HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
AGENDA OF THE REGULAR BOARD MEETING
March 25, 2020
11:30 a.m.
TO BE HELD AT:
HOUSING AUTHORITY OFFICES
2160 41st Avenue, Capitola, CA 95010

- Due to the shelter-in-place directive, in lieu of attending the meeting in person, members of the public are invited to submit their comments via email to housing@hacosantacruz.org prior to the meeting or call into the conference line during the board meeting at (515) 604-9808 enter the access code**:** 329215.

1. Roll Call

2. Consideration of Late Additions and Changes to the Agenda

3. Oral Communications (All oral communications must be directed to an item not listed on this agenda and must be within the jurisdiction of the Board. Presentations must not exceed three minutes in length. The Board will not take action or respond immediately to any Oral Communication presented, but may choose to follow up at a later time or schedule item for a subsequent agenda. The Board may limit the total amount of time allowed for oral communication). Anyone addressing the Board of Commissioners is asked to complete a card and leave it with the Board secretary so that their names may be accurately recorded in the Minutes.

4. Unfinished Business

5. New Business

A. Public Hearing, Review and Consideration of Draft Agency Plan for the Housing Authority of the County of Santa Cruz

Receive Public Comment

Annual PHA Plan for the Housing Authority of the County of Santa Cruz

Motion to Adopt Resolution No. 2020-01: Authorizing Execution of PHA Certification of Compliance with PHA Plans and Related Regulations; Board Resolution to Accompany the Annual PHA Plan for the Housing Authority of the County of Santa Cruz

B. Audited Financial Statements for Fiscal Year Ending June 30, 2019

Motion to Approve the Audited Financial Statements for Fiscal Year Ending June 30, 2019 for the Housing Authority of the County of Santa Cruz and Brommer Street Transitional Housing Enterprise Fund

C. Update on Housing Authority Response to COVID-19

Motion to Grant Temporary Emergency Authority to Executive Director and/or Deputy Executive Director to Modify or Make Exceptions to Personnel Policies and Make Any Other Policy Changes or Exceptions Necessary to Continue Essential Services While

Ensuring Staff Safety and Following Public Health Guidelines. This Authority Will Remain in Effect Until May 31st, 2020 Unless Modified by the Board of Commissioners Before That Date.

6. Written Correspondence

7. Reports from Board Members
(Board members may report on meetings attended, if any, or other items of interest.)

8. Closed Session

(The Board will recess to discuss those items listed, if any.)

9. Report on Closed Session

10. Adjournment

*The Housing Authority complies with the Americans with Disabilities Act. If you are a person with disabilities and you require special assistance in order to participate, please contact the Board secretary at 831-454-9455, ext. 201 at least 72 hours in advance of the meeting in order to make arrangements. Persons with disabilities may request a copy of the agenda in an alternative format.
Spanish language translation is available on an as needed basis. Please make arrangements 72 hours in advance by contacting the Housing Authority at 831-454-9455, ext. 280.
Agendas can be obtained from the Housing Authority of the County of Santa Cruz Administration Department.

AGENDA ITEM SUMMARY

MEETING DATE: March 25, 2020 **ITEM NUMBER:** 5A

FROM: Executive Director

SUBJECT: Public Hearing, Review and Consideration of Draft Agency Plan for the Housing Authority of the County of Santa Cruz

RECOMMENDATION: **Adopt Resolution No. 2020-01** Adopt Resolution No. 2020-01: Authorizing Execution of PHA Certification of Compliance with PHA Plans and Related Regulations; Board Resolution to Accompany the Annual and Five Year PHA Plan for the Housing Authority of the County of Santa Cruz

BACKGROUND SUMMARY:

A Five Year and Annual Agency Plan has been prepared for the Housing Authority of the County of Santa Cruz, as required by HUD. The purpose of the Agency Plan is to provide a resource by which HUD, public housing residents (LIPH), participants in the tenant based assistance program (Housing Choice Voucher holders), and other members of the public may locate basic information about the PHA, as well as basic PHA policies, rules and requirements concerning operations, programs and services.

Over the past several months, staff have reviewed and discussed elements of the Plan with the Board of Commissioners, including a review of the mission statement, progress made towards the goals established in the previous 5 Year Plan, and establishing goals for the coming five year period. In January 2019, the Resident Advisory Board (RAB) convened to review and discuss the Plan, specifically with regard to proposed revisions. The RAB engaged in a productive discussion of the draft revisions, and expressed support for the goals outlined in the draft Plan. Members of the RAB have been invited to the public hearing which will take place at the March meeting.

A copy of the 5 Year and Annual PHA Plan and associated documents is available to the public in the offices of the Housing Authority of the County of Santa Cruz, and the draft documents are posted on the Housing Authority website. Beginning on February 5, 2020, and running weekly through March 25, 2020, a notice informing the public of the opportunity to review the Agency Plan, soliciting comments, and stating the time, date and place of the public hearing to consider the plan, is being published in English and Spanish in the Santa Cruz Sentinel, the Watsonville Pajaronian, and the Hollister Freelance.

The draft 5 Year and Annual PHA Plan, with the associated Section 8 Housing Choice Voucher Administrative Plan (Admin Plan), and Low-Income Public Housing (LIPH) Admissions and Continued Occupancy Plan (ACOP), was provided to the Board of Commissioners for review and discussion at the regular February meeting. Since that time, additional guidance from HUD requires one small revision to the Administrative Plan Document. The relevant section of the Administrative Plan, with the proposed change is excerpted below. The change impacts eligibility criteria for the original (legacy) Mainstream Vouchers, bringing their eligibility requirements in synch with the new Mainstream Non-Elderly Disabled Vouchers. Previously, the legacy

Mainstream Vouchers were available to households where the head of household or spouse was a person with disabilities. Now, both types of Mainstream Vouchers are available to households where any member of the household is a non-elderly person with disabilities.

<u>Mainstream Vouchers</u>
The Housing Authority has received 150 Mainstream Vouchers. These Mainstream Vouchers are available to eligible waiting list applicants meeting the following criteria:

- *The Household must include a family member between the age of 18 and 62 who is a person with a disability.*

Assistance will be offered to applicants eligible for the preference based on date of placement or lottery number. If the waiting lists do not contain a sufficient number of eligible households, the Housing Authority may open the lists for persons eligible for this preference. Eligible persons include those who are transitioning from institutions, at serious risk of institutionalization, homeless or at risk of homelessness.

The plans will not be considered complete until after the Board of Commissioners receives all public comment on the Plans, the Board makes any modifications they deem appropriate and the Chairperson is authorized to execute resolutions authorizing Execution of PHA Certifications of Compliance with PHA Plan and Related Regulations for Standard and Streamlined PHA Plans. These resolutions and certifications are now recommended to be adopted by the board.

RECOMMENDATION:

<u>Adopt Resolution No. 2020-01</u> Adopt Resolution No. 2020-01: Authorizing Execution of PHA Certification of Compliance with PHA Plans and Related Regulations; Board Resolution to Accompany the Annual and Five Year PHA Plan for the Housing Authority of the County of Santa Cruz

Certifications of Compliance with PHA Plans and Related Regulations ***(Standard, Troubled, HCV-Only, and High Performer PHAs)***	**U.S. Department of Housing and Urban Development** Office of Public and Indian Housing **OMB No. 2577-0226** **Expires 02/29/2016**

Resolution No. 2020-01
PHA Certifications of Compliance with the PHA Plan and Related Regulations including Required Civil Rights Certifications

Acting on behalf of the Board of Commissioners of the Public Housing Agency (PHA) listed below, as its Chairman or other authorized PHA official if there is no Board of Commissioners, I approve the submission of the X 5-Year and X Annual PHA Plan for the PHA fiscal year beginning 2019, hereinafter referred to as" the Plan", of which this document is a part and make the following certifications and agreements with the Department of Housing and Urban Development (HUD) in connection with the submission of the Plan and implementation thereof:

1. The Plan is consistent with the applicable comprehensive housing affordability strategy (or any plan incorporating such strategy) for the jurisdiction in which the PHA is located.
2. The Plan contains a certification by the appropriate State or local officials that the Plan is consistent with the applicable Consolidated Plan, which includes a certification that requires the preparation of an Analysis of Impediments to Fair Housing Choice, for the PHA's jurisdiction and a description of the manner in which the PHA Plan is consistent with the applicable Consolidated Plan.
3. The PHA has established a Resident Advisory Board or Boards, the membership of which represents the residents assisted by the PHA, consulted with this Resident Advisory Board or Boards in developing the Plan, including any changes or revisions to the policies and programs identified in the Plan before they were implemented, and considered the recommendations of the RAB (24 CFR 903.13). The PHA has included in the Plan submission a copy of the recommendations made by the Resident Advisory Board or Boards and a description of the manner in which the Plan addresses these recommendations.
4. The PHA made the proposed Plan and all information relevant to the public hearing available for public inspection at least 45 days before the hearing, published a notice that a hearing would be held and conducted a hearing to discuss the Plan and invited public comment.
5. The PHA certifies that it will carry out the Plan in conformity with Title VI of the Civil Rights Act of 1964, the Fair Housing Act, section 504 of the Rehabilitation Act of 1973, and title II of the Americans with Disabilities Act of 1990.
6. The PHA will affirmatively further fair housing by examining their programs or proposed programs, identifying any impediments to fair housing choice within those programs, addressing those impediments in a reasonable fashion in view of the resources available and work with local jurisdictions to implement any of the jurisdiction's initiatives to affirmatively further fair housing that require the PHA's involvement and by maintaining records reflecting these analyses and actions.
7. For PHA Plans that includes a policy for site based waiting lists:
   - The PHA regularly submits required data to HUD's 50058 PIC/IMS Module in an accurate, complete and timely manner (as specified in PIH Notice 2010-25);
   - The system of site-based waiting lists provides for full disclosure to each applicant in the selection of the development in which to reside, including basic information about available sites; and an estimate of the period of time the applicant would likely have to wait to be admitted to units of different sizes and types at each site;
   - Adoption of a site-based waiting list would not violate any court order or settlement agreement or be inconsistent with a pending complaint brought by HUD;
   - The PHA shall take reasonable measures to assure that such a waiting list is consistent with affirmatively furthering fair housing;
   - The PHA provides for review of its site-based waiting list policy to determine if it is consistent with civil rights laws and certifications, as specified in 24 CFR part 903.7(c)(1).
8. The PHA will comply with the prohibitions against discrimination on the basis of age pursuant to the Age Discrimination Act of 1975.
9. The PHA will comply with the Architectural Barriers Act of 1968 and 24 CFR Part 41, Policies and Procedures for the Enforcement of Standards and Requirements for Accessibility by the Physically Handicapped.
10. The PHA will comply with the requirements of section 3 of the Housing and Urban Development Act of 1968, Employment Opportunities for Low-or Very-Low Income Persons, and with its implementing regulation at 24 CFR Part 135.
11. The PHA will comply with acquisition and relocation requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 and implementing regulations at 49 CFR Part 24 as applicable.
12. The PHA will take appropriate affirmative action to award contracts to minority and women's business enterprises under 24 CFR 5.105(a).

13. The PHA will provide the responsible entity or HUD any documentation that the responsible entity or HUD needs to carry out its review under the National Environmental Policy Act and other related authorities in accordance with 24 CFR Part 58 or Part 50, respectively.
14. With respect to public housing the PHA will comply with Davis-Bacon or HUD determined wage rate requirements under Section 12 of the United States Housing Act of 1937 and the Contract Work Hours and Safety Standards Act.
15. The PHA will keep records in accordance with 24 CFR 85.20 and facilitate an effective audit to determine compliance with program requirements.
16. The PHA will comply with the Lead-Based Paint Poisoning Prevention Act**,** the Residential Lead-Based Paint Hazard Reduction Act of 1992, and 24 CFR Part 35.
17. The PHA will comply with the policies, guidelines, and requirements of OMB Circular No. A-87 (Cost Principles for State, Local and Indian Tribal Governments), 2 CFR Part 225, and 24 CFR Part 85 (Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments).
18. The PHA will undertake only activities and programs covered by the Plan in a manner consistent with its Plan and will utilize covered grant funds only for activities that are approvable under the regulations and included in its Plan.
19. All attachments to the Plan have been and will continue to be available at all times and all locations that the PHA Plan is available for public inspection. All required supporting documents have been made available for public inspection along with the Plan and additional requirements at the primary business office of the PHA and at all other times and locations identified by the PHA in its PHA Plan and will continue to be made available at least at the primary business office of the PHA.
22. The PHA certifies that it is in compliance with applicable Federal statutory and regulatory requirements, including the Declaration of Trust(s).

The Housing Authority of the County of Santa Cruz	CA072
PHA Name	PHA Number/HA Code

X Annual PHA Plan for Fiscal Year 2020

X 5-Year PHA Plan for Fiscal Years 2020 - 2025

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate. **Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Name of Authorized Official Sonja Brunner	Title Chairperson
Signature	Date

AGENDA ITEM SUMMARY

MEETING DATE: March 25, 2020 **ITEM NUMBER:** 5B

FROM: Executive Director

SUBJECT: Audited Financial Statements for Fiscal Year Ending June 30, 2019

RECOMMENDATION: Approve the Audited Financial Statements for Fiscal Year Ending June 30, 2019 for the Housing Authority of the County of Santa Cruz and Brommer Street Transitional Housing Enterprise Fund

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BACKGROUND SUMMARY:

The financial statements for the fiscal year ending June 30, 2019 were prepared for the Housing Authority of the County of Santa Cruz and Brommer Street Transitional Housing Enterprise Fund in the format prescribed by the requirements of the Government Accounting Standards Board (GASB).

The Agency's auditor, Harn & Dolan, CPAs, has issued an unmodifed (clean) opinion for both reports after conducting an audit in accordance with Government Auditing Standards. The auditor opined that the financial statements present fairly, in all material respects, the financial position of the agency as of June 30, 2019.

Upon approval by the Board of Commissioners, the audit reports will be submitted to the appropriate regulatory bodies and the agency-wide report will be available on the Housing Authority's website for other interested parties.

HUD's Real Estate Assessment Center (REAC) has yet to extend the March 31st submission deadline for the audit and financial filings for agencies with a June 30th fiscal year-end. This agenda item is going before the Board for approval to avoid the strict penalties that are imposed for late submission.

RECOMMENDATION:

Approve the Audited Financial Statements for Fiscal Year Ending June 30, 2019 for the Housing Authority of the County of Santa Cruz and Brommer Street Transitional Housing Enterprise Fund.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Harn & Dolan
Certified Public Accountants
2423 Stirrup Court
Walnut Creek, California 94596-6526
(925) 280-1693 Fax (925) 938-4829

February 12, 2020

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

We have audited the financial statements of the business-type activities of the Housing Authority of the County of Santa Cruz, California (the Authority) for the year ended June 30, 2019. We have also audited the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California for the years ended June 30, 2019 and 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and the Uniform Guidance

As stated in our engagement letter dated December 11, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over the financial reporting. We also considered 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 the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provision is not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opnion on the Authority's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on the Authority's compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgement about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violation of laws or government regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no material misstatement that required communication to you during our audit.

Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2019. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements were:

- Depreciation on capital assets: Management's estimate of the useful lives of its capital assets is based on historical information about similar assets, the length of time the assets are expected to meet service and technology demands, and the Authority's maintenance policy for the assets. These estimates have remained consistent for several years. We evaluated the key factors and assumption used to develop the depreciation estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

- Pension liability, deferred outflows of resources and deferred inflows of resources: Management's estimates were derived from actuarial valuations obtained from experts. We agreed the amounts recorded in the books of accounts and the other information contained in the pension footnote (Note 11) to the amounts reported in the "GASB 68 Accounting Valuation Reports" obtained from PERS, as of the measurement date of June 30, 2018.
- Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources: Management's estimates were derived from actuarial valuations obtained from experts. We agreed the amounts recorded in the books of accounts and the other information contained in the OPEB footnote (Note 12) to the amounts reported in the "Valuation of Retiree Health Benefits, Report of GASB 75 Actuarial Valuation as of July 1, 2017", rolled forward to June 30, 2018, prepared by North Bay Pension LLC.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of related parties in Note 15 to the financial statements. This disclosure describes the Authority's relationship, including financial, with its related parties. Also of significance to the financial statement users are Notes 11 and 12, which describe the Authority's pension and OPEB plans.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 12, 2020.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Matters or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the government unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Other Matters

We applied certain limited procedures to the MD&A, which is required supplemental information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenditures of Federal Awards, the Financial Data Schedules, and the Statement of Completed Capital Fund Program Project, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Commissioners and the management of the Housing Authority of the County of Santa Cruz and is not intended to be and should not be used by anyone other than these specific parties.

