ 1,444,999	\$ -	\$ -	\$ -	\$ 15,078,053	\$ -	\$ 15,078,053
							\$ 726,076		\$ 726,076
							\$ 199,491		\$ 199,491
\$ -	\$ -	\$ -	\$ 1,444,999	\$ -	\$ -	\$ -	\$ 16,003,620	\$ -	\$ 16,003,620
\$ 29,325	\$ 12,826	\$ -	\$ 2,523,192	\$ -	\$ 14,353	\$ 373,946	\$ 29,843,423	\$ (374,956)	\$ 29,468,467

The accompanying Independent Auditors' Report and Notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**FINANCIAL DATA SCHEDULE (CA072)**  
**BALANCE SHEET**  
**JUNE 30, 2011**  
**(Continued)**

	Public Housing (LRPH and Capital Fund)	Supportive Housing for Persons w/ Disabilities	State/Local	Business Activities	Housing Choice Vouchers	Supportive Housing Program
312 Accounts Payable <= 90 Days	\$ 57,433	\$ 20	\$ 15,679	\$ 20,850	\$ 3,124	\$ 6,039
321 Accrued Wage/Payroll Taxes Payable	\$ 17,408	\$ 2,386	\$ 6,716	\$ 68,318	\$ 101,080	\$ 423
322 Accrued Compensated Absences - Current Portion	\$ 4,271	\$ 336	\$ 709	\$ 8,138	\$ 14,080	\$ 103
331 Accounts Payable - HUD PHA Programs		\$ 39,757				
333 Accounts Payable - Other Government	\$ 97,379		\$ 161,270			
341 Tenant Security Deposits	\$ 116,719		\$ 10,300	\$ 4,935		\$ 1,795
342 Deferred Revenues	\$ 9,494		\$ 532	\$ 417	\$ 144,674	\$ 260
343 Current Portion of Long-term Debt - Capital Projects				\$ 130,960		
347 Inter Program - Due To			\$ 224,694	\$ 115,878		
310 Total Current Liabilities	\$ 302,704	\$ 42,499	\$ 419,900	\$ 349,496	\$ 262,958	\$ 8,620
351 Long-term Debt, Net of Current - Capital Projects				\$ 1,127,396		\$ 210,000
353 Non-current Liabilities - Other	\$ 61,209				\$ 127,859	\$ 49,788
354 Accrued Compensated Absences - Non Current	\$ 48,241	\$ 3,796	\$ 8,007	\$ 91,928	\$ 159,027	\$ 1,165
350 Total Non-Current Liabilities	\$ 109,450	\$ 3,796	\$ 8,007	\$ 1,219,324	\$ 286,886	\$ 260,953
300 Total Liabilities	\$ 412,154	\$ 46,295	\$ 427,907	\$ 1,568,820	\$ 549,844	\$ 269,573
508.1 Invested In Capital Assets, Net of Related Debt	\$ 8,278,191			\$ 3,592,365		\$ 244,353
511.1 Restricted Net Assets	\$		\$ 74,003		\$ 3,035,788	\$ 59,073
512.1 Unrestricted Net Assets	\$ 3,532,184	\$ 109,524	\$ 257,609	\$ 4,264,628	\$ 148,964	\$ 18,506
513 Total Equity/Net Assets	\$ 11,810,375	\$ 109,524	\$ 331,612	\$ 7,856,993	\$ 3,184,752	\$ 321,932
600 Total Liabilities and Equity/Net Assets	\$ 12,222,529	\$ 155,819	\$ 759,519	\$ 9,425,813	\$ 3,734,596	\$ 591,505