Very Truly Yours,

Harn & Dolan

Harn & Dolan, CPA's

HOUSING AUTHORITY
OF THE COUNTY OF SANTA CRUZ
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019
(Including Auditors' Report Thereon)

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

TABLE OF CONTENTS

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
Capitola, California

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the County of Santa Cruz, California (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11 and the supplementary information required for the pension and other postemployment benefit plans on pages 49-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The accompanying Financial Data Schedules (CA072), shown on pages 56-63, are presented for purposes of additional analysis as required by *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development and are not a required part of the basic financial statements. Finally, the accompanying Statement of Completed Capital Fund Program Project 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 basic financial statements.

The Schedule of Expenditures of Federal Awards, the Financial Data Schedules, and the Statement of Completed Capital Fund Program Project are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, the Financial Data Schedules, and the Statement of Completed Capital Fund Program Project are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2020 on our consideration of the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Harn & Dolan

February 12, 2020

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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. These statements include audited financial statement data for Merrill Road Associates, as of June 30, 2019, and for the year then ended, as a blended component unit. This component unit receives a separate audit report which can be obtained from the Authority using the information on page 11. The discussion and comparisons to follow will only include the Primary Government figures for the Housing Authority of the County of Santa Cruz.

Financial Highlights

During calendar year 2018 and 2019, Congressional appropriations allowed the proration factors for Administration Fees for the Housing Choice Voucher (HCV) Program to stabilize at the 79-80% level.

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by $17,724,822 (net position). Of this amount, $4,259,265 (unrestricted net position) may be used to meet the Authority's ongoing obligations. The Authority's unrestricted net position decreased by $181,046, while restricted net position increased by $465,386. Overall, total net position increased by $256,261 during the year.

Total grant revenues increased by $9,451,916 (13.84%) from the prior fiscal year, due primarily to increases in HAP of $8,333,277.

The overall expenses of the Authority programs increased by $8,588,292 (11.95%) over the prior year. Most of this increase was attributable to increases in HAP and Administration.

During the fiscal year, the Authority relocated its office headquarters to the Authority owned office building at 2160 41st Avenue in Capitola along with a leased office building next door which offers a convenient mid-county location for program participants and staff alike. The warehouse which previously served as the Authority's main office will be leased in its entirety, generating positive cash flows which will contribute to unrestricted cash reserves. The commercial loan on the warehouse was paid off in full during the fiscal year.

Overview of the Financial Statements

The Authority's basic financial statements comprise:
Fund financial statements – pages 12-16
Notes to financial statements – pages 17-47

This report also contains other Required Supplementary Information (RSI) other than the MD&A which can be found beginning on page 49 and Supplementary Information beginning on page 53.

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 Position, presents information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these categories of accounts reported as net position. 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 $731,393, have been eliminated for this presentation.

Net Position is reported in three broad categories:

Net Position in Capital Assets - This component of net position 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 Position - This component of net position consists or restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, and/or regulations.

Unrestricted Net Position - Consists of net position that does not meet the definition of the other two types of net position.

The Statement of Revenues, Expenses and Changes in Fund Net Position 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 position which is similar to net income or loss. Interfund revenue and expenses in the amount of $2,534,578 have been eliminated for this presentation. Please see Note 1(I) for additional details.

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 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 between 30% and 40% 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.

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 Funds – In addition to the funds described above, the Authority also maintains the following funds.

Section 8 Moderate Rehabilitation Program
Section 8 Moderate Rehabilitation Program - SRO
Mainstream 5 Voucher Program
Continuum of Care Programs
*HOME Investment Partnerships Program
Shelter Plus Care Housing Program
USDA Farm Labor Housing Programs
Supportive Housing Program
Other State and Local Programs
*Community Development Block Grant (CDBG)

*The HOME and CDBG are sub-recipient grants from local jurisdictions.

AUTHORITY-WIDE STATEMENT

Statement of Net Position

The following table reflects the condensed Statement of Net Position compared to prior year. The Authority is engaged in only Business-Type Activities.

Table 1
STATEMENT OF NET POSITION

			Increase/(Decrease)	
	2019	2018	Amount	%
Current assets	$ 13,548,813	$ 11,947,420	$ 1,601,393	13.40%
Restricted assets	3,056,745	2,453,665	603,080	24.58%
Capital assets	13,432,974	13,600,260	(167,286)	1.23%
Other assets	19,504	19,504	-	0.00%
Total Assets	30,058,036	28,020,849	2,037,187	7.27%
Total Deferred Outflows	2,396,049	3,065,940	(669,891)	21.85%
Current liabilities	2,338,321	1,080,057	1,258,264	116.50%
Payable from restricted cash	392,946	358,488	34,458	9.61%
Long-term liabilities	11,294,231	11,399,331	(105,100)	0.92%
Total Liabilities	14,025,498	12,837,876	1,187,622	9.25%
Total Deferred Inflows	703,765	780,352	(76,587)	9.81%
Net investment in capital assets	10,796,649	10,824,728	(28,079)	0.26%
Restricted	2,668,908	2,203,522	465,386	21.12%
Unrestricted	4,259,265	4,440,311	(181,046)	4.08 %
Total Net Position	$ 17,724,822	$ 17,468,561	$ 256,261	1.47%

Major Factors Affecting the Statement of Net Position

Current assets and current liabilities increased significantly due to the creation of a local affordable housing preservation program in partnership with the County of Santa Cruz which set aside $1,500,000 for a revolving loan program. Restricted net position increased by $465,386 (21.12%) in large part due to an increase in Authority-held excess HAP funds on hand. The decrease in total deferred outflows of $669,891 related to the GASB 68 mandated pension reporting based on the CalPERS actuarial report and agency contributions during the year.

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

TABLE 2
CHANGE IN UNRESTRICTED NET POSITION

	2019	2018	Increase/(Decrease) Amount	%
Unrestricted Net Position - July 1:				
Housing Authority originally stated	$ 4,440,311	$ 6,298,454		
Prior period adjustment for OPEB	-	(846,610)		
Housing Authority restated	4,440,311	5,451,844	$(1,011,533)	18.55%
Net gain (loss)	256,261	(695,336)	951,597	136.85%
Adjustments:				
Depreciation (1)	709,666	660,584	49,082	7.43%
Excess HAP (accumulated) used (1) (2)	(290,082)	484,457	(774,539)	159.88%
Capital asset additions	(542,380)	(1,051,125)	508,745	48.40%
Principal paid on debt	(172,526)	(205,167)	32,641	15.91%
Deposits into restricted funds	(112,553)	(148,508)	35,955	24.21%
Other restricted revenue (1)	(67,398)	(62,692)	(4,706)	7.51%
Change in restricted migrant funds	1,945	(48,774)	50,719	103.99%
Interest on restricted funds (1)	(5,476)	(5,134)	(342)	6.66%
Use of restricted funds for modernization	8,178	24,370	(16,192)	66.44%
Change in interest payable on long-term debt (1)	33,319	35,792	(2,473)	6.91%
Unrestricted Net Position - June 30	$ 4,259,265	$ 4,440,311	$ (181,046)	4.08%

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

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

While results of operations is a significant measure of the Authority's activities, the analysis of the changes in unrestricted net position 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, 2019
(Continued)

Statement of Revenues, Expenses and Changes in Net Position

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 POSITION

	2019	2018	Increase/(Decrease) Amount	%
Revenues:				
Rents	$ 2,595,052	$ 2,474,421	120,631	4.88 %
Grants	77,745,971	68,294,055	9,451,916	13.84 %
Interest	71,581	44,363	27,218	61.35 %
Other revenues	320,762	380,638	(59,876)	15.73 %
Total revenues	80,733,366	71,193,477	9,539,889	13.40 %
Expenses:				
Administration	6,618,350	5,887,941	730,409	12.41 %
Tenant services	1,037,660	984,542	53,118	5.40 %
Utilities	624,447	709,871	(85,424)	12.03 %
Maintenance	1,320,969	1,205,904	115,065	9.54 %
Extra ordinary maintenance	51,295	202,220	(150,925)	74.63 %
General	395,609	840,932	(445,323)	52.96 %
Housing assistance payments	69,672,206	61,338,929	8,333,277	13.59 %
Depreciation	709,666	660,584	49,082	7.43 %
Debt service – interest	46,903	57,890	(10,987)	18.98 %
Total expenses	80,477,105	71,888,813	8,588,292	11.95 %
Net increase (decrease) to net position	256,261	(695,336)	951,597	
Beginning net position, as originally stated	17,468,561	19,010,507		
Prior period adjustments:				
OPEB - GASB 75	-	(846,610)		
Beginning net position, as restated	17,468,561	18,163,897		
Ending net position	$ 17,724,822	$ 17,468,561		

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

Total revenues increased by $9,539,889 (13.40%) over the prior fiscal year. Grant revenue increased by $9,451,916 (13.84%) primarily due to increased HAP. The total expenses of the Authority's programs increased by $8,588,292 (11.95%) over the prior year, attributable mainly to increased HAP and Administration. Depreciation expense increased as a result of the addition of depreciable capital assets.

DEBT ADMINISTRATION AND CAPITAL ASSETS

Debt Outstanding

As of year-end, the Authority had $1,742,991 in debt (bonds, notes, etc.) outstanding compared to $1,915,516 last year, a $172,525 decrease. A more detailed presentation of the Authority's debt, summarized below in Table 5, can be found in Note 6 to the basic financial statements.

TABLE 5
OUTSTANDING DEBT AT YEAR END

	2019	2018
Office Building Mortgage	$ -	$ 162,329
USDA Farm Worker Housing	37,824	48,021
State of California HCD Loan (Brommer)	210,000	210,000
State of California HCD Loan (Merrill Road Associates)	1,195,167	1,195,167
Santa Cruz County RDA loan (Merrill Road Associates)	300,000	300,000
Total	$ 1,742,991	$ 1,915,516

Capital Assets

As of year-end, the Authority had $13,432,974 invested in a variety of capital assets as reflected in table 6, which represents a net decrease of $167,286 from the end of last year, which is the result of $709,666 of depreciation expense, offset by $542,380 in additions. The $542,380 of capital additions consists of renovations at various Public Housing sites and building/tenant improvements at 41st Avenue offices. Table 7 summarizes the change in capital assets, which is presented in more detail in Note 5 to the basic financial statements.

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

Business-type activities	2019	2018
Land and land rights	$ 8,130,532	$ 8,130,532
Buildings	36,306,626	35,785,685
Equipment	265,626	955,000
Accumulated depreciation	(31,269,810)	(31,270,957)
Total	$ 13,432,974	$ 13,600,260

TABLE 7
CHANGE IN CAPITAL ASSETS

Beginning Balance 7/1/2018	$ 13,600,260
Additions	542,380
Depreciation	(709,666)
Ending Balance 6/30/2019	$ 13,432,974

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
- Increasing pension and OPEB liabilities and annual pension and OPEB contributions
- Local supply of available housing and the willingness of landlords to participate in the Housing Choice Voucher Program

OTHER POTENTIALLY SIGNIFICANT MATTERS

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

(1) 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 pro-rations based on available funding levels. These admin fee proration levels have a significant impact on the Authority's primary source of funding for administrative expenses in the largest program area.

(2) Funding for the Low Income Housing Program is provided through a combination of HUD's Operating Subsidy and the Capital Fund Program. These funding streams are subject to annual proration or reduction based on available appropriations. In recent years, HUD has expressed their desire to move away from the Low Income Public Housing program and focus more of their attention and funding on the Housing Choice Voucher Program. Consequently, HUD may reduce funding for the Operating Subsidy and Capital Fund Program in an effort to convince Housing Authorities to convert their Public Housing stock through RAD or other repositioning alternatives. The Authority is currently pursuing Section 22 Streamlined Voluntary Conversion (SVC) which, if approved by HUD, would result in an ownership transfer of the 234 LIPH units from the Authority to a non-profit entity that is controlled by the Authority. As part of the SVC process, the residents of the former LIPH units would receive Tenant Protection Vouchers from the Authority. The non-profit entity which would own the former LIPH units would receive both the tenant portion of the rent and the HAP portion of the rent as a replacement for HUD's transitional LIPH funding model of the Operating Subsidy and Capital Fund Program.

FINANCIAL CONTACT

The individual to be contacted regarding this report is:

Finance Director
Housing Authority of the County of Santa Cruz
2160 41st Avenue, Capitola, California 95010
(831) 454-9455

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019

	Primary Government Business-type Activities
ASSETS	
Current assets:	
Cash and investments (Note 2)	$ 12,939,861
Due from other agencies	398,706
Tenant accounts receivable	16,932
Allowance for doubtful accounts	(7,438)
Accounts receivable - other	392,060
Allowance for doubtful accounts	(392,060)
Interest receivable	11,823
Prepaid expenses	188,929
Total current assets	13,548,813
Restricted assets:	
Restricted cash (Note 3)	3,056,745
Capital assets (Note 5):	
Land	8,130,532
Buildings	36,306,626
Equipment	265,626
Accumulated depreciation	(31,269,810)
Total capital assets	13,432,974
Other noncurrent assets:	
Long-term notes receivable (Note 4)	19,504
Total other noncurrent assets	19,504
Total assets	30,058,036
DEFERRED OUTFLOWS OF RESOURCES	
Pension plans (Note 11)	2,311,049
Other postemployment benefits (Note 12)	85,000
Total deferred outflows of resources	2,396,049

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019
(Continued)

	Primary Government
	Business-type Activities
LIABILITIES	
Current liabilities:	
Accounts payable	$ 218,989
Due to other agencies	193,038
Accrued salaries	191,187
Current portion of compensated absences (Note 9)	106,237
Payable from restricted assets:	
Tenant security deposits	207,573
Current portion of long-term debt (Note 6)	10,303
Other current liabilities	800
Unearned revenue (Note 7)	1,617,767
Total current liabilities	2,545,894
Noncurrent liabilities:	
Long-term debt (Note 6)	1,732,688
Compensated absences (Note 9)	414,369
Payable from restricted assets:	
Family Self Sufficient escrow	185,373
Interest on long-term debt (Note 6)	893,334
Net pension liability (Note 11)	7,318,582
Net other postemployment liability (Note 12)	935,258
Total noncurrent liabilities	11,479,604
Total liabilities	14,025,498
DEFERRED INFLOWS OF RESOURCES	
Pension plan (Note 11)	689,700
Other postemployment benefits (Note 12)	14,065
Total deferred inflows of resources	703,765
NET POSITION	
Net position (Note 10):	
Net investment in capital assets	10,796,649
Restricted	2,668,908
Unrestricted	4,259,265
Total net position	$ 17,724,822

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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Primary Government Business-type Activities
Operating revenue:	
Rents and other tenant revenue	$ 2,595,052
Other	320,762
Total operating revenue	2,915,814
Operating expenses:	
Administrative	6,618,350
Tenant services	1,037,660
Utilities	624,447
Maintenance	1,320,969
General	395,609
Housing assistance payments	69,672,206
Depreciation (Note 5)	709,666
Total operating expenses	80,378,907
Operating loss	(77,463,093)
Nonoperating revenue (expenses):	
Grants	77,745,971
Interest - unrestricted	66,105
Interest - restricted	5,476
Extra ordinary maintenance	(51,295)
Debt service - interest (Note 6)	(46,903)
Change in net position	256,261
Net position-beginning of the year	17,468,561
Net position - end of year	$ 17,724,822

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, 2019

	Primary Government Business-type Activities
Cash flows from operating activities:	
Tenant receipts	$ 2,595,197
Other receipts	273,909
Migrant rent collected in excess of disbursements to HCD	17,363
Payroll and benefit expenditures	(5,631,424)
Administrative expenditures	(986,585)
Tenant services expenditures	(849,985)
Utilities expenditures	(624,447)
Maintenance expenditures	(1,135,774)
General expenditures	(333,232)
Housing assistance payments	(69,734,991)
Net cash used by operating activities	(76,409,969)
Cash flows from noncapital financing activities:	
Operating grants received	79,153,639
Extra-ordinary maintenance expenditures	(51,295)
Net cash provided by noncapital financing activities	79,102,344
Cash flows from capital financing activities:	
Acquisition of capital assets	(542,380)
Principal paid on debt	(172,526)
Interest paid on debt	(13,584)
Net cash used by capital financing activities	(728,490)
Cash flows from investing activities:	
Interest receipts	62,866
Interest on restricted cash	5,382
Net cash provided by investing activities	68,248
Net increase (decrease) to cash	2,032,133
Cash at beginning of year	13,964,473
Cash at end of year	$ 15,996,606
Cash and investments	$ 12,939,861
Restricted cash	3,056,745
Total	$ 15,996,606

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)

	Primary Government
	Business-type Activities
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (77,463,093)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	709,666
Migrant rent collected in excess of payments made to HCD	17,363
(Increase) Decrease in:	
Tenants accounts receivable	6,068
Prepaid expenses	(63,191)
Deferred outflows of resources	669,891
Increase (Decrease) in:	
Accounts payable	(189,570)
Due to other agencies	6,767
Accrued salaries	37,067
Compensated absences	63,352
Unearned revenues	(3,670)
Tenant security deposits	(1,503)
FSS escrows	36,055
Net pension and OPEB liability	(158,584)
Deferred inflows of resources	(76,587)
Net cash used by operating activities	$ (76,409,969)

Noncash Transactions:

- Interest expense of $35,855 was accrued on the loan payable by Merrill Road Associates to the State of California Housing and Community Development. Payments on this loan depend on the generation of surplus cash by the project. No payments were made on this loan during the current fiscal year.

The accompanying notes are an integral part of this statement.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Housing Authority of the County of Santa Cruz (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's more significant accounting policies:

A. Organization

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 used in determining the scope of the financial reporting entity is based on provisions of Governmental Accounting Standards No. 61, *The Financial Reporting Entity*. The financial statements of the Authority include the financial activity of the Authority, including a fiduciary fund and any component units. The decision to include a potential component unit in the reporting entity was made based on the significance of their operations or financial nature and significance of their relationship with the Authority, including consideration of organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the aforementioned criteria, the Authority has a blended component unit. The blended component unit, although a legally separate entity, is, in substance, part of the Authority's operations. The component unit is a follows:

Blended Component Unit:

Merrill Road Associates, A California Limited Partnership

Merrill Road Associates (the Partnership) was formed as a limited partnership on September 19, 1995, for the purpose of developing and operating a 15-unit affordable housing complex located in the unincorporated area in Santa Cruz County known as Aptos, California. The project qualified for federal low-income tax credits under Section 42 of the Internal Revenue Code. Such projects are regulated under terms of a regulatory agreement including rent charges, operating methods and other matters.

The managing general partner of the Partnership is Merrill Road Housing Corporation. The officers and directors of Merrill Road Housing Corporation are the same as the members of

Note 1 (continued)

the Authority's Board of Commissioners. The Authority has guaranteed the General Partner's obligation under the Operating Deficit Guarantee Agreement. The maximum obligation is limited to $65,765. The Authority was the developer of the project, earning a developer fee of $248,293 in 1998. As of September 30, 2011, Edison Housing Investment withdrew as the Limited Partner. Upon their withdrawal, the Authority was admitted as the new, and sole, Limited Partner. The Partnership has hired and executed a management agreement with the Authority to manage the property. The Authority loaned the Partnership funds and land to develop the project. The permanent loan totaled $451,509, bears no interest and requires annual payments only to the extent that the project generates surplus cash. The loan comes due in 2035. The principal balance on the land loan is $252,763. This loan bears 3% simple interest and requires annual payments only to the extent that the project generates surplus cash. The land loan is due in 2022.

Since the governing body of Merrill Road Associates is essentially the same as that of the Authority and since a financial benefit or burden relationship exists between Merrill Road Associates and the Authority, Merrill Road Associates has been included in the Authority's financial statements as a blended component unit. See also Note 15.

Complete audited financial statements are issued separately for this component unit and may be obtained from the Housing Authority of the County of Santa Cruz, 41st Avenue, Capitola, CA 95010.

C. <u>Basis of Presentation</u>

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. This report does not include any fiduciary funds.

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 position, 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 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 Authority considers all of its activity to be housing related and therefore, considers all the financial activity of the Authority to be one major fund, titled *Housing*. As such, the Authority has no non-major funds.

(Continued)

Note 1 (continued)

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. The Authority's funds are operated as enterprise funds.

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 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 all GASB pronouncements.

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 employee salaries and benefits, housing assistance payments, utilities, and the costs to maintain the owned units. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

For the Housing Choice and Mainstream Voucher Programs, 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, Merrill Road Associates, 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 and Mainstream Voucher Programs, prior approval is requested from the appropriate governmental entity. No approval is required to expend the restricted funds of the Housing Choice and Mainstream Voucher Programs, which can only be used for housing assistance payments.

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, with the unrealized gain or loss reported as interest revenue.

The Authority pools cash and investments. Each program's share in this pool is displayed in the accompanying Financial Data Schedule as *cash and investments*. Interest income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

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 position. 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 41st 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflows consist of items associated with, and referred to, in the actuarial reports of the defined benefit pension plan and the other postemployment benefit (OPEB) plan; as well as payments made on behalf of employees to the defined benefit pension and OPEB plans after the measurement date of the actuarial reports. See Notes 11 and 12.

Note 1 (continued)

In addition to liabilities, the Statement of Net Position will include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows consist of items associated with, and referred to, in the actuarial reports of the defined benefit pension and OPEB plans. See Notes 11 and 12.

H. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position consists of net investment in capital assets, restricted net position, and unrestricted net position. Net investment in capital assets 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; excluding interfund borrowing and including accrued interest. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

I. Interfund Transactions

Statement of Net Position:

Short-term amounts owed between funds are classified as "Due from/to other funds". As of June 30, 2019, the amounts owed between the various proprietary funds totaled $731,393.

Long-term notes in the amount of $704,272 and interest on these notes of $131,836 are due from the Authority's blended component unit, Merrill Road Associates, to the Authority's Business Enterprise Fund. See also Notes 4 and 6.

These interfund assets and liabilities have been eliminated from the Statement of Net Position - Proprietary Funds. For further detail, please refer to the Financial Data Schedule included as supplementary information to this report.

Statement of Revenue, Expenses, and Changes in Fund Net Position:

The Authority accumulates various administrative overhead costs in a separate fund. These costs are allocated to all programs on a monthly basis, based on direct salaries. The total amount accumulated in this fund and allocated to all programs during the current fiscal year was $1,992,225.

The Authority accumulates the costs of renting and maintaining the administrative office buildings and the IT equipment in separate funds, by property. For portions of this fiscal

(Continued)

Note 1 (continued)

year, the Authority's staff occupied three administrative buildings. In July 2018, the Authority moved its operations from their Mission Street office in Santa Cruz, to two properties, one owned and one leased, on 41st Avenue in Capitola. Rent for the owned building has been calculated using rental costs of comparable properties, including the amount of rent paid on the leased building. These administrative office building costs are allocated to all programs, based on direct salaries. The total amount accumulated in these funds and allocated to all programs during the current fiscal year was $488,652.

The Migrant Enterprise Funds and Merrill Road Associates paid administrative fees to the Business Activities Enterprise Fund in the amount of $35,527 and $10,530, respectively, for the fiscal year ended June 30, 2019. In addition, the Authority is entitled to partnership management fees in the amount of $12,000 from Merrill Road Associates. This amount was accrued and reported as revenue of the Business Activities Enterprise Fund.

The Authority owned Spruce Street unit is occupied by a participant of the Housing Choice Voucher Program (CFDA # 14.871). Housing assistance payments in the amount of $7,644 were made from the Housing Choice Voucher Program to the Business Activities Enterprise Fund.

The Authority made a land loan to Merrill Road Associates which earns interest at a rate of 3% per annum. Interest accrued on this loan in the amount of $7,583 during the current fiscal year.

Interfund operating transfers totaling $714,365 were made for a variety of purposes. The Public Housing Capital Fund Grant of $597,984 was transferred in its entirety to the Public Housing Program to fund operations, as allowed by the grant. The Housing Choice Voucher Programs transferred $48,506 to fund the deficit associated with their Family Self Sufficiency Program. An interfund transfer of $3,219 was made between programs contained within the Other State and Local Enterprise Fund to fund the deficit associated with the pass-thru of a Federal HOME grant. An intrafund transfer of $64,656 was made between funds contained within the Business Activities Enterprise Fund.

An equity transfer in the amount of $65,550 was made from the Business Enterprise Fund to the Merrill Road Associates Blended Component Unit to offset the transfer of the OPEB accounts (deferred outflows and inflows of resources and net OPEB liability). During the current fiscal year, management determined that the OPEB associated with the direct salaries of MRA would be more accurately held by the Business Enterprise Fund associated with the administration of this property and not by the property itself.

Total interfund revenue and expenses of $2,554,161 have been eliminated from the Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds. The transfers net to zero and are not reported on the Statement of Revenues, Expenses, and

(Continued)

Note 1 (continued)

Changes in Fund Net Position - Proprietary Funds. For further detail, please refer to the Financial Data Schedule included as supplementary information to this report.

J. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

K. Encumbrances

Encumbrance accounting is not employed by the Authority.

L. Income Taxes

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

M. 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 position of the Authority's U.S. Department of Agriculture (USDA) programs exceed certain levels, the payments on the notes payable to the U.S. Department of Agriculture must be increased.

N. Pension Plan

The Authority participates in a cost-sharing multi-employer defined benefit retirement plan that is administered by CalPERS. Contributions to CalPERS are made on a current basis as required by the plan and are charged to expenditures. The Authority used actuarial reports supplied by CalPERS for the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources and expenses related to the plan. The valuation date of the latest actuarial report was June 30, 2018.

Note 1 (continued)

O. Postemployment Benefits Other than Pension (OPEB)

The Authority provides a defined benefit health care program to its retired employees and their dependents. The Authority has established a trust account to administer the funding of the OPEB plan. The OPEB trust fund is presented as a fiduciary fund of the Authority. The Authority used actuarial valuation reports supplied by OPEB consultants for the purpose of measuring the net OPEB liability, deferred outflows and inflows of resources, and expenses related to the plan in accordance with GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*. OPEB was measured on June 30, 2018, based on an actuarial valuation as of July 1, 2017.

P. New Accounting Pronouncements

Pronouncements Implemented During the Current Fiscal Year

No new pronouncements were implemented during the current fiscal year.

Pronouncements to be Implemented in Subsequent Years

In June 2017, the GASB issued Statement No. 87, *Leases*. The implementation of GASB Statement No. 87 is required for accounting periods beginning after December 15, 2019. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. The impact of this pronouncement is not know at this time. The implementation of this statement is expected to occur in the next fiscal year.

Note 2 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Cash and investments	$ 12,939,861
Restricted cash	3,056,745
Total cash and investments	$ 15,996,606

Cash and investments as of June 30, 2019 consist of the following:

Cash on hand	$ 350
Demand deposits	15,996,256
Total cash and investments	$ 15,996,606

Note 2 (continued)

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

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 an immaterial term deposit with Santa Cruz County Bank. The deposit has 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 this deposit to be an investment.

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

Note 2 (continued)

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" (Form HUD 51999) with Santa Cruz County Bank on October 30, 2013, and again on April 23, 2019. This agreement states that "any portion of the PHA funds not insured by a Federal insurance organization shall be fully (100%) and continuously 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 - FDIC	$ 250,000
Demand deposits with Santa Cruz County Bank, in excess of the amount insured, but covered by the depository agreement	13,892,881
Deposits with LAIF, at market	1,853,375
Total deposits	$ 15,996,256

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, 2019, an account was maintained in the name of the Housing Authority of the County of Santa Cruz for $1,850,208. The total cost value of investment in LAIF was $1,850,208. The

Note 2 (continued)

total fair value of investments in LAIF was $1,853,375. The fair value total includes an unrealized gain of $3,167. The loss was based on a fair value adjustment factor of 1.001711790 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, 2019, the fair value of the State of California Pooled Money Investment Account (PMIA), including accrued interest, was $106,046,486,872. The PMIA portfolio had securities in the form of structured notes totaling $900 million and asset-backed securities totaling $977.182 million. 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.

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 position:	
USDA project replacement	$ 1,681,623
Merrill Road Associates project replacement	323,011
Housing Choice Voucher excess HAP funds	309,902
Mainstream Voucher excess HAP funds	163,354
Buena Vista Migrant operating reserves	88,085
Brommer Street replacement	86,708
Mortgage Credit Certificate program deposit	11,116
Offset by payable from restricted assets:	
Tenant security deposits	207,573
FSS program participants' escrow funds	185,373
Total restricted cash	$ 3,056,745

The amounts held for the replacement of the USDA, Brommer Street and Merrill Road Associates projects cannot be disbursed without the prior written approval of either the USDA, Rural

Note 3 (continued)

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 position.

With the exception of the cash held for tenant security deposits, the above balances are maintained in a separate savings account for each fund. These savings accounts earn interest ranging from 0.05% to 0.35% 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 is co-mingled with the Authority's other cash.

Note 4 - NOTES RECEIVABLE

The following is a summary of the Authority's changes in notes receivable for the fiscal year ended June 30, 2019:

	Balance 7/1/2018	Loans Made	Payments Received	Balance 6/30/2019	S/T Portion
MRA Land Loan	$ 252,763	$ -	$ -	$ 252,763	$ -
MRA Permanent Loan	451,509	-	-	451,509	-
Arroyo Verde	19,504	-	-	19,504	-
Totals	$ 723,776	$ -	$ -	$ 723,776	$ -

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 generation of surplus cash from operations by the project for each calendar year. As of June 30, 2019, interest in the amount of $131,836 has been accrued on the land loan. Of this amount, $7,583 was recorded as revenue in the current period. Surplus cash, generated over the past four years, in the amount of $46,317 was received from MRA, as a payment on the loan in the current period. As explained in Note 15, the Authority considers MRA to be a blended component unit of the Authority. Therefore, these loans and the interest on these loans are eliminated from the Statement of Net Position - Proprietary Funds, the interest has been eliminated from the Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds, and the payment of interest has been eliminated from the Statement of Cash Flows - Proprietary Funds.

Loans have been made by the Authority to moderate and lower income, first-time homebuyers, qualified to purchase homes in the Arroyo Verde housing development. 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.

(Continued)

Note 5 - CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2019 is as follows:

	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019
Capital assets, not being depreciated:				
Land	$ 8,130,532	$ -	$ -	$ 8,130,532
Construction-in-progress	-	-	-	-
Total capital assets, not being depreciated	8,130,532	-	-	8,130,532
Capital assets depreciated:				
Buildings	35,785,685	520,941	-	36,306,626
Equipment	955,000	21,439	(710,813)	265,626
Total capital assets being depreciated	36,740,685	542,380	(710,813)	36,572,252
Total capital assets	44,871,217	542,380	(710,813)	44,702,784
Accumulated depreciation:				
Buildings	(30,395,731)	(692,084)	-	(31,087,815)
Equipment	(875,226)	(17,582)	710,813	(181,995)
Total accumulated depreciation	(31,270,957)	(709,666)	710,813	(31,269,810)
Total capital assets depn, net	5,469,728	(167,286)	-	5,302,442
Total capital assets, net	$ 13,600,260	$ (167,286)	$ -	$ 13,432,974

The changes by project are as follows:

	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019
Capital assets:				
Public Housing	$ 24,992,759	$ 268,533	$ (118,909)	$ 25,142,383
USDA	5,870,233	52,924	-	5,923,157
Supportive Housing	803,554	-	-	803,554
Business	9,385,832	220,923	(591,904)	9,014,851
Blended Component Unit:				
Merrill Road Associates	3,818,839	-	-	3,818,839
	$ 44,871,217	$ 542,380	$ (710,813)	$ 44,702,784
Depreciation:				
Public Housing	$ (19,275,878)	$ (337,021)	$ 118,909	(19,493,990)
USDA	(5,511,309)	(57,792)	-	(5,569,101)
Supportive Housing	(434,711)	(12,723)	-	(447,434)
Business	(4,541,983)	(228,900)	591,904	(4,151,979)
Blended Component Unit:				
Merrill Road Associates	(1,534,076)	(73,230)	-	(1,607,306)
	$ (31,270,957)	$ (709,666)	$ 710,813	$ (31,269,810)

(Continued)

Note 6 - LONG-TERM DEBT

Following is a summary of the Authority's changes in long-term debt for the year ended June 30, 2019:

	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019	Short-term Portion	Interest Payable
Office building mortgage	$ 162,330	$ -	$ (162,330)	$ -	$ -	$ -
U.S. Department of Agriculture	48,020	-	(10,196)	37,824	10,303	-
State of California HCD loans	210,000	-	-	210,000	-	79,598
Blended Component Units:						
State of California, RHCP	1,195,167	-	-	1,195,167	-	813,736
Santa Cruz County RDA	300,000	-	-	300,000	-	-
	1,915,517	-	(172,526)	1,742,991	10,303	893,334
Blended Component Units:						
Authority permanent loan	451,509	-	-	451,509	-	-
Authority land loan	252,763	-	-	252,763	-	131,836
Interfund borrowing	704,272	-	-	704,272	-	131,836
	$ 2,619,789	$ -	$ (172,526)	$ 2,447,263	$ 10,303	$ 1,025,170

Following is a schedule of debt payment requirements to maturity for the above long-term debt, other than the interfund debt and the loan due to the Santa Cruz County RDA:

Year Ending	USDA Notes		HCD Loans		
June 30	Principal	Interest	Principal	Interest	Total
2020	$ 10,258	$ 383	$ -	$ -	$ 10,641
2021	10,361	280	-	-	10,641
2022	9,501	177	-	-	9,678
2023	7,704	100	-	-	7,804
2037	-	-	1,195,167	1,434,200	2,629,367
2057	-	-	210,000	346,500	556,500
	$ 37,824	$ 940	$ 1,405,167	$ 1,780,700	$ 3,224,631

The U.S. Department of Agriculture notes accrue interest at 1% per annum and require monthly payments of $886. Interest expenses in the amount of $438 was incurred, paid, and shown as nonoperating expense for the fiscal year ended June 30, 2019.