Shelter Plus Care	Section 8 Moderate Rehab SRO	Formula Capital Fund Stimulus Grant	Rural Rental Assistance Payments	HUD-Veterans Affairs Supportive Housing Program	ROSS	Section 8 Moderate Rehab	Subtotal	Elimination	Total
\$ 7	\$ 2		\$ 9,194			\$ 17	\$ 112,365		\$ 112,365
\$ 790	\$ 260		\$ 5,315		\$ 2,888	\$ 1,041	\$ 206,625		\$ 206,625
\$ 112	\$ 37		\$ 1,280		\$ 342	\$ 138	\$ 29,546		\$ 29,546
	\$ 1,207					\$ 2,602	\$ 43,566		\$ 43,566
							\$ 258,649		\$ 258,649
			\$ 44,656				\$ 178,405		\$ 178,405
			\$ 6,665				\$ 162,042		\$ 162,042
			\$ 29,748				\$ 160,708		\$ 160,708
\$ 27,126					\$ 7,258		\$ 374,956	\$ (374,956)	\$ -
\$ 28,035	\$ 1,506	\$ -	\$ 96,858	\$ -	\$ 10,488	\$ 3,798	\$ 1,526,862	\$ (374,956)	\$ 1,151,906
			\$ 214,063				\$ 1,551,459		\$ 1,551,459
							\$ 238,856		\$ 238,856
\$ 1,260	\$ 415		\$ 14,462		\$ 3,865	\$ 1,558	\$ 333,724		\$ 333,724
\$ 1,260	\$ 415	\$ -	\$ 228,525	\$ -	\$ 3,865	\$ 1,558	\$ 2,124,039	\$ -	\$ 2,124,039
<b>\$ 29,295</b>	<b>\$ 1,921</b>	<b>\$ -</b>	<b>\$ 325,383</b>	<b>\$ -</b>	<b>\$ 14,353</b>	<b>\$ 5,356</b>	<b>\$ 3,650,901</b>	<b>\$ (374,956)</b>	<b>\$ 3,275,945</b>
			\$ 1,201,189				\$ 13,316,098		\$ 13,316,098
			\$ 924,503				\$ 4,093,367		\$ 4,093,367
\$ 30	\$ 10,905	\$ -	\$ 72,117	\$ 0	\$ -	\$ 368,590	\$ 8,783,057		\$ 8,783,057
<b>\$ 30</b>	<b>\$ 10,905</b>	<b>\$ -</b>	<b>\$ 2,197,809</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 368,590</b>	<b>\$ 26,192,522</b>	<b>\$ -</b>	<b>\$ 26,192,522</b>
<b>\$ 29,325</b>	<b>\$ 12,826</b>	<b>\$ -</b>	<b>\$ 2,523,192</b>	<b>\$ -</b>	<b>\$ 14,353</b>	<b>\$ 373,946</b>	<b>\$ 29,843,423</b>	<b>\$ (374,956)</b>	<b>\$ 29,468,467</b>