On March 29, 2004, the Authority borrowed $2,000,000 to purchase an administrative building located on Mission Street in Santa Cruz. The note was amortized over fifteen years, required monthly payments of $16,658 and accrued interest at a rate of 5.75% per annum. This note was paid off in May 2019. Interest of $4,310 was incurred, paid, and included as nonoperating expenses for the year ended June 30, 2019.

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 principal and interest on this note is deferred until November 30, 2056; or until the project generates surplus cash, to the extent of 80% of surplus

(Continued)

Note 6 (continued)

cash generated, paid first to outstanding interest, than to principal. Interest totaling $79,598 has been accrued and reported as a long-term liability as of June 30, 2019. Of this amount, $6,300 was incurred and expensed during the current fiscal year. Interest in the amount of $8,836 was paid on this loan during the current fiscal year.

Blended Component Unit - Merrill Road Associates:
On September 15, 1995, Merrill Road Associates, a California Limited Partnership (the Partnership), entered into a promissory note with the State of California, Department of Housing and Community Development, Rental Housing Construction Program (RHCP). The note, for $1,195,167, is secured by a deed of trust on the property owned by the Partnership, bears simple interest at a rate of 3% per annum, and is due 40 years from the anniversary of the Initial Assisted Unit Date. This maturity date was calculated to be September 1, 2036. Payments are due annually on this loan only to the extent of surplus cash earned by the project. For the year ended June 30, 2019, interest of $35,855 was accrued and no payments were made on this loan. Management does not consider any portion of this loan, nor the interest accrued on this loan, to be short-term.

In September 1996, the Partnership received a $300,000 loan from the Santa Cruz County Redevelopment Agency (RDA). This loan is unsecured, bears simple interest at a rate of 8% per annum, and was intended to be forgiven if the Authority exercised the option to purchase the property after 20 years and maintained the units according to the RHCP loan provisions for an additional 20 years. The option to purchase was exercised in 2011. No forgiveness has occurred on this loan. However, since it is assumed that the loan will be forgiven at some future date, no interest has accrued on this loan.

During the development of the Partnership's property the Authority transferred land to the Partnership with a value, net of the general partner contribution, of $252,763 and provided gap funding in the amount of $451,509. The land loan bears simple interest at a rate of 3% per annum and the permanent loan bears no interest. The land loan is due September 15, 2022, while the permanent loan is due September 15, 2035. Payments of principal and interest are due on these loans annually, but only to the extent of surplus cash generated by the project. For the year ended June 30, 2019 interest of $7,583 was accrued for the land loan. A payment in the amount of $46,317 was made on the loan, reducing interest payable. This amount represented the surplus cash generated by MRA in the four years prior to the current fiscal year. As explained in Note 15, the Authority considers the Partnership to be a blended component unit of the Authority. Therefore, these loans and the interest on these loans are eliminated from the Statement of Net Position - Proprietary Funds, the interest expense has been eliminated from the Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds, and the interest payment has been eliminated from the Statement of Cash Flows - Proprietary Funds.

(Continued)

Note 7 - UNEARNED REVENUE

Unearned revenue consists of:

Prepaid rent - Public Housing	$ 9,985	
USDA	2,410	
Migrant Center	468	
Merrill Road Associates	7	
Brommer Street	1	$ 12,871
Funds held for the County of Santa Cruz		1,500,000
Funds held for the City of Capitola		104,896
		$ 1,617,767

Note 8 - 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 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 Mass Mutual Financial Group and the California Public Employees' Retirement System. A total of $3,303,917 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 9 - 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, including Merrill Road Associates; and recorded as "Compensated Absences". As of June 30, 2019, accrued vacation and vested sick leave were valued at $520,606. Of this amount, $414,369 considered by management to be a long-term liability.

(Continued)

Note 10 - NET POSITION

A. Net Investment in Capital Assets

Net investment in capital assets consist of the following:

Capital assets, net of depreciation (see Note 5)	$ 13,432,974
Long-term debt (see Note 6) - omitting interfund	(1,742,991)
Accrued interest on long-term debt (See Note 6)	(893,334)
Net investment in capital assets	$ 10,796,649

B. Restricted Net Position

Net position is reported as restricted when constraints placed on its 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.

The Authority has reported the following as restricted net position:

USDA replacement reserve	$ 1,680,506
Excess Housing Choice Voucher HAP funding	309,902
Excess Mainstream Voucher HAP funding	163,354
Brommer Street replacement reserve	86,708
Buena Vista Migrant operating reserves	94,427
Funds held on deposit for MCC guarantees	11,000
Blended Component Unit:	
Merrill Road Associates replacement reserves	230,891
Merrill Road Associates operating reserves	92,120
	$ 2,668,908

The current excess HAP funding balance for the voucher programs are made up of the following:

	Housing Choice	Mainstream
Balance as of June 30, 2018	$ 115,775	$ -
Excess funding acquired	126,728	163,354
FSS forfeitures and fraud recovery	67,399	-
Balance as of June 30, 2019	$ 309,902	$ 163,354

Except for the Buena Vista operating reserves, 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

Note 10 (continued)

and can not be used without the prior written approval of HCD. These reserves are not fully funded due to receivables from HCD. The final amount is a performance deposit for the Authority's Mortgage Credit Certificate program.

C. Deficit Net Position

Although the Authority does consider all of its activities to be housing and reports all activity under one Enterprise Fund in the basic financial statements, the Authority does administer many federal, state, and local grants. The Authority's Business Enterprise Fund administers the Authority's activity that is not attributable to any grants. This fund administers the Authority's commercial rental property, including the current administrative office on 41st Avenue and its former administrative office on Mission Street. This fund also administers the Authority's pension and OPEB plans. These plans have deficit unrestricted net position of $5,697,233 and $864,323, respectively. Management does not expect these plans to report positive unrestricted net position in the near future. The pension and OPEB plans are funded as required on a current basis. As the plans are funded, expense is allocated to all of the Authority's federal, state, and local programs based on the direct salaries attributable to each program. Annual actuarial reports are received to determine the change in liability and the affect the change may have on the unrestricted net position. The Business Enterprise Fund holds these actuarially determine balances. NPL/NOL is allocated to all programs for FDS purposes only, based on direct salaries. This allocation, done for the fiscal year ended June 30, 2019, caused the Housing Choice Voucher Program net position to be in deficit by $4,213,305. This is the Authority's largest program and carries the most responsibility for the pension and OPEB plans. In addition, although the USDA net position has a positive balance in total, the unrestricted net position has a deficit balance of $147,175, due to reporting its share of the pension and OPEB plans.

See also Note 15 for the description of the deficit net position balance of the blended component unit, Merrill Road Associates.

Note 11 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

All eligible Authority employees participate in the California Public Employees Retirement System (PERS), a cost-sharing multi-employer public employee defined benefit pension plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the Annual Actuarial Valuation Reports as of June 30, 2018. Details of the benefits provided can be obtained in Section 2 of this report. This report is a publicly available report that can be obtained at CalPERS' website under Forms and Publications.

(Continued)

Note 11 (continued)

The Authority's plan is made up of 4 tiers. Tier 1, 3% at 60 covers all employees hired before March 5, 2006. Tier 2, 2% at 55 covers all employees hired between March 5, 2006 and July 29, 2012. Tier 3, 2% at 60 covers all employees hired between July 29, 2012 and January 1, 2013. Tier 4, 2% at 62 covers all employees hired after January 1, 2013. The fourth tier is the result of State legislation AB 340, the Public Employees' Pension Reform Act (PEPRA). The number of employees across all four tiers as of the June 30, 2018 valuation date was 58 active, 11 transferred, 32 separated, and 35 retired.

B. Funding Policy

The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of the employees. Employer contribution rates may change if plan contracts are amended. The contribution requirements of plan members and the Authority are established and may be amended by PERS.

Participants in the Authority's first tier are required to contribute 8% of their annual covered salary, participants in the second and third tier contribute 7%, while participants of the fourth tier contribute 6.25%. Employer rates are as follows:

	1st Tier	2nd Tier	3rd Tier	4th Tier
Employer rates:				
2018/2019	14.369%	10.152%	7.634%	6.842%
2019/2020	15.206%	10.868%	8.081%	6.985%
2020/2021	16.337%	11.746%	8.794%	7.732%
2021/2022 (projected)	16.3%	11.7%	8.8%	7.7%

In addition, CalPERS requires employer contributions toward the Authority's unfunded liability and side fund as a dollar amount paid either in 12 monthly payments or as a lump sum at the beginning of the year. The Authority has historically chosen to pay the lump sum at the beginning of each fiscal year. The dollar amounts of these contributions are projected by CalPERS to be as follows:

	1st Tier	2nd Tier	3rd Tier	4th Tier
2018/2019	367,888	12,646	3,389	1,090
2019/2020	451,895	29,253	3,616	6,140
2020/2021	541,591	32,579	7,218	12,891
2021/2022 (projected)	627,000	35,000	7,400	13,000

(Continued)

Note 11 (continued)

The amounts contributed to the pension plan agreed the amounts required for the fiscal year ended June 30, 2019, as follows:

	Employer Contribution	Employee Contribution	Total
Tier 1	$ 658,664	$ 161,891	$ 820,555
Tier 2	95,566	57,174	152,740
Tier 3	18,181	13,564	31,745
Tier 4	50,361	45,008	95,369
Total required contributions made	822,772	277,637	1,100,409
Miscellaneous employee contributions	-	1,362	1,362
Total payments made to PERS	$ 822,772	$ 278,999	$ 1,101,771

C. Actuarial Methods and Assumptions

The collective total pension liability for the June 30, 2018 measurement period was determined by an actuarial valuation as of June 30, 2017, with updated procedures used to roll forward the total pension liability to June 30, 2018. The collective total pension liability was based on the following assumptions:

Actuarial assumptions	
Investment rate of return	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Mortality rate tables	Derived using CalPERS membership data for all funds
Post retirement benefits	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.5% thereafter

Actuarial assumptions were based upon the experience study for the period 1997-2015

Discount Rate - The discount rate used to measure the total pension liability as of June 30, 2018 was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return - The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class.

Note 11 (continued)

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historic returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class:	Assumed Asset Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	-	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	(0.92)%

Changes - There were no changes in benefit terms. In 2018, demographic assumptions and inflation rate were changed in accordance with CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In December 2017, the CalPERS Board adopted new mortality assumptions. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.5%. The assumptions for individual salary increases and overall payroll growth are reduced from 3% to 2.75%. There were no changes in the discount rate.

(Continued)

Note 11 (continued)

D. Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period for the Miscellaneous Risk Pool:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2017	$ 16,016,547,402	$ 12,074,499,781	$ 3,942,047,621
Service Cost	407,076,006	-	407,076,006
Interest on total pension liability	1,137,707,944	-	1,137,707,944
Changes in benefit terms	668,327	-	668,327
Changes of assumptions	(142,903,842)	-	(142,903,842)
Difference between expected and actual experience	196,241,321	-	196,241,321
Net plan to plan resource movement	-	117,542,123	(117,542,123)
Contribution - Employer	-	499,847,617	(499,847,617)
Contribution - Employee	-	176,831,116	(176,831,116)
Net investment income	-	1,031,712,614	(1,031,712,614)
Benefit payments, including refunds	(724,183,949)	(724,183,949)	-
Administrative expenses	-	(18,561,192)	18,561,192
Other miscellaneous expenses	-	(35,248,018)	35,248,018
Net changes during June 30, 2018	874,605,807	1,047,940,311	(173,334,504)
Balance as of June 30, 2018	$ 16,891,153,209	$ 13,122,440,092	$ 3,768,713,117

Participating employers' allocations for the component net position liability were calculated by KPMG LLC and a report issued February 12, 2020. Based on this report, the Authority's proportionate share of the risk pool's total pension liability, fiduciary net position, and net pension liability was as follows:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2018	$ 33,554,276	$ 26,235,694	$ 7,318,582
Percentage of the pool	0.198650%	0.199930%	0.194193%

The Authority's proportion of net pension liability increased by 0.004489% over last year.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the plan as of June 30, 2018 calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or higher than the current rate:

	1% decrease 6.15%	Current Discount rate 7.15%	1% increase 8.15%
Risk pool's net pension liability	$ 6,053,599,297	$ 3,768,713,117	$ 1,882,577,074
Authority's proportionate share	$ 11,857,508	$ 7,318,582	$ 3,571,773

(Continued)

Note 11 (continued)

E. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

The Authority has recorded pension expense, deferred outflows of resources and deferred inflows of resources based on the GASB 68 Accounting Report and the Schedules of Employer Allocations for Components of Net Pension Liability and Schedule of Collective Pension Amounts prepared by CalPERS. The measurement date of these reports and schedules was June 30, 2018. For the year ended June 30, 2019, the Authority recognized pension expense of $1,258,778. As of June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Authority's pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Miscellaneous risk pool:		
Changes in assumptions	$ 429,644,509	$ 105,297,568
Difference between expected and actual experiences	144,598,868	49,206,108
Net difference between projected and actual earnings on investments	18,631,550	-
	592,874,927	154,503,676
Authority's allocation basis	0.194193%	0.194193%
Authority's proportionate share	1,151,321	300,036
Authority specific adjustments:		
Changes in employer's proportions	310,022	13,414
Net difference between prorated employer contributions and actual employer contributions	26,934	376,250
Authority contributions made between June 30, 2018 and June 30, 2019	822,772	-
	$ 2,311,049	$ 689,700

Amounts reported as deferred outflows and deferred inflows of resources, other than the contributions made after the measurement date, will be recognized in future pension expense as follows:

Measurement period:	Deferred outflow (Inflow) of resources
2020	$ 704,700
2021	390,772
2022	(231,067)
2023	(65,828)

The amounts reported as deferred outflows of resources related to pensions, contributions made after the measurement date of June 30, 2018, should have the effect of reducing net pension liability during the next actuarial measurement period.

See also the Required Supplementary Information section of this report. This section includes schedules that present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(Continued)

Note 12 - POST RETIREMENT HEALTHCARE BENEFITS

Plan Description: The Authority provides post-retirement pre-Medicare healthcare benefits for retirees. These benefits are provided for those retirees, as well as their surviving spouses, 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 will contribute the minimum employer contribution required by CalPERS. Coverage may be continued for the retiree's and surviving spouse's lifetime. No dental, vision, or other post-retirement benefits are provided to retired employees or surviving spouses. The plan may be amended by action of the Authority. The plan does not issue a stand alone financial report.

Benefits: The Authority has contracted with CalPERS to provide medical benefits to qualified retirees and their surviving spouses. The Authority makes actual payments of $133 per month in 2018 and $136 per month in 2019, per eligible retiree, to the healthcare benefit provider. The plan minimum payments are expected to increase on an annual basis. Eligible retirees pay the remaining monthly balance due for insurance. Active employees make no payments toward OPEB until retirement.

Eligibility: Eligibility for retiree medical benefits are extended to those retirees, as well as their surviving spouses, 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. Further eligibility requires the employee to retire after age 50 and with at least 5 years of service. As of June 30, 2019, thirteen employees were eligible and receiving these benefits. The Authority had another 59 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, 2019.

Contributions: The Authority has established a trust account with CalPERS to administer the funding of the projected benefits of the OPEB plan. Monthly, the Authority makes healthcare premium payments for its current retirees to its CalPERS medical benefit provider. These monthly payments are limited to the monthly amounts noted in the section above titled "Benefits". The retiree contributes any amount exceeding these established plan limits. The Authority then makes deposits into their CalPERS trust account for the difference between the actuarially determined annual OPEB cost and the out-of-pocket payments made to CalPERS health.

The contributions are as follows:

	6/30/2019	6/30/2018
Contributions made to CalPERS trust	$ 64,018	$ 60,183
Payments made to CalPERS for retiree premiums	20,982	20,358
	$ 85,000	$ 80,541

(Continued)

Note 12 (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB:

The Actuarial Present Value of Projected Benefit Payments (APVPBP) for all current and former employees, as of July 1, 2017, is $1,677,699. This is the amount that the Authority would theoretically have to set aside to fully fund all those future benefits. The Total OPEB Liability (TOL) is the portion of the APVPBP which has been earned by the current and former employees, to date, based on the years of service already completed. TOL for the Authority as of June 30, 2018, is valued at $1,471,924. As of June 30, 2018, the Authority has accumulated $536,666 in an irrevocable trust toward this liability. The change to these amounts for the fiscal year ended June 30, 2018 is as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Values as of June 30, 2017	$ 1,376,023	$ 441,631	$ 934,392
Service Costs	46,644	-	46,644
Interest	88,177	-	88,177
Employer contributions	-	99,103	(99,103)
Net investment income	-	35,088	(35,088)
Benefits paid to retirees	(38,920)	(38,920)	-
Administrative expenses	-	(236)	236
Values as of June 30, 2018	$ 1,471,924	$ 536,666	$ 935,258

The following presents the net OPEB liability of the plan as of June 30, 2018 calculated using the discount rate of 6.5%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or higher than the current rate:

	1% decrease 5.5%	Current Discount rate 6.5%	1% increase 7.5%
Net OPEB Liability	$ 1,189,052	$ 935,258	$ 733,519

The following presents the net OPEB liability of the plan as of June 30, 2018 calculated using the healthcare cost trend rate of 5%, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

	1% decrease 4.0%	Healthcare Trend rate 5.0%	1% increase 6.0%
Net OPEB Liability	$ 720,250	$ 935,258	$ 1,209,085

(Continued)

Note 12 (continued)

The components of the annual OPEB expense are as follows:

Service Costs	$	46,644
Interest		88,177
Expected investment return		(28,698)
Administrative expenses		236
Recognition of differences between projected and actual earnings on investments		(4,263)
Total OPEB expense June 30, 2019	$	102,096

The difference between the OPEB expense and the actual contributions made are subsidized premiums. Recent changes to the accounting rules require that actuarial valuations dated after March 2015 must incorporate "age-specific claim costs", which recognize that the true cost of health care increases with age. The amount of subsidized premiums allocated to the fiscal year ended June 30, 2018 was $19,000. The APVPBP of $1,677,699 consists of $973,803 value of promised benefits to retires employees and $703,896 value of future subsidized premiums.

As of June 30, 2019, based on the valuation date of June 30, 2017, rolled forward to June 30, 2018, the Authority reported deferred outflows and deferred inflows of resources as follows:

	Deferred Outflows	Deferred Inflows
Differences between projected and actual earnings on OPEB plan investments	$ -	$ 14,065
Employer contributions made July 2018 thru June 2019	85,000	-
	$ 85,000	$ 14,065

The deferred outflow and deferred inflows of resources, other than the employer contributions noted above, will be recognized in future pension expense as follows:

Measurement period:		
2020	$	(4,263)
2021		(4,263)
2022		(4,261)
2023		(1,278)

The amount reported as deferred outflows of resources related to employer contributions made July 2018 through June 2019, should have the effect of reducing net pension liability during the next actuarial measurement period. This amount does not include the estimated implicit subsidy of $18,000.

Note 12 (continued)

Actuarial Assumptions: The following are the assumptions as of the measurement date of June 30, 2017, rolled forward to June 30, 2018:

Inflation	2.75%
Salary increases	3.25%, including inflation
Investment rate of return	6.50% at both 6/30/2017 and 2018, net of OPEB plan investment expense
Medical costs trend	5% increase per year in 2019 and each year later
PEMHCA minimum benefits	4% increase per year in 2019 and each year later
Discount Rate	6.50%
Funding Method	Entry age actuarial cost method, with normal costs calculated as a level percentage of payroll, as required by GASB 75.
Turnover (withdrawal)	2014 CalPERS OPEB Assumptions Model
Mortality	2014 CalPERS OPEB Assumptions Model
Retirement	2014 CalPERS OPEB Assumptions Model
Coverage elections	75% of eligible employees are assumed to elect coverage upon retirement
Age-specific medical claims	The estimated per person medical costs during 2018-2019 are as follows: Age 40 - $ 4,786 Age 45 - $ 9,053 Age 50 - $11,184 Age 55 - $13,793 Age 60 - $16,076 Age 64 - $17,248 These age-specific rates were developed so as to reproduce in the aggregate the same total premium that would be paid to carriers for all current employees and all current retirees. These are the amounts used to compute the value of "subsidized premiums".

The long-term expected rate of return on OPEB plan investments was 6.5%, which was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. The asset class percentages are taken from the current composition of the CERBT trust, and the expected yields are taken from the recent (CalPERS publication for the Pension Fund (except for the estimated yield of 3.9% for commodities):

Asset Class:	% of Fund	Real Return Next 10 Years
Global equity	57.0%	5.25%
Fixed income	27.0%	0.99%
Treasury securities	5.0%	0.45%
Real estate trusts	8.0%	4.50%
Commodities	3.0%	3.90%

Using these figures, the weighted average real rate of return is estimated to be 3.73%. Adding estimated inflation of 2.75%, the estimated expected rate of return is obtained, rounded to 6.5%.

The discount rate has been set equal to the long-term expected rate of return on investment of 6.5%. A projection of cash flows, assuming that the Authority will continue to make annual contributions to the trust, showed that the invested assets would be sufficient to make all projected benefit payments to current and former employees.

(Continued)

Note 13 - LEASES

The Authority owns property, located on Mission Street in Santa Cruz, that until July 2018 was used as the administrative offices of the Authority. During this time, approximately 40% of the space was leased to a third party. This commercial lease commenced on September 15, 2014 and had a 10 year term. Due to the Authority's decision to relocate their administrative offices to their 41st Avenue property, the remainder of the building became vacant. The commercial lease with the existing tenant was revised February 4, 2019, to include the entire building. This revised lease has a term of ten years, commencing on August 1, 2019, with an option to extend for two additional five-year terms. Beginning August 1, 2019, the monthly lease payments are approximately $30,000 per month. Rent is scheduled to increase on this anniversary date, every two years. Rent for the current fiscal year of $176,093 was reported as revenue of the Business Enterprise Fund. The future rental revenue is expected to be approximately $330,000 for the fiscal year ended June 30, 2020; $360,000 for the fiscal year ended June 30, 2021; $390,000 for the fiscal years ended June 30, 2022 and 2023; and $420,000 for the fiscal year ended June 30, 2024.

Note 14 - 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 15 - RELATED PARTIES

Merrill Road Associates

Organization:

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 qualified for federal low income tax credits under section 42 of the Internal Revenue Code, for which the compliance period ended in 2011. The project continues to operate under restrictions and compliance requirements of the California Department of Housing and Community Development (HCD) through the Rental Housing Construction Program (RHCP).

(Continued)

Note 15 (continued)

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, prior to September 30, 2011, the Authority could exercise significant influence over MRA.

On September 30, 2011, Edison Capital Investments withdrew as the Limited Partner of MRA and the Authority was admitted as the new Limited Partner. Based on this action and considering all of the prior activity between the two organizations, the Authority considers MRA to be a blended component unit of the Authority.

An audit was conducted on this entity as of and for the year ended June 30, 2019 by Harn & Dolan, CPA's. The opinions were not modified. This audit report may be obtained by contacting the Authority at the address on page 11. Modifications were made to the audited financial statements to conform with the reporting categories of the Authority. Specifically, equity reported in the audit was converted to the three categories of net position in conformity with the Authority's reporting practices.

Condensed Financial Statements:

The condensed financial statements for the year ended June 30, 2019 are as follows:

STATEMENT OF NET POSITION

Current assets	$ 20,477
Restricted assets	337,095
Property and equipment	2,211,533
Total assets and deferred outflows	2,569,105
Current liabilities	17,134
Payable from restricted assets	14,084
Long-term liabilities	3,150,806
Total liabilities and deferred inflows	3,182,024
Net investment in capital assets	(97,370)
Restricted net position	323,011
Unrestricted net position	(838,560)
Net position	$ (612,919)

(Continued)

Note 15 (continued)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Rental revenue	$ 169,463
Interest and other revenue	3,190
Total revenue	172,653
Administration	48,569
Partnership management fee	12,000
Utilities	19,950
Maintenance and operating	68,577
Insurance and taxes	18,228
Supportive services	183
Depreciation	73,230
Total expenses	240,737
Operating gain (loss)	(68,084)
Debt service interest	(43,438)
Change in net position	(111,522)
Net position at the beginning of the year	(501,397)
Net position at the end of the year	$ (612,919)

STATEMENT OF CASH FLOWS

Operating activities	$ 33,757
Noncapital financing activities	(28,470)
Capital financing activities	(46,317)
Investing activities	545
Net change to cash	(40,485)
Cash at the beginning of the year	397,348
Cash at the end of the year	$ 356,863

Interfund Accounting Issues:

MRHC pays the Authority a management fee of $12,000 per year, to the extent of the Partnership's surplus cash. MRHC owes the Authority $12,000, payable from the Partnership's surplus cash as of June 30, 2019, which was not sufficient to cover these fees. Surplus cash generated in the current fiscal year was $3,354. MRA reimburses the Authority for various costs paid by the Authority on its behalf. As of June 30, 2019, MRA owes the Authority $0 for this activity. Also, as noted in Note 4 to the basic financial statements, MRA owes the Authority $836,108 in principal and interest, for two loans secured by deeds of trust on the project. Interest in the amount of $46,317 was paid to the Authority on these loans during the current fiscal year. This amount represents surplus cash generated by the property over the last four years.

(Continued)

Note 15 (continued)

Deficit Net Position:

This blended component unit has a deficit net position of $612,919, including deficits in unrestricted net position of $838,530 and net investment in capital assets of $97,370. This deficit in total net position is an increase over the prior year's deficit of $501,397.

Note 16 - 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 caries 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 statues in Oregon, Washington, California and Nevada for the purpose of operating and maintaining a cooperative program of risk management and loss indemnification. HARRP offers property, general liability, automobile, fidelity, and officers' liability insurance to participants. There were 90 member public housing authorities at December 31, 2018. 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 $72,000 for property, general liability, automobile, errors and omissions, and fidelity for the policy term of the year ended December 31, 2019. The loss limits for the various types of insurance were "stated value" for property with a $2,500 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 private insurance companies for umbrella insurance which brings all limits up to $5,000,000 with a $10,000 deductible and for cyber risk with limits of $1,000,000 and a $2,500 deductible. The Authority paid private insurance companies approximately $21,000 for these coverages.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2019

Schedule of Proportionate Share of Net Pension Liability for CalPERS Defined Benefit Retirement Plan

Measurement Date	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Funded Ratio	Covered Payroll	NPL/Payroll Ratio
PERF C Public Agency Cost Sharing Plan:						
6/30/14	$ 30,829,966,631	$ 24,607,502,515	$ 6,222,464,116	79.82%		
6/30/15	31,771,217,402	24,907,305,871	6,863,911,531	78.40%		
6/30/16	33,358,627,624	24,705,532,291	8,653,095,333	74.06%		
6/30/17	37,161,348,332	27,244,095,376	9,917,252,956	73.31%		
6/30/18	38,944,855,364	29,308,589,559	9,636,265,805	75.26%		
Miscellaneous Risk Pool in total:						
6/30/13	$ 12,374,543,647	$ 9,097,875,216	$ 3,276,668,431	73.5%		
6/30/14	13,110,948,452	10,639,461,174	2,471,487,278	81.1%		
6/30/15	13,639,503,084	10,896,036,068	2,743,467,016	79.9%		
6/30/16	14,397,353,530	10,923,476,287	3,473,877,243	75.9%		
6/30/17	16,016,547,402	12,074,499,781	3,942,047,621	75.4%		
6/30/18	16,891,153,209	13,122,440,092	3,768,713,117	77.7%		
Authority's Proportionate Share of the Miscellaneous Risk Pool ($):						
6/30/13	$ 24,885,431	$ 16,887,565	$ 7,997,866	67.9%	$ 3,495,580	228.8%
6/30/14	26,368,790	19,694,701	6,674,089	74.7%	3,430,738	194.5%
6/30/15	27,456,183	22,128,324	5,327,860	80.6%	3,460,606	154.0%
6/30/16	28,826,381	22,106,931	6,719,450	76.7%	3,328,404	201.9%
6/30/17	32,223,692	24,745,480	7,478,212	76.8%	3,326,175	224.8%
6/30/18	33,554,276	26,235,694	7,318,582	78.2%	3,567,491	205.1%
Authority's Proportionate Share of the Miscellaneous Risk Pool (%):						
6/30/13	0.20110%	0.18562%	0.244085%			
6/30/14	0.20112%	0.18511%	0.270043%			
6/30/15	0.20130%	0.20309%	0.194202%			
6/30/16	0.20022%	0.20238%	0.193428%			
6/30/17	0.20119%	0.20494%	0.189704%			
6/30/18	0.19865%	0.19993%	0.194193%			

This schedule is required to present ten years of information. The information above is presented for the years currently available. A full ten-year trend will be built as the information becomes available in the future.

Schedule of Employer Contributions for CalPERS

Fiscal Year Ended	Actuarially Determined Contributions	Contribution in relation to ADC	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions to Payroll Ratio
6/30/14	$ 804,089	$ 804,089	$ -	$ 3,430,738	23.44%
6/30/15	838,251	2,523,285	(1,685,034)	3,460,606	72.91%
6/30/16	965,609	965,609	-	3,328,404	29.01%
6/30/17	620,373	620,373	-	3,326,175	18.65%
6/30/18	691,803	691,803	-	3,567,491	19.39%
6/30/19	822,772	822,772	-	3,754,306	21.92%

This schedule is required to present ten years of information. The information above is presented for the years currently available. A full ten-year trend will be built as the information becomes available in the future.

Schedule of Changes in the Net OPEB Liability and Related Ratios

	6/30/2017	6/30/2018
Total OPEB Liability:		
Service Costs	$ 45,176	$ 46,644
Interest	81,826	88,177
Benefits paid to retirees	(19,682)	(38,920)
Net Change in Total OPEB Liability	107,320	95,901
Total OPEB Liability - Beginning	1,268,703	1,376,023
Total OPEB Liability - Ending	$ 1,376,023	$ 1,471,924
Plan Fiduciary Net Position		
Employer contributions	$ 42,275	$ 99,103
Net investment income	39,593	35,088
Benefits paid to retirees	(19,682)	(38,920)
Administrative expenses	(194)	(236)
Net Change in Plan Fiduciary Net Position	61,992	95,035
Plan Fiduciary Net Position - Beginning	379,639	441,631
Plan Fiduciary Net Position - Ending	$ 441,631	$ 536,666
Net OPEB Liability - Ending	$ 934,392	$ 935,258
Plan fiduciary net position as a percentage of total OPEB liability	32.09%	36.46%
Covered payroll	$ 3,326,175	$ 3,567,491
Net OPEB liability as a % of covered payroll	28.09%	26.22%

This schedule is required to present ten years of information. The information above is presented for the years currently available. A full ten-year trend will be built as the information becomes available in the future.

Schedule of Employer Contributions for OPEB

Fiscal Year Ended	Actuarially Determined Contributions	Contribution in relation to ADC	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions to Payroll Ratio
6/30/18	$ 80,541	$ 80,541	$ -	$ 3,567,491	2.26%
6/30/19	85,000	$ 85,000	$ -	3,754,306	2.26%

This schedule is required to present ten years of information. The information above is presented for the years currently available. A full ten-year trend will be built as the information becomes available in the future.

- The Proportionate Share of Net Pension Liability presents the Authority's portion of CalPERS Miscellaneous Risk Pool NPL as a dollar value as well as a percentage. The funded ratio represents the Authority's proportionate share of the Plan's Fiduciary Net Position as a percentage of the Authority's proportionate share of the Total Pension Liability. GASB 68 requires this schedule to include ten-year trend analysis. The trend analysis is intended to aid the reader in determining the financial health of the pension plan. The schedule contains all currently known information and will be built prospectively as the information becomes available, until the ten year requirement has been met. The Miscellaneous Risk Pool information is provided by CalPERS in its "GASB 68 Accounting Report for the measurement date of June 30, 2018". The Authority's proportionate share is calculated using information provided by CalPERS in its "Schedule of Employer Allocations for Components of Net Pension Liability and Schedule of Collective Pension Amounts, June 30, 2018".

- The Schedule of Employer Contributions to CalPERS presents information regarding the Authority's required contributions to CalPERS, the amounts actually contributed, and any excess or deficiency to the contributions required. This schedule reports only employer required contributions. See also Footnote 11 to the Basic Financial Statements for the contributions, both employer and employee, for the current fiscal year. GASB 68 requires this schedule to include ten-year trend analysis. The trend analysis is intended to aid the reader in determining the financial health of the pension plan. The schedule contains all currently known information and will be built prospectively as the information becomes available, until the ten year requirement has been met.