The accompanying Independent Auditors' Report and Notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**FINANCIAL DATA SCHEDULE (CA072)**  
**PROFIT AND LOSS STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Public Housing (LRPH and Capital Fund)	Supportive Housing for Persons with Disabilities	State/Local	Business Activities	Housing Choice Vouchers
<b>CFDA number</b>	<b>14.850/14.872</b>	<b>14.181</b>			<b>14.871</b>
70300 Net Tenant Rental Revenue	\$ 1,177,410		\$ 27,765	\$ 11,004	
70400 Tenant Revenue - Other	\$ 110,343				
70500 Total Tenant Revenue	\$ 1,287,753	\$ -	\$ 27,765	\$ 11,004	\$ -
70600 HUD PHA Operating Grants	\$ 1,120,715	\$ 1,031,058			\$ 48,162,016
70610 Capital Grants					
70800 Other Government Grants			\$ 1,230,884		
71100 Investment Income - Unrestricted	\$ 11,440	\$ 408	\$ 1,152	\$ 11,261	\$ 1,134
71200 Mortgage Interest Income				\$ 7,583	
71400 Fraud Recovery		\$ 89			\$ 80,104
71500 Other Revenue	\$ 2,249		\$ 33,046	\$ 2,540,128	\$ 743,950
72000 Investment Income - Restricted			\$ 5		\$ 13,221
70000 Total Revenue	\$ 2,422,157	\$ 1,031,555	\$ 1,292,852	\$ 2,569,976	\$ 49,000,425
91100 Administrative Salaries	\$ 336,745	\$ 54,262	\$ 81,559	\$ 1,147,403	\$ 2,120,258
91200 Auditing Fees	\$ 3,729	\$ 502	\$ 1,797	\$ 41	\$ 18,919
91300 Management Fee			\$ 34,645		
91400 Advertising and Marketing			\$ 2,854	\$ 5,315	
91500 Employee Benefit contributions - Administrative	\$ 168,440	\$ 26,985	\$ 39,679	\$ 449,131	\$ 1,054,537
91600 Office Expenses	\$ 40,408	\$ 5,374	\$ 5,175	\$ 6,980	\$ 210,065
91700 Legal Expense	\$ 3,380	\$ 51	\$ 515	\$ 8,019	\$ 10,734
91800 Travel	\$ 1,694	\$ 229	\$ 240	\$ 13,545	\$ 8,917
91810 Allocated Overhead	\$ 39,671	\$ 5,324	\$ 5,079	\$ 6,839	\$ 210,122
91900 Other	\$ 9,935	\$ 417	\$ 5,002	\$ 301,534	\$ 48,374
91000 Total Operating - Administrative	\$ 604,002	\$ 93,144	\$ 176,545	\$ 1,938,807	\$ 3,681,926
92000 Asset Management Fee					
92100 Tenant Services - Salaries					\$ 42,520
92200 Relocation Costs	\$ 683				
92300 Employee Benefit Contributions - Tenant Services					\$ 28,293
92400 Tenant Services - Other	\$ 21,045		\$ 206,003	\$ 500	\$ 322
92500 Total Tenant Services	\$ 21,728	\$ -	\$ 206,003	\$ 500	\$ 71,135
93100 Water	\$ 74,987		\$ 931	\$ 3,880	
93200 Electricity	\$ 33,157		\$ 32,180	\$ 44,414	
93300 Gas	\$ 10,405		\$ 24,610	\$ 7,252	
93600 Sewer	\$ 75,671		\$ 32,161	\$ 3,896	
93800 Other Utilities Expense	\$ 9,395			\$ 855	
93000 Total Utilities	\$ 203,615	\$ -	\$ 89,882	\$ 60,297	\$ -
94100 Ordinary Maintenance and Operations - Labor	\$ 71,455		\$ 48,597		
94200 Ordinary Maintenance and Operations - Materials and Other	\$ 34,032		\$ 12,622	\$ 1,229	
94300 Ordinary Maintenance and Operations Contracts	\$ 474,522	\$ 773	\$ 73,323	\$ 79,900	\$ 30,471
94500 Employee Benefit Contributions - Ordinary Maintenance	\$ 29,815		\$ 23,844		
94000 Total Maintenance	\$ 609,824	\$ 773	\$ 158,386	\$ 81,129	\$ 30,471

Supportive Housing Program	Shelter Plus Care	Section 8 Moderate Rehab SRO	Formula Capital Fund Stimulus Grant	Rural Rental Assistance Payments	HUD-Veterans Affairs Supportive Housing Program	ROSS	Section 8 Moderate Rehab	Subtotal	Elimination	Total
14.235	14.238	14.249	14.885	10.427	14.VSH	14.877	14.856			
\$ 22,461				\$ 550,199				\$ 1,788,839	\$ (8,700)	\$ 1,780,139
\$ 1,847				\$ 26,451				\$ 138,641		\$ 138,641
\$ 24,308	\$ -	\$ -	\$ -	\$ 576,650	\$ -	\$ -	\$ -	\$ 1,927,480	\$ (8,700)	\$ 1,918,780
\$ 57,303	\$ 349,200	\$ 90,717	\$ 7,370		\$ 312,212	\$ 74,307	\$ 744,572	\$ 51,949,470		\$ 51,949,470
			\$ 65,715					\$ 65,715		\$ 65,715
				\$ 49,372				\$ 1,280,256		\$ 1,280,256
\$ 34		\$ 35		\$ 350			\$ 1,356	\$ 27,170		\$ 27,170
								\$ 7,583		\$ 7,583
					\$ 600			\$ 80,793		\$ 80,793
\$ 4,256								\$ 3,323,629	\$ (2,161,705)	\$ 1,161,924
\$ 26				\$ 6,668	\$ 600			\$ 20,520		\$ 20,520
<b>\$ 85,927</b>	<b>\$ 349,200</b>	<b>\$ 90,752</b>	<b>\$ 73,085</b>	<b>\$ 633,040</b>	<b>\$ 313,412</b>	<b>\$ 74,307</b>	<b>\$ 745,928</b>	<b>\$ 58,682,616</b>	<b>\$ (2,170,405)</b>	<b>\$ 56,512,211</b>
\$ 8,274	\$ 17,440	\$ 5,943	\$ 4,395	\$ 100,809		\$ 20,966	\$ 40,082	\$ 3,938,136	\$ (1,056,833)	\$ 2,881,303
\$ 92	\$ 142	\$ 55		\$ 1,112		\$ 642	\$ 719	\$ 27,750		\$ 27,750
								\$ 34,645	\$ (34,645)	\$ -
				\$ 1,552				\$ 9,721		\$ 9,721
\$ 4,116	\$ 8,623	\$ 2,952	\$ 1,909	\$ 50,279		\$ 9,480	\$ 20,309	\$ 1,836,440	\$ (413,373)	\$ 1,423,067
\$ 994	\$ 1,728	\$ 589	\$ 152	\$ 12,018		\$ 6,778	\$ 3,971	\$ 294,232	\$ (294,232)	\$ -
\$ 10	\$ 18	\$ 6		\$ 337		\$ 69	\$ 29	\$ 23,168	\$ (2,866)	\$ 20,302
\$ 42	\$ 74	\$ 25	\$ 8	\$ 506		\$ 290	\$ 171	\$ 25,741	\$ (12,477)	\$ 13,264
\$ 998	\$ 1,778	\$ 584	\$ 250	\$ 11,916		\$ 6,740	\$ 3,123	\$ 292,424	\$ (292,424)	\$ -
\$ 120	\$ 155	\$ 49	\$ 4	\$ 3,594		\$ 411	\$ 386	\$ 369,981	\$ (17,764)	\$ 352,217
\$ 14,646	\$ 29,958	\$ 10,203	\$ 6,718	\$ 182,123	\$ -	\$ 45,376	\$ 68,790	\$ 6,852,238	\$ (2,124,614)	\$ 4,727,624
						\$ 47,056		\$ 89,576		\$ 89,576
								\$ 683		\$ 683
						\$ 21,604		\$ 49,897		\$ 49,897
\$ 23,334								\$ 251,204		\$ 251,204
\$ 23,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,660	\$ -	\$ 391,360	\$ -	\$ 391,360
\$ 1,980				\$ 7,721				\$ 89,499		\$ 89,499
\$ 1,020				\$ 12,340				\$ 123,111		\$ 123,111
\$ 87				\$ 4,991				\$ 47,345		\$ 47,345
\$ 3,279				\$ 29,979				\$ 144,986		\$ 144,986
								\$ 10,250		\$ 10,250
\$ 6,366	\$ -	\$ -	\$ -	\$ 55,031	\$ -	\$ -	\$ -	\$ 415,191	\$ -	\$ 415,191
\$ 1,836			\$ 395	\$ 21,405				\$ 143,688		\$ 143,688
\$ 2,009				\$ 7,300				\$ 57,192		\$ 57,192
\$ 10,973	\$ 252	\$ 85	\$ 19	\$ 105,874		\$ 621	\$ 661	\$ 777,474	\$ (27,180)	\$ 750,294
\$ 766			\$ 159	\$ 8,936				\$ 63,520		\$ 63,520
\$ 15,584	\$ 252	\$ 85	\$ 573	\$ 143,515	\$ -	\$ 621	\$ 661	\$ 1,041,874	\$ (27,180)	\$ 1,014,694