- The Schedule of Employer Contributions to OPEB presents information regarding the Authority's required contributions to their OPEB plan, the amounts actually contributed, and any excess or deficiency to the contributions required. This schedule reports only employer required contributions. See also Footnote 12 to the Basic Financial Statements for the contributions, both employer and employee, for the current fiscal year. GASB 75 requires this schedule to include ten-year trend analysis. The trend analysis is intended to aid the reader in determining the financial health of the pension plan. The schedule contains all currently known information and will be built prospectively as the information becomes available, until the ten year requirement has been met.

- There were no changes to the benefit terms that applied to the Authority's plans.

- Change to pension plan assumptions - In December 2017, the CalPERS Board adopted new mortality assumptions. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.5%. The assumptions for individual salary increases and overall payroll growth are reduced from 3% to 2.75%.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor	**CFDA Number**	Passed Thru to Subrecipients	**Expenditures**
Department of Housing and Urban Development (HUD)			
Direct Programs:			
Housing Choice Voucher Cluster:			
Housing Choice Voucher Program	14.871	$ -	$ 72,289,185
Mainstream Voucher Program	14.879	-	1,368,732
Subtotal HCV Cluster		-	73,657,917
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	-	97,368
Continuum of Care Program - Shelter Plus Care	14.267	-	509,409
Continuum of Care Program - Brommer Street TH	14.267	23,334	62,274
Continuum of Care Program - Youth Homeless Demo	14.267	-	13,812
Continuum of Care Program - New Beginnings	14.267	-	4,686
Public and Indian Housing Program	14.850	-	577,823
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	-	450,682
Public Housing Capital Fund Program	14.872	-	597,984
Family Self Sufficiency Program	14.896	-	133,447
Passed thru the County of Santa Cruz:			
HOME Investment Partnership Act Grant #16-HOME-11375	14.239	-	149,317
Passed thru the City of Santa Cruz:			
HOME Investment Partnership Act Grant HOME #M-18-MC060236	14.239	-	53,186
Community Development Block Grant Grant CDBG #B-18-MC-060024	14.218	-	10,877
Subtotal HUD		23,334	76,318,782
United States Department of Agriculture (USDA)			
Direct Programs:			
Rural Rental Assistance Payments Program	10.427	-	46,090
Total federal awards expended		$ 23,334	$ 76,364,872

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal award activity of the Housing Authority of the County of Santa Cruz, California, under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Housing Choice and Mainstream Voucher Programs - expenditures represent HUD funding to the extent that the funding has been expended by the Authority. HUD funding for these programs are received as two types (1) HAP funding and (2) funding for administrative costs.

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 Choice Voucher Program:			
Housing Assistance Payments (HAP)	$ 67,501,194	$ **67,374,465**	$ **67,374,465**
Administrative Costs /FSS /Homeownership	**4,914,720**	5,558,756	**4,914,720**
	$ 72,415,914	$ 72,933,221	$ **72,289,185**
Mainstream Voucher Program:			
Housing Assistance Payments (HAP)	$ 1,427,324	$ **1,281,611**	$ **1,281,611**
Administrative Costs	114,522	**87,121**	**87,121**
	$ 1,541,846	$ 1,368,732	$ **1,368,732**

Excess HAP funding is reported as restricted net position as required by HUD (See Note 10 to the Basic Financial Statements).

Section 8 Moderate Rehabilitation and Section 8 Moderate Rehabilitation Single Room Occupancy - expenditures represent each programs' operating expenditures in their entirety, regardless of the amount of HUD annual contributions earned.

Continuum of Care - expenditures reported agree with the HUD grants earned for the year.

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.

Public Housing Capital Fund Program - expenditures agree with actual revenues and expenditures, including operating transfers made to the Public Housing Program, for the fiscal year.

Family Self Sufficiency Program, CDBG Program and HOME Investment Partnership Act - expenditures consist only of the Federal grant funds received.

3. INDIRECT COST RATE

The Authority has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
FINANCIAL DATA SCHEDULE (CA072)
BALANCE SHEET
AS OF JUNE 30, 2019

	Public Housing (including Capital Fund)	Merrill Road Associates - Blended Component Unit	State/Local	Business Activities	Rural Rental Assistance Payments	Section 8 Mod Rehab Single Room Occupancy
CFDA number	**14.850/14.872**				**10.427**	**14.249**
111 Cash - Unrestricted	$7,598,748	$19,769	$1,773,453	$1,329,415	$176,721	$86,668
112 Cash - Restricted - Modernization and Development	$0	$230,890	$56,769	$0	$1,681,623	$0
113 Cash - Other Restricted	$2,420	$92,120	$42,433			
114 Cash - Tenant Security Deposits	$124,799	$14,084	$10,200	$11,455	$45,297	$0
115 Cash - Restricted for Payment of Current Liabilities	$0	$0	$0	$0	$0	$0
100 Total Cash	$7,725,967	$356,863	$1,882,855	$1,340,870	$1,903,641	$86,668
121 Accounts Receivable - PHA Projects	$0	$0	$0	$0	$0	$0
122 Accounts Receivable - HUD Other Projects	$0					$274
124 Accounts Receivable - Other Government	$0	$0	$282,455	$0	$4,790	$0
125 Accounts Receivable - Miscellaneous	$0					$0
126 Accounts Receivable - Tenants	$13,746	$263	$2,412	$0	$132	$0
126.1 Allowance for Doubtful Accounts -Tenants	-$6,798	-$157	-$358	$0	-$125	$0
126.2 Allowance for Doubtful Accounts - Other	$0	$0	$0	$0	$0	$0
127 Notes, Loans, & Mortgages Receivable - Current	$0	$0	$0	$0	$0	$0
128 Fraud Recovery	$0	$0	$0	$0	$0	$0
128.1 Allowance for Doubtful Accounts - Fraud	$0	$0	$0	$0	$0	$0
129 Accrued Interest Receivable	$5,305	$0	$0	$5,204	$0	$0
120 Total Receivables, Net of Allowances for Doubtful Accounts	$12,253	$106	$284,509	$5,204	$4,797	$274
131 Investments - Unrestricted	$0	$0	$0	$0	$0	$0
132 Investments - Restricted	$0	$0	$0	$0	$0	$0
135 Investments - Restricted for Payment of Current Liability	$0	$0	$0	$0	$0	$0
142 Prepaid Expenses and Other Assets	$15,267	$603	$5,720	$147,131	$4,492	$34
144 Inter Program Due From	$0	$0	$0	$731,393	$0	$0
150 Total Current Assets	$7,753,487	$357,572	$2,173,084	$2,224,598	$1,912,930	$86,976
161 Land	$4,104,506	$1,039,931	$0	$2,573,019	$124,076	$0
162 Buildings	$21,037,876	$2,752,708	$0	$5,922,939	$5,799,081	$0
163 Furniture, Equipment & Machinery - Dwellings	$0	$26,200	$0	$0	$0	$0
164 Furniture, Equipment & Machinery - Administration	$0	$0	$0	$239,426	$0	$0
165 Leasehold Improvements	$0	$0	$0	$279,468	$0	$0
166 Accumulated Depreciation	-$19,493,990	-$1,607,306	$0	-$4,151,979	-$5,569,101	$0
167 Construction in Progress	$0	$0	$0	$0	$0	$0
160 Total Capital Assets, Net of Accumulated Depreciation	$5,648,392	$2,211,533	$0	$4,862,873	$354,056	$0
171 Notes, Loans and Mortgages Receivable - Non-Current	$0	$0	$0	$723,776	$0	$0
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due	$0	$0	$0	$0	$0	$0
173 Grants Receivable - Non Current	$0	$0	$0	$0	$0	$0
174 Other Assets	$0	$0	$0	$131,836	$0	$0
176 Investments in Joint Ventures	$0	$0	$0	$0	$0	$0
180 Total Non-Current Assets	$5,648,392	$2,211,533	$0	$5,718,485	$354,056	$0
200 Deferred Outflow of Resources	$346,928		$0	$128,446	$100,341	$2,227
290 Total Assets and Deferred Outflow of Resources	$13,748,807	$2,569,105	$2,173,084	$8,071,529	$2,367,327	$89,203

HOME Investment Partnerships Program	Mainstream Vouchers	Community Development Block Grants	Continuum of Care Program	Housing Choice Vouchers	PIH Family Self-Sufficiency Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14.239	**14.879**	**14.218**	**14.267**	**14.871**	**14.896**	**14.856**			
$0	$435,871	$0	$29,271	$832,912	$0	$657,034	$12,939,862		$12,939,862
$0	$0	$0	$86,708	$0	$0	$0	$2,055,990		$2,055,990
	$163,354			$492,855	$0	$0	$793,182		$793,182
$0	$0	$0	$1,738	$0	$0	$0	$207,573		$207,573
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$599,225	$0	$117,717	$1,325,767	$0	$657,034	$15,996,607	$0	$15,996,607
$0	$0	$0	$0	$0	$0	$0	$0		$0
			$56,782	$0	$30,648	$0	$87,704		$87,704
$10,532	$0	$13,226	$0	$0	$0	$0	$311,003		$311,003
	$0			$102,365		$116	$102,481		$102,481
$0	$0	$0	$379	$0	$0	$0	$16,932		$16,932
$0	$0	$0	$0	$0	$0	$0	-$7,438		-$7,438
$0	$0	$0	$0	-$102,365	$0	-$116	-$102,481		-$102,481
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$289,579	$0	$0	$289,579		$289,579
$0	$0	$0	$0	-$289,579	$0	$0	-$289,579		-$289,579
$0	$0	$0	$0	$0	$0	$1,314	$11,823		$11,823
$10,532	$0	$13,226	$57,161	$0	$30,648	$1,314	$420,024	$0	$420,024
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$427	$0	$442	$14,686	$0	$127	$188,929		$188,929
	$0	$0	$0	$0		$0	$731,393	-$731,393	$0
$10,532	$599,652	$13,226	$175,320	$1,340,453	$30,648	$658,475	$17,336,953	-$731,393	$16,605,560
$0	$0	$0	$289,000	$0	$0	$0	$8,130,532		$8,130,532
$0	$0	$0	$514,554	$0	$0	$0	$36,027,158		$36,027,158
$0	$0	$0	$0	$0	$0	$0	$26,200		$26,200
$0	$0	$0	$0	$0	$0	$0	$239,426		$239,426
$0	$0	$0	$0	$0	$0	$0	$279,468		$279,468
$0	$0	$0	-$447,434	$0	$0	$0	-$31,269,810		-$31,269,810
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$356,120	$0	$0	$0	$13,432,974	$0	$13,432,974
	$0	$0	$0	$0		$0	$723,776	-$704,272	$19,504
	$0	$0	$0	$0		$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$0		$0
	$0	$0	$0	$0		$0	$131,836	-$131,836	$0
	$0	$0	$0	$0		$0	$0		$0
$0	$0	$0	$356,120	$0	$0	$0	$14,288,586	-$836,108	$13,452,478
$0	$28,122	$0	$0	$1,781,487	$0	$8,498	$2,396,049	$0	$2,396,049
$10,532	$627,774	$13,226	$531,440	$3,121,940	$30,648	$666,973	$34,021,588	-$1,567,501	$32,454,087

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
FINANCIAL DATA SCHEDULE (CA072)
BALANCE SHEET
AS OF JUNE 30, 2019
(Continued)

	Public Housing (including Capital Fund)	Merrill Road Associates - Blended Component Unit	State/Local	Business Activities	Rural Rental Assistance Payments	Section 8 Mod Rehab Single Room Occupancy
CFDA number	**14.850/14.872**				**10.427**	**14.249**
311 Bank Overdraft	$0	$0	$0	$0	$0	$0
312 Accounts Payable <= 90 Days	$86,246	$2,864	$45,474	$23,601	$31,063	$1
313 Accounts Payable >90 Days Past Due	$0	$0	$0	$0	$0	$0
321 Accrued Wage/Payroll Taxes Payable	$12,684	$934	$1,778	$99,575	$3,654	$82
322 Accrued Compensated Absences - Current Portion	$7,168	$529	$604	$4	$2,076	$119
324 Accrued Contingency Liability	$0	$0	$0	$0	$0	$0
325 Accrued Interest Payable	$0	$0	$0	$0	$0	$0
331 Accounts Payable - HUD PHA Programs	$0					$0
332 Account Payable - PHA Projects	$0	$0	$0	$0	$0	$0
333 Accounts Payable - Other Government	$129,019	$0	$57,387	$0	$0	$0
341 Tenant Security Deposits	$124,799	$14,084	$10,200	$11,455	$45,297	$0
342 Unearned Revenue	$9,985	$7	$1,605,364		$2,410	
343 Current Portion of Long-term Debt - Capital Projects	$0			$0	$10,304	
344 Current Portion of Long-term Debt - Operating Borrowings	$0	$0	$0	$0	$0	$0
345 Other Current Liabilities	$0	$0	$0	$0	$0	$0
346 Accrued Liabilities - Other	$0	$800	$0	$0	$0	$0
347 Inter Program - Due To	$0	$12,000	$0	$630,002	$0	$0
348 Loan Liability - Current	$0	$0	$0	$0	$0	$0
310 Total Current Liabilities	$369,901	$31,218	$1,720,807	$764,637	$94,804	$202
351 Long-term Debt, Net of Current - Capital Projects	$0	$2,199,439			$27,521	
352 Long-term Debt, Net of Current - Operating Borrowings	$0	$0	$0	$0	$0	$0
353 Non-current Liabilities - Other	$2,420	$945,572	$0	$0	$0	$0
354 Accrued Compensated Absences - Non Current	$78,198	$5,795	$12,622	$103	$22,603	$340
357 Accrued Pension and OPEB Liabilities	$1,187,633	$0	$0	$425,742	$343,484	$7,595
350 Total Non-Current Liabilities	$1,268,251	$3,150,806	$12,622	$425,845	$393,608	$7,935
300 Total Liabilities	$1,638,152	$3,182,024	$1,733,429	$1,190,482	$488,412	$8,137
400 Deferred Inflow of Resources	$101,483		$0	$36,792	$29,352	$649
508.4 Net Investment in Capital Assets	$5,648,392	-$97,370	$0	$4,862,873	$316,232	$0
511.4 Restricted Net Position	$0	$323,011	$105,427	$0	$1,680,506	$0
512.4 Unrestricted Net Position	$6,360,780	-$838,560	$334,228	$1,981,382	-$147,175	$80,417
513 Total Equity - Net Assets / Position	$12,009,172	-$612,919	$439,655	$6,844,255	$1,849,563	$80,417
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	$13,748,807	$2,569,105	$2,173,084	$8,071,529	$2,367,327	$89,203

HOME Investment Partnerships Program	Mainstream Vouchers	Community Development Block Grants	Continuum of Care Program	Housing Choice Vouchers	PIH Family Self-Sufficiency Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14.239	**14.879**	**14.218**	**14.267**	**14.871**	**14.896**	**14.856**			
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$275	$0	$14,271	$15,120	$0	$75	$218,990		$218,990
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$1,043	$0	$248	$67,122	$3,751	$315	$191,186		$191,186
$0	$1,494	$48	$139	$93,606	$0	$451	$106,238		$106,238
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$0		$0
	$0			$0		$6,633	$6,633		$6,633
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$186,406		$186,406
$0	$0	$0	$1,738	$0	$0	$0	$207,573		$207,573
			$1	$0		$0	$1,617,767		$1,617,767
				$0	$0	$0	$10,304		$10,304
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$0	$0	$0	$0	$800		$800
$10,616	$0	$6,704	$45,174	$0	$26,897	$0	$731,393	-$731,393	$0
	$0	$0	$0	$0		$0	$0		$0
$10,616	$2,812	$6,752	$61,571	$175,848	$30,648	$7,474	$3,277,290	-$731,393	$2,545,897
			$210,000	$0		$0	$2,436,960	-$704,272	$1,732,688
$0	$0	$0	$0	$0	$0	$0	$0		$0
$0	$0	$0	$79,599	$182,953	$0	$0	$1,210,544	-$131,836	$1,078,708
$0	$4,303	$417	$1,543	$287,141	$0	$1,302	$414,367		$414,367
$0	$95,902	$0	$0	$6,164,498		$28,986	$8,253,840		$8,253,840
$0	$100,205	$417	$291,142	$6,634,592	$0	$30,288	$12,315,711	-$836,108	$11,479,603
$10,616	$103,017	$7,169	$352,713	$6,810,440	$30,648	$37,762	$15,593,001	-$1,567,501	$14,025,500
$0	$8,205	$0	$0	$524,804	$0	$2,480	$703,765	$0	$703,765
$0	$0	$0	$66,521	$0	$0	$0	$10,796,648		$10,796,648
$0	$163,354	$0	$86,708	$309,902	$0	$0	$2,668,908		$2,668,908
-$84	$353,198	$6,057	$25,498	-$4,523,206	$0	$626,731	$4,259,266		$4,259,266
-$84	$516,552	$6,057	$178,727	-$4,213,304	$0	$626,731	$17,724,822	$0	$17,724,822
$10,532	$627,774	$13,226	$531,440	$3,121,940	$30,648	$666,973	$34,021,588	-$1,567,501	$32,454,087