The accompanying Independent Auditors' Report and Notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ**  
**FINANCIAL DATA SCHEDULE (CA072)**  
**PROFIT AND LOSS STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

(Continued)

	Public Housing (LRPH and Capital Fund)	Supportive Housing for Persons with Disabilities	State/Local	Business Activities	Housing Choice Vouchers
<b>CFDA number</b>	<b>14.850/14.872</b>	<b>14.181</b>			<b>14.871</b>
95200 Protective Services - Other Contract Costs			\$ 2,046		
95000 Total Protective Services	\$ -	\$ -	\$ 2,046	\$ -	\$ -
96110 Property Insurance	\$ 19,226		\$ 4,438	\$ 4,082	
96120 Liability Insurance	\$ 4,631	\$ 631	\$ 2,030	\$ 160	\$ 24,148
96130 Workmen's Compensation	\$ 13,143	\$ 538	\$ 5,929	\$ 10,766	\$ 20,957
96140 All Other Insurance			\$ 1,019		
96100 Total insurance Premiums	\$ 37,000	\$ 1,169	\$ 13,416	\$ 15,008	\$ 45,105
96200 Other General Expenses	\$ 1,596	\$ 855	\$ 227	\$ 3,580	\$ 27,997
96210 Compensated Absences	\$ 60,417	\$ 7,907	\$ 13,944	\$ 827	\$ 316,726
96300 Payments in Lieu of Taxes	\$ 97,380				
96400 Bad debt - Tenant Rents	\$ 54				
96000 Total Other General Expenses	\$ 159,447	\$ 8,762	\$ 14,171	\$ 4,407	\$ 344,723
96710 Interest of Mortgage (or Bonds) Payable				\$ 76,241	
96700 Total Interest Expense and Amortization Cost	\$ -	\$ -	\$ -	\$ 76,241	\$ -
96900 Total Operating Expenses	\$ 1,635,616	\$ 103,848	\$ 660,449	\$ 2,176,389	\$ 4,173,360
97000 Excess of Operating Revenue over Operating Expenses	\$ 786,541	\$ 927,707	\$ 632,403	\$ 393,587	\$ 44,827,065
97100 Extraordinary Maintenance			\$ 580,709		
97300 Housing Assistance Payments		\$ 905,870			\$ 44,682,011
97350 HAP Portability-In					\$ 676,620
97400 Depreciation Expense	\$ 776,059			\$ 274,656	
90000 Total Expenses	\$ 2,411,675	\$ 1,009,718	\$ 1,241,158	\$ 2,451,045	\$ 49,531,991
10010 Operating Transfer In	\$ 464,485			\$ 9,421	
10020 Operating transfer Out	\$ (464,485)			\$ (9,421)	
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out	\$ (54,781)				
10100 Total Other financing Sources (Uses)	\$ (54,781)	\$ -	\$ -	\$ -	\$ -
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$ (44,299)	\$ 21,837	\$ 51,694	\$ 118,931	\$ (531,566)
11020 Required Annual Debt Principal Payments	\$ -	\$ -	\$ -	\$ 123,660	\$ -
11030 Beginning Equity	\$ 11,788,959	\$ 87,687	\$ 279,918	\$ 7,738,062	\$ 3,486,761
11040 Prior Period Adjustments and Equity Transfers	\$ 65,715				\$ 229,557
11170 Administrative Fee Equity					\$ 148,964
11180 Housing Assistance Payments Equity					\$ 3,035,788
11190 Unit Months Available	2789	1200	104	12	46710
11210 Number of Unit Months Leased	2774	1183	95	12	46410
11270 Excess Cash	\$ 3,430,128				
11620 Building Purchases	\$ 170,509				

Supportive Housing Program	Shelter Plus Care	Section 8 Moderate Rehab SRO	Formula Capital Fund Stimulus Grant	Rural Rental Assistance Payments	HUD-Veterans Affairs Supportive Housing Program	ROSS	Section 8 Moderate Rehab	Subtotal	Elimination	Total
14.235	14.238	14.249	14.885	10.427	14.VSH	14.877	14.856			
				\$ 1,364				\$ 3,410		\$ 3,410
\$ -	\$ -	\$ -	\$ -	\$ 1,364	\$ -	\$ -	\$ -	\$ 3,410	\$ -	\$ 3,410
\$ 547				\$ 5,671				\$ 33,964		\$ 33,964
\$ 133		\$ 69		\$ 1,367			\$ 624	\$ 33,793		\$ 33,793
\$ 271	\$ 155	\$ 53	\$ 79	\$ 5,146		\$ 671	\$ 397	\$ 58,105	\$ (9,911)	\$ 48,194
				\$ 11,043				\$ 12,062		\$ 12,062
\$ 951	\$ 155	\$ 122	\$ 79	\$ 23,227	\$ -	\$ 671	\$ 1,021	\$ 137,924	\$ (9,911)	\$ 128,013
								\$ 34,255		\$ 34,255
\$ 1,486	\$ 2,601	\$ 868		\$ 18,126		\$ 13,760	\$ 4,060	\$ 440,722		\$ 440,722
								\$ 97,380		\$ 97,380
\$ 572				\$ 135				\$ 761		\$ 761
\$ 2,058	\$ 2,601	\$ 868	\$ -	\$ 18,261	\$ -	\$ 13,760	\$ 4,060	\$ 573,118	\$ -	\$ 573,118
\$ 6,300				\$ 2,599				\$ 85,140		\$ 85,140
\$ 6,300	\$ -	\$ -	\$ -	\$ 2,599	\$ -	\$ -	\$ -	\$ 85,140	\$ -	\$ 85,140
\$ 69,239	\$ 32,966	\$ 11,278	\$ 7,370	\$ 426,120	\$ -	\$ 129,088	\$ 74,532	\$ 9,500,255	\$ (2,161,705)	\$ 7,338,550
\$ 16,688	\$ 316,234	\$ 79,474	\$ 65,715	\$ 206,920	\$ 313,412	\$ (54,781)	\$ 671,396	\$ 49,182,361	\$ (8,700)	\$ 49,173,661
				\$ 12,438				\$ 593,147		\$ 593,147
	\$ 316,233	\$ 76,741			\$ 107,855		\$ 649,005	\$ 46,737,715	\$ (8,700)	\$ 46,729,015
								\$ 676,620		\$ 676,620
\$ 28,762				\$ 264,275				\$ 1,343,752		\$ 1,343,752
\$ 98,001	\$ 349,199	\$ 88,019	\$ 7,370	\$ 702,833	\$ 107,855	\$ 129,088	\$ 723,537	\$ 58,851,489	\$ (2,170,405)	\$ 56,681,084
								\$ 473,906		\$ 473,906
								\$ (473,906)		\$ (473,906)
						\$ 54,781		\$ 54,781		\$ 54,781
								\$ (54,781)		\$ (54,781)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,781	\$ -	\$ -	\$ -	\$ -
\$ (12,074)	\$ 1	\$ 2,733	\$ 65,715	\$ (69,793)	\$ 205,557	\$ -	\$ 22,391	\$ (168,873)	\$ -	\$ (168,873)
\$ -	\$ -	\$ -	\$ -	\$ 29,451	\$ -	\$ -	\$ -	\$ 153,111		\$ 153,111
\$ 334,006	\$ 29	\$ 8,172	\$ -	\$ 2,267,602	\$ 24,000	\$ -	\$ 346,199	\$ 26,361,395		\$ 26,361,395
			\$ (65,715)		\$ (229,557)			\$ -		\$ -
								\$ 148,964		\$ 148,964
								\$ 3,035,788		\$ 3,035,788
72	394	132		840	300		894	53447		53447
70	394	132		835	108		894	52907		52907
							\$0	\$ 3,430,128		\$ 3,430,128
							\$0	\$ 170,509		\$ 170,509

The accompanying Independent Auditors' Report and Notes are an integral part of this statement.