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
FINANCIAL DATA SCHEDULE (CA072)
REVENUE AND EXPENSE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2019

	Public Housing (including Capital Fund)	Merrill Road Associates - Blended Component Unit	State/Local	Business Activities	Rural Rental Assistance Payments	Section 8 Mod Rehab Single Room Occupancy
CFDA number	**14.850/14.872**				**10.427**	**14.249**
70300 Net Tenant Rental Revenue	$1,580,366	$169,463	$20,537	$11,004	$635,248	$0
70400 Tenant Revenue - Other	$131,409	$2,645	$0	$0	$28,158	$0
70500 Total Tenant Revenue	$1,711,775	$172,108	$20,537	$11,004	$663,406	$0
70600 HUD PHA Operating Grants	$1,175,807	$0	$0	$0	$0	$107,078
70610 Capital Grants	$0	$0	$0	$0	$0	$0
70800 Other Government Grants	$0	$0	$1,025,122	$0	$46,090	$0
71100 Investment Income - Unrestricted	$31,246	$43	$1,270	$24,836	$334	$106
71200 Mortgage Interest Income	$0	$0	$0	$7,583	$0	$0
71400 Fraud Recovery	$0	$0	$0	$0	$0	$0
71500 Other Revenue	$0	$0	$21,660	$2,729,299		$0
71600 Gain or Loss on Sale of Capital Assets	$0	$0	$0	$0	$0	$0
72000 Investment Income - Restricted	$0	$502	$13	$0	$4,821	$0
70000 Total Revenue	$2,918,828	$172,653	$1,068,602	$2,772,722	$714,651	$107,184
91100 Administrative Salaries	$467,091	$23,617	$20,967	$1,041,157	$135,113	$3,499
91200 Auditing Fees	$4,340	$5,500	$952	$5	$1,255	$28
91300 Management Fee	$0	$10,530	$35,527	$0	$0	$0
91310 Book-keeping Fee	$0	$1,000	$0	$0	$0	$0
91400 Advertising and Marketing	$1,279	$26	$880	$10,459	$2,878	$0
91500 Employee Benefit contributions - Administrative	$265,697	$10,845	$7,914	$424,250	$77,078	$1,909
91600 Office Expenses	$71,750	$0	$1,522	$157,775	$20,749	$451
91700 Legal Expense	$9,862	$2,577	$41	$16,118	$662	$14
91800 Travel	$1,302	$0	$35	$9,194	$377	$8
91810 Allocated Overhead	$79,782	$0	$1,670	$17,705	$23,071	$503
91900 Other	$11,766	$500	$2,888	$554,499	$6,244	$27
91000 Total Operating - Administrative	$912,869	$54,595	$72,396	$2,231,162	$267,427	$6,439
92100 Tenant Services - Salaries	$0	$0	$0	$0	$0	$0
92200 Relocation Costs	$0	$0	$0	$0	$0	$0
92300 Employee Benefit Contributions - Tenant Services	$0	$0	$0	$0	$0	$0
92400 Tenant Services - Other	$0	$0	$621,465	$0	$0	$0
92500 Total Tenant Services	$0	$0	$621,465	$0	$0	$0
93100 Water	$132,998	$7,199	$1,793	$7,024	$14,788	$0
93200 Electricity	$32,774	$763	$39,563	$41,832	$16,448	$0
93300 Gas	$6,746	$90	$23,537	$5,274	$2,877	$0
93600 Sewer	$112,035	$10,152	$77,846	$5,238	$67,871	$0
93800 Other Utilities Expense	$6,685	$1,746	$0	$869	$0	$0
93000 Total Utilities	$291,238	$19,950	$142,739	$60,237	$101,984	$0
94100 Ordinary Maintenance and Operations - Labor	$89,187	$6,617	$56,923	$148	$25,752	$0
94200 Ordinary Maintenance and Operations - Materials and Other	$56,299	$7,937	$6,413	$1,848	$13,936	$0
94300 Ordinary Maintenance and Operations Contracts	$570,792	$48,082	$92,817	$123,822	$129,901	$17
94500 Employee Benefit Contributions - Ordinary Maintenance	$22,977	$1,705	$22,762	$37	$6,636	$0
94000 Total Maintenance	$739,255	$64,341	$178,915	$125,855	$176,225	$17
95000 Total Protective Services	$0	$0	$0	$0	$0	$0

HOME Investment Partnerships Program	Mainstream Vouchers	Community Development Block Grants	Continuum of Care Program	Housing Choice Vouchers	PIH Family Self-Sufficiency Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14.239	**14.879**	**14.218**	**14.267**	**14.871**	**14.896**	**14.856**			
$0	$0	$0	$22,948	$0		$0	$2,439,566	-$7,644	$2,431,922
$0	$0	$0	$917	$0		$0	$163,129		$163,129
$0	$0	$0	$23,865	$0	$0	$0	$2,602,695	-$7,644	$2,595,051
$0	$1,541,846	$0	$590,181	$72,415,914	$133,447	$486,106	$76,450,379		$76,450,379
$0	$0	$0	$0	$0		$0	$0		$0
$202,503	$0	$21,877	$0	$0		$0	$1,295,592		$1,295,592
$0	$713	$0	$34	$1,318		$6,204	$66,104		$66,104
$0	$0	$0	$0	$0		$0	$7,583	-$7,583	$0
$0	$0	$0	$0	$37,454		$0	$37,454		$37,454
$0	$0	$0	$0	$71,284		$0	$2,822,243	-$2,538,934	$283,309
$0	$0	$0	$0	$0		$0	$0		$0
$0	$0	$0	$140	$0		$0	$5,476		$5,476
$202,503	$1,542,559	$21,877	$614,220	$72,525,970	$133,447	$492,310	$83,287,526	-$2,554,161	$80,733,365
$8,524	$44,218	$8,697	$10,394	$2,845,603		$13,372	$4,622,252	-$1,007,380	$3,614,872
$82	$349	$82	$1,600	$22,452		$105	$36,750		$36,750
$0	$0	$0	$0	$0		$0	$46,057	-$46,057	$0
$0	$0	$0	$0	$0		$0	$1,000		$1,000
$0	$0	$0	$10	$1,948		$0	$17,480	-$10,459	$7,021
$2,552	$25,125	$2,602	$4,549	$1,579,173		$7,323	$2,409,017	-$392,240	$2,016,777
$1,138	$5,698	$1,112	$1,039	$366,668		$1,723	$629,625	-$488,652	$140,973
$34	$182	$37	$48	$14,138		$55	$43,768	-$15,587	$28,181
$26	$104	$24	$29	$6,674		$31	$17,804	-$8,901	$8,903
$1,123	$6,362	$1,213	$1,748	$409,442		$1,924	$544,543	-$534,084	$10,459
$12	$2,990	$11	$29,310	$149,211		$221	$757,679	-$4,263	$753,416
$13,491	$85,028	$13,778	$48,727	$5,395,309	$0	$24,754	$9,125,975	-$2,507,623	$6,618,352
$0	$0	$0	$0	$0	$121,837	$0	$121,837		$121,837
$0	$0	$0	$0	$0		$0	$0		$0
$0	$0	$0	$0	$0	$59,387	$0	$59,387		$59,387
$192,588	$0	$9,502	$32,152	$0	$729	$0	$856,436		$856,436
$192,588	$0	$9,502	$32,152	$0	$181,953	$0	$1,037,660	$0	$1,037,660
$0	$0	$0	$2,951	$0		$0	$166,753		$166,753
$0	$0	$0	$1,250	$0		$0	$132,630		$132,630
$0	$0	$0	$35	$0		$0	$38,559		$38,559
$0	$0	$0	$4,061	$0		$0	$277,203		$277,203
$0	$0	$0	$0	$0		$0	$9,300		$9,300
$0	$0	$0	$8,297	$0	$0	$0	$624,445	$0	$624,445
$0	$0	$0	$1,765	$0		$0	$180,392		$180,392
$0	$0	$0	$6,014	$0		$0	$92,447		$92,447
$23	$210	$23	$23,249	$14,324		$64	$1,003,324	-$9,764	$993,560
$0	$0	$0	$454	$0		$0	$54,571		$54,571
$23	$210	$23	$31,482	$14,324	$0	$64	$1,330,734	-$9,764	$1,320,970
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
FINANCIAL DATA SCHEDULE (CA072)
REVENUE AND EXPENSE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)

	Public Housing (including Capital Fund)	Merrill Road Associates - Blended Component Unit	State/Local	Business Activities	Rural Rental Assistance Payments	Section 8 Mod Rehab Single Room Occupancy
CFDA number	**14.850/14.872**				**10.427**	**14.249**
96110 Property Insurance	$23,325	$3,704	$7,817	$4,987	$6,827	$0
96120 Liability Insurance	$5,555	$0	$2,564	$65	$1,685	$71
96130 Workmen's Compensation	$19,498	$1,174	$5,842	$9,862	$6,790	$23
96140 All Other Insurance	$0	$0	$690	$0	$12,456	$0
96100 Total insurance Premiums	$48,378	$4,878	$16,913	$14,914	$27,758	$94
96200 Other General Expenses	$2,517	$12,800	$0	$5,327	$178	$0
96210 Compensated Absences	$1,104	$180	$3,957	-$84	$747	$64
96300 Payments in Lieu of Taxes	$129,019	$0	$0	$0	$0	$0
96400 Bad debt - Tenant Rents	$6,720	$4,823	$358	$0	$1,292	$0
96000 Total Other General Expenses	$139,360	$17,803	$4,315	$5,243	$2,217	$64
96710 Interest of Mortgage (or Bonds) Payable	$0	$0	$0	$4,310	$438	$0
96720 Interest on Notes Payable (Short and Long Term)	$0	$43,438	$0	$0	$0	$0
96700 Total Interest Expense and Amortization Cost	$0	$43,438	$0	$4,310	$438	$0
96900 Total Operating Expenses	$2,131,100	$205,005	$1,036,743	$2,441,721	$576,049	$6,614
97000 Excess of Operating Revenue over Operating Expenses	$787,728	-$32,352	$31,859	$331,001	$138,602	$100,570
97100 Extraordinary Maintenance	$0	$5,940	$21,552	$2,027	$17,504	$0
97200 Casualty Losses - Non-capitalized	$0	$0	$0	$0	$0	$0
97300 Housing Assistance Payments	$0	$0	$0	$0	$0	$90,754
97350 HAP Portability-In	$0	$0	$0	$0	$0	$0
97400 Depreciation Expense	$337,022	$73,230	$0	$228,900	$57,792	$0
97500 Fraud Losses	$0	$0	$0	$0	$0	$0
97800 Dwelling Units Rent Expense	$0	$0	$0	$0	$0	$0
90000 Total Expenses	$2,468,122	$284,175	$1,058,295	$2,672,648	$651,345	$97,368
10010 Operating Transfer In	$597,984	$0	$0	$64,656	$0	$0
10020 Operating transfer Out	-$597,984	$0	-$3,219	-$64,656		$0
10100 Total Other financing Sources (Uses)	$0	$0	-$3,219	$0	$0	$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	$450,706	-$111,522	$7,088	$100,074	$63,306	$9,816
11020 Required Annual Debt Principal Payments	$0	$0	$0	$162,330	$10,196	$0
11030 Beginning Equity	$11,558,466	-$566,947	$432,567	$6,809,731	$1,786,257	$70,601
11040 Prior Period Adjustments, Equity Transfers	$0	$65,550	$0	-$65,550	$0	$0
11170 Administrative Fee Equity						
11180 Housing Assistance Payments Equity						
11190 Unit Months Available	2706	180	0	12	816	132
11210 Number of Unit Months Leased	2695	175	0	12	807	132
11270 Excess Cash	$7,188,308					
11610 Land Purchases	$0					
11620 Building Purchases	$0					
11630 Furniture & Equipment - Dwelling Purchases	$0					
11640 Furniture & Equipment - Administrative Purchases	$0					

HOME Investment Partnerships Program	Mainstream Vouchers	Community Development Block Grants	Continuum of Care Program	Housing Choice Vouchers	PIH Family Self-Sufficiency Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14.239	**14.879**	**14.218**	**14.267**	**14.871**	**14.896**	**14.856**			
$0	$0	$0	$671	$0		$0	$47,331		$47,331
$0	$763	$0	$166	$29,562		$261	$40,692		$40,692
$55	$310	$57	$345	$20,143		$95	$64,194	-$9,547	$54,647
$0	$0	$0	$0	$0		$0	$13,146		$13,146
$55	$1,073	$57	$1,182	$49,705	$0	$356	$165,363	-$9,547	$155,816
$0	$0	$0	$0	$25,888		$0	$46,710	-$12,000	$34,710
-$434	$810	$17	$49	$56,696		$246	$63,352		$63,352
$0	$0	$0	$0	$0		$0	$129,019		$129,019
$0	$0	$0	-$484	$0		$0	$12,709		$12,709
-$434	$810	$17	-$435	$82,584	$0	$246	$251,790	-$12,000	$239,790
$0	$0	$0	$6,300	$0		$0	$11,048		$11,048
$0	$0	$0	$0	$0		$0	$43,438	-$7,583	$35,855
$0	$0	$0	$6,300	$0	$0	$0	$54,486	-$7,583	$46,903
$205,723	$87,121	$23,377	$127,705	$5,541,922	$181,953	$25,420	$12,590,453	-$2,546,517	$10,043,936
-$3,220	$1,455,438	-$1,500	$486,515	$66,984,048	-$48,506	$466,890	$70,697,073	-$7,644	$70,689,429
$0	$0	$0	$4,271	$0		$0	$51,294		$51,294
$0	$0	$0	$0	$0		$0	$0		$0
$0	$1,281,611	$0	$490,926	$67,374,466		$425,261	$69,663,018	-$7,644	$69,655,374
$0	$0	$0	$0	$16,832		$0	$16,832		$16,832
$0	$0	$0	$12,723	$0		$0	$709,667		$709,667
$0	$0	$0	$0	$0		$0	$0		$0
$0	$0	$0	$0	$0		$0	$0		$0
$205,723	$1,368,732	$23,377	$635,625	$72,933,220	$181,953	$450,681	$83,031,264	-$2,554,161	$80,477,103
$3,219	$0	$0		$0	$48,506	$0	$714,365	-$714,365	$0
$0	$0	$0		-$48,506		$0	-$714,365	$714,365	$0
$3,219	$0	$0	$0	-$48,506	$48,506	$0	$0	$0	$0
-$1	$173,827	-$1,500	-$21,405	-$455,756	$0	$41,629	$256,262	$0	$256,262
$0	$0	$0	$0	$0	$0	$0	$172,526		$172,526
-$83	$342,725	$7,557	$200,132	-$3,757,548	$0	$585,102	$17,468,560		$17,468,560
$0	$0	$0	$0	$0		$0	$0		$0
				-$4,523,205		$0	-$4,523,205		-$4,523,205
				$309,901		$0	$309,901		$309,901
0	1350	0	552	57692		492	63932		63932
0	978	0	504	53369		475	59147		59147
						$0	$7,188,308		$7,188,308
						$0	$0		$0
						$0	$0		$0
						$0	$0		$0
						$0	$0		$0

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF COMPLETED CAPITAL FUND PROGRAM PROJECTS
ANNUAL CONTRIBUTIONS CONTRACT SF-1621
JUNE 30, 2019

CA01P07250118

Funds approved	$	597,984
Funds expended		597,984
Excess of funds approved	$	-
Funds advanced	$	597,984
Funds expended		597,984
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
Capitola, California

We have audited, 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, the financial statements of the business-type activities of the Housing Authority of the County of Santa Cruz, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority of the County of Santa Cruz, California's basic financial statements and have issued our report thereon dated February 12, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 and those of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Harn & Dolan

February 12, 2020

Harn & Dolan
Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the County of Santa Cruz, California's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Housing Authority of the County of Santa Cruz, California's major federal programs for the year ended June 30, 2019. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority of the County of Santa Cruz, California's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Housing Authority of the County of Santa Cruz, California's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority of the County of Santa Cruz, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Housing Authority of the County of Santa Cruz, California is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Housing Authority of the County of Santa Cruz, California's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes.