**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
STATEMENT OF COMPLETED CAPITAL FUND PROGRAM PROJECTS  
ANNUAL CONTRIBUTIONS CONTRACT SF-1621  
JUNE 30, 2011**

**CA39P07250109**

Funds approved	\$	431,606
Funds expended		431,606
Excess of funds approved	\$	-
Funds advanced	\$	431,606
Funds expended		431,606
Excess of funds advanced	\$	-

**CA39S07250109**

Funds approved	\$	511,726
Funds expended		511,726
Excess of funds approved	\$	-
Funds advanced	\$	511,726
Funds expended		511,726
Excess of funds advanced	\$	-

**The accompanying Independent Auditors' Report and notes are an integral part of this statement.**

# Harn & Dolan

Certified Public Accountants

2423 Stirrup Court

Walnut Creek, California 94596-6526

(925) 280-1693 Fax (925) 938-4829

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

To the Board of Commissioners  
Housing Authority of the  
County of Santa Cruz  
Santa Cruz, California

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Santa Cruz, California, as of and for the year ended June 30, 2011, which collectively comprise the Housing Authority of the County of Santa Cruz, California's basic financial statements and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting.

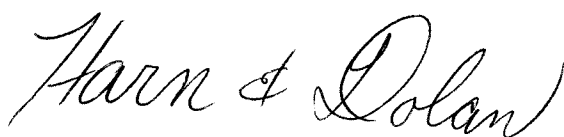
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Harn & Dolan".

November 30, 2011

# Harn & Dolan

Certified Public Accountants

2423 Stirrup Court

Walnut Creek, California 94596-6526

(925) 280-1693 Fax (925) 938-4829

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners  
Housing Authority of the  
County of Santa Cruz  
Santa Cruz, California

### Compliance

We have audited the compliance of the Housing Authority of the County of Santa Cruz, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The Housing Authority of the County of Santa Cruz, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of the County of Santa Cruz, California's management. Our responsibility is to express an opinion on the Housing Authority of the County of Santa Cruz, California's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of the County of Santa Cruz, California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Authority of the County of Santa Cruz, California's compliance with those requirements.

In our opinion, the Housing Authority of the County of Santa Cruz, California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of the Housing Authority of the County of Santa Cruz, California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of the County of Santa Cruz, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the County of Santa Cruz, California's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



November 30, 2011

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2011**

The previous audit report for the year ended June 30, 2010 contained no audit findings.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2011**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	unqualified
Is a "going concern" explanatory paragraph included in the audit report?	no
Internal control over financial reporting:	
Significant deficiencies identified?	no
Significant deficiencies identified also considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

**Federal Awards**

Does the auditors' report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit?	no
Dollar threshold used to distinguish between Type A and Type B programs	\$ 1,575,254
Auditee qualified as low-risk auditee?	yes
Identification of major programs:	
Housing Choice Voucher Program	14.871
Type of auditors' report issued on compliance for major programs:	unqualified
Did the audit disclose any audit findings which the auditor is required to report under OMB A-133, paragraph 510(a)	no
Internal control over major programs:	
Significant deficiencies identified?	no
Significant deficiencies identified also considered to be material weaknesses?	none reported
Any known questioned costs	no
Were prior audit findings related to direct funding shown in the Summary of Prior Audit Findings	no

**Section II - Financial Statement Findings**

none

**Section III - Federal Award Findings**

none