Harn & Dolan

February 12, 2020

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2019

The previous audit report for the year ended June 30, 2018 contained no audit findings.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unmodified
Is a "going concern" emphasis-of-matter 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 $750,000 or more in Federal awards that have separate Uniform Guidance audits which are not included in this audit?	no
Dollar threshold used to distinguish between Type A and Type B programs	$2,290,946
Auditee qualified as low-risk auditee?	yes
Identification of major programs:	
Housing Voucher Cluster:	
Housing Choice Voucher Program	14.871
Mainstream Voucher	14.879
Public Housing Capital Fund	14.872
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings disclosed that are required to be reported in accordance With Uniform Guidance part 200.516?	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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019
(Including Auditors' Report Thereon)

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

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Certified Public Accountants
2423 Stirrup Court
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, HCD contract number 99-FMTW-009, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency (HCD/CalHFA)*. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements present only the Brommer Street Transitional Housing Enterprise Fund and do not purport to, and do not present fairly the financial position of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State of America. Our opinion was not modified with respect to this matter.

Other Matters
Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, taken as a whole. The accompanying supplementary information on pages 16-18, as required by HCD, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has 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.

Other Reporting
In accordance with *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency (HCD/CalHFA)*, we have also issued a report dated February 12, 2020, on our consideration of the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting as it relates to the Brommer Street Transitional Housing Enterprise Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency (HCD/CalHFA)*, in considering the Authority's internal control over financial reporting and compliance.

Harn & Dolan

February 12, 2020

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
STATEMENT OF NET POSITION
JUNE 30

	2019	2018
ASSETS		
Current assets:		
Cash (Note 2)	$ 29,271	$ 30,727
Due from HUD	5,834	9,745
Tenant accounts receivable	379	695
Allowance for doubtful accounts	-	(620)
Prepaid expenses	442	394
Total current assets	35,926	40,941
Restricted assets:		
Restricted cash (Note 2)	88,446	94,264
Capital assets (Note 3):		
Land	289,000	289,000
Site improvements and buildings (net of accumulated depreciation of $447,434 and $434,711)	67,120	79,843
Total capital assets	356,120	368,843
Total assets	480,492	504,048
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan (Note 1.N.)	-	-

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
STATEMENT OF NET POSITION
JUNE 30
(continued)

	2019	2018
LIABILITIES		
Current liabilities:		
Accounts payable	$ 8,497	$ 7,881
Accrued salaries and related costs	248	217
Current portion of compensated absences	139	64
Prepaid rent	1	133
Total current liabilities	8,885	8,295
Payable from restricted assets:		
Tenant security deposits	1,738	1,918
Noncurrent liabilities:		
Long-term portion of compensated absences	1,544	1,570
Net pension liability (Note 1.N.)	-	-
Long-term debt (Note 4)	210,000	210,000
Deferred interest on long-term debt (Note 4)	79,598	82,134
Total liabilities	301,765	303,917
DEFERRED INFLOWS OF RESOURCES		
Pension plan (Note 1.N.)	-	-
NET POSITION		
Net investment in capital assets (Note 5.A.)	66,522	76,709
Restricted (Note 5.B.)	86,708	92,346
Unrestricted	25,497	31,076
Total net position	$ 178,727	$ 200,131

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30

	2019	2018
Operating revenue:		
Rent	$ 22,948	$ 22,588
Other	1,401	936
Total operating revenue	24,349	23,524
Operating expenses:		
Administrative	13,500	12,728
Tenant services	23,334	23,334
Utilities	8,297	7,208
Maintenance	38,413	17,426
Taxes and insurance	5,634	5,484
Depreciation (Note 3)	12,723	12,722
Total operating expenses	101,901	78,902
Operating income (loss)	(77,552)	(55,378)
Nonoperating revenue (expenses):		
Grants	62,274	55,600
Interest on operating accounts	34	38
Interest on restricted funds	140	137
Interest expense (Note 4)	(6,300)	(6,300)
Net income (loss) before transfers	(21,404)	(5,903)
Transfers (Note 1.N.)	-	9,254
Change in net position	(21,404)	3,351
Net position - beginning of year	200,131	196,780
Net position - end of year	$ 178,727	$ 200,131

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30

	2019	2018
Cash flows from operating activities:		
Tenant receipts	$ 22,816	$ 22,096
Other receipts	917	936
Payroll and benefit expenditures	(15,358)	(14,113)
Administrative expenditures	(4,286)	(3,403)
Tenant services expenditures	(23,334)	(23,334)
Utility expenditures	(8,297)	(7,208)
Maintenance expenditures	(36,032)	(14,622)
Insurance expenditures	(1,223)	(1,421)
Net cash used by operating activities	(64,797)	(41,069)
Cash flows from noncapital financing activities:		
Operating grants received	66,185	54,431
Net cash provided by noncapital financing activities	66,185	54,431
Cash flows from financing activities:		
Principal paid on debt	-	-
Interest paid on debt	(8,836)	(6,363)
Net cash used by capital financing activities	(8,836)	(6,363)
Cash flows from investing activities:		
Interest on operating cash	34	38
Interest on restricted cash	140	137
Net cash provided by investing activities	174	175
Net change in cash	(7,274)	7,174
Cash at beginning of year	124,991	117,817
Cash at end of year	$ 117,717	$ 124,991
Cash	$ 29,271	$ 30,727
Restricted cash	88,446	94,264
Cash at end of year	$ 117,717	$ 124,991

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30
(Continued)

		2019		2018
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	(77,552)	$	(55,378)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense		12,723		12,722
(Increase) decrease in:				
Tenant accounts receivable, net AFDA		(304)		(73)
Prepaid expenses		(48)		40
Increase (decrease) in:				
Accounts payable - vendors		616		1,311
Accrued payroll		31		17
Compensated absences		49		91
Tenant security deposits		(180)		68
Prepaid rent		(132)		133
Net cash used by operating activities	$	(64,797)	$	(41,069)

Non-cash transaction - Deferred outflows of resources, deferred inflows of resources, and net pension liability were transferred to the Authority Business Enterprise Fund, in the prior fiscal year. See also Note 1.N.

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Information

The Housing Authority of the County of Santa Cruz (the Authority) was established in 1969 by a resolutions 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.

The Authority owns and operates this six unit project in Santa Cruz, California. The Authority has received grant funding from the U.S. Department of Housing and Urban Development (HUD) restricting the use of this project. Under the HUD Continuum of Care Program grant, the project provides transitional housing to families meeting certain requirements over a limited amount of time, not to exceed two years. The Authority has contracted with the County of Santa Cruz to provide case-management services and to transition the project's residents into permanent housing by the end of their lease term. The project was modernized in 2001 with the help of a $210,000 loan from the State of California, Department of Housing and Community Development (HCD), Families Moving to Work Program. The loan and regulatory agreements, signed with HCD, require that only individuals and families that meet various income, age and employment standards be aided.

B. Basis of Presentation

The financial statements include only the accounts and transactions of the Housing Authority of the County of Santa Cruz's (the Authority) Brommer Street Transitional Housing Enterprise Fund. The Authority administers several federal, state, and local housing programs, including the Brommer Street Transitional Housing Enterprise Fund. The financial statements are not intended to present the financial position of the Authority as a whole and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

The Brommer Street Transitional Housing Project is reported as a Proprietary Fund Type, Enterprise Fund. 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.

Note 1 (continued)

C. Measurement Focus/Basis of Accounting

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 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 all GASB pronouncements.

When the Authority incurs an expense for which both restricted and unrestricted resources may be used, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed. Any use of restricted funds for this program requires the prior approval of HCD.

D. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

E. Cash and Cash Equivalents

For the purpose of the cash flows, the Authority considers all of their cash and investments, including restricted cash, to be cash and cash equivalents. The Authority considers all of their investments to be highly liquid or short-term in nature; and therefore, cash equivalents.

F. Interfund Activity

Short-term amounts owed between the Brommer Street Transitional Housing Enterprise Fund and the Authority's other funds, if any, are classifies as "Due to/from other funds". The operating costs mainly associated with salaries and benefits are paid by another of the

(Continued)

Note 1 (continued)

Authority's Enterprise Funds. These costs are allocated to appropriate funds as the transactions occur. Reimbursement is made back to the fund initiating the transactions on a frequent basis.

G. Capital Assets

Typically, capital assets are valued at historical cost and contributed capital assets are recorded at fair market value at the time received. The capital assets associated with the Brommer Street Transitional Housing Enterprise Fund were valued based on historical cost.

Capital assets acquired for Proprietary Funds are capitalized in the respective funds to which they apply. Depreciation of exhaustible capital assets used by Proprietary Funds is charged as an expense against operations, and accumulated depreciation is reported on the Proprietary Fund's Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Dwelling structures are being depreciated over a useful life of thirty years, modernization over ten years, and dwelling equipment over five years. Salvage value on all depreciable assets is assumed to be insignificant and therefore valued at $0.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflows consist of items associated with, and referred to, in the actuarial report of the defined benefit pension plan; as well as payments made on behalf of employees to the defined benefit pension plan after the measurement date of the actuarial report. See also Note 1.N.

In addition to liabilities, the Statement of Net Position will include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows consist of items associated with, and referred to, in the actuarial report of the defined benefit pension plan. See also Note 1.N.

Note 1 (continued)

I. Net Position

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

J. Operating Revenue and Expenses

Proprietary funds distinguish *operating* revenue and *operating* expenses from *nonoperating* items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For this program, these revenues are typically rental charges. 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. Operating expenses include payroll, benefits, utilities, maintenance costs, and depreciation. All revenue and expenses not meeting these definitions are reported as nonoperating.

K. Income Taxes

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

L. Encumbrances

Encumbrance accounting is not employed by the Authority.

M. Regulatory Agreement

On October 31, 2001, the Authority entered into a Families Moving to Work Program (FMTW) Regulatory Agreement, Loan Number 99-FMTW-099. Under this agreement, the State of California, Department of Housing and Community Development (HCD) provided funding for the modernization of 6 residential housing units, all of which were to be occupied by low income households, located in Santa Cruz, California. The Authority is required to maintain cash reserves for replacements. The project's annual budget must be approved by HCD. This agreement expires November 30, 2056.

Note 1 (continued)

N. PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS

The Authority participates in a cost-sharing multi-employer defined benefit retirement plan that is administered by CalPERS. Contributions to CalPERS are made on a current basis as required by the plan and are charged to expenditures. The Authority used actuarial reports supplied by CalPERS for the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to the plan. The valuation date of the latest actuarial report was June 30, 2018. For further information, please refer to the Authority-wide audit report for the fiscal year ended June 30, 2019, which can be obtained by contacting the Finance Director of the Housing Authority of the County of Santa Cruz at 2160 41st Avenue, Capitola, California 95010.

During the prior year, the Authority implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. During implementation, the Authority reassessed their allocation method utilized to spread the costs of pension and OPEB benefits equitably to all of the Authority's programs. Management determined that, for a number of their smaller programs; including the Brommer Street Transitional Housing Enterprise Fund; the deferred outflows of resources, the deferred inflows of resources and the associated liabilities will be held by the Authority's Business Enterprise Fund. The annual pension and OPEB costs will be allocated to all programs based on direct salaries incurred during the fiscal year. To implement this new policy, deferred outflows and inflows of resources and net pension liability, for a total of $9,254, was transferred to the Business Enterprise Fund.

Note 2 - CASH AND RESTRICTED CASH

The cash for this project is deposited with Santa Cruz County Bank. Cash and the restricted cash held for tenant security deposits is co-mingled with other cash of the Authority in a checking account. The replacement reserve cash is being held in a money market account earning interest at a rate of 0.15% per annum.

Restricted cash consists of the following:

	6/30/2019	6/30/2018
Security deposits	$ 1,738	$ 1,918
Replacement reserves (see also Note 5.B.)	86,708	92,346
	$ 88,446	$ 94,264

(Continued)

Note 3 - CAPITAL ASSETS

The Authority calculates depreciation on a straight-line basis with the useful lives of fixed assets being - 30 years for dwelling structures, 10 years for modernization, and 5 years for equipment.

The following is a summary of the Brommer Street Transitional Housing project's changes in capital assets and changes in depreciation for the fiscal year ended June 30, 2019:

	Historical Cost			Accumulated Depreciation			Net
	Balance 6/30/2018	Changes	Balance 6/30/2019	Balance 6/30/2018	Changes	Balance 6/30/2019	
Land	$ 289,000	$ -	$ 289,000	$ -	$ -	$ -	$ 289,000
Site improv.	42,555	-	42,555	(42,555)	-	(42,555)	-
Buildings	471,999	-	471,999	(392,156)	(12,723)	(404,879)	67,120
Total	$ 803,554	$ -	$ 803,554	$ (434,711)	$ (12,723)	$ (447,434)	$ 356,120

Note 4 - LONG-TERM DEBT

The following is a summary of the changes in long-term debt, and interest on the debt, for the fiscal year ended June 30, 2019:

	Balance 6/30/2018	Additions	Payments	Balance 6/30/2019	Short-term Portion
HCD - principal	$ 210,000	$ -	$ -	$ 210,000	$ -
HCD - Interest	$ 82,134	$ 6,300	$ (8,836)	$ 79,598	$ -

On October 31, 2001, the Authority entered into an agreement with the State of California, Department of Housing and Community Development (HCD) to borrow $210,000 for the purpose of modernization on property owned by the Authority known as Brommer Street Transitional Housing. The note earns simple interest at a rate of 3% per annum, is due November 30, 2056, and requires annual payments only to the extent that the project has net cash flows as determined by the Regulatory Agreement. The Authority incurred $6,300 in interest expense on this loan during each of the fiscal years ended June 30, 2019 and 2018. Interest payments of $8,836 and $6,363 have been made on this loan during the fiscal years ended June 30, 2019 and 2018, respectively. No principal payments on this note are expected to be made over the next five years.

(Continued)

Note 5 - NET POSITION

A. Net Investment in Capital Assets

Net investment in capital assets, consists of the following:

	6/30/2019	6/30/2018
Capital assets, net of depreciation (See also Note 3)	$ 356,120	$ 368,843
Long term debt (See also Note 4)	(210,000)	(210,000)
Interest payable on long-term debt (See also Note 4)	(79,598)	(82,134)
Net investment in capital assets	$ 66,522	$ 76,709

B. Restricted Net Position

Net position is reported as restricted when constraints placed on net position 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. The project's restricted net position consists of replacement reserves required to be maintained by the regulatory agreement.

The activity for the past two years was as follows:

	6/30/2019	6/30/2018
Beginning balance - July 1,	$ 92,346	$ 89,809
Increases to reserves:		
• Regular annual contribution	2,400	2,400
• Interest earned on account	140	137
Decreases to reserves:		
Water damage remediation	(8,178)	-
Ending balance - June 30,	$ 86,708	$ 92,346

As of June 30, 2019 and 2018, funds were on deposit with Santa Cruz County Bank earning 0.15% interest per annum. Restricted net position is fully funded. These reserves can not be used without the prior written approval of HCD.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
SUPPLEMENTARY INFORMATION REQUIRED BY HCD

Schedule of Operating Revenue for the year ended

		6/30/2019	6/30/2018
5120	Rent Revenue	$ 22,948	$ 22,588
5390	HUD grant revenue	62,274	55,600
5410	Interest on project operations	34	38
5440	Interest on replacement reserves	140	137
5910	Laundry and vending	-	332
5920	Tenant charges - damages & cleaning fees	917	604
5990	Misc revenue - recovery of bad debts	484	-
5000T	Total Revenue	$ 86,797	$ 79,299

Schedule of Operating Expenses for the year ended

		6/30/2019	6/30/2018
6210	Advertising and marketing	$ 10	$ -
6310	Office salaries	2,906	2,375
6311	Office expense	24	63
6312	Office rent	932	603
6330	Manager salaries	6,308	6,330
6340	Legal expense	45	24
6350	Audit expense	1,585	1,584
6370	Bad debt	-	620
6390	Miscellaneous administration	1,690	1,129
6263T	Total Administrative Expenses	13,500	12,728
6450	Electricity	1,250	712
6451	Water	2,951	2,465
6452	Gas	35	106
6453	Sewer	4,061	3,925
6400T	Total Utility Expenses	8,297	7,208
6510	Payroll	1,765	1,493
6515	Supplies - general	2,199	1,077
6520	Contracts	29,810	11,086
6525	Garbage removal	4,328	3,770
6546	Heating/cooling repairs	311	-
6500T	Total Operating and Maintenance Expenses	38,413	17,426
6720	Property and liability insurance	837	828
6722	Worker's compensation	338	633
6723	Health insurance and other benefits	4,459	4,023
6700T	Total Taxes and Insurance Expenses	5,634	5,484
6990	Other service expenses	23,334	23,334
6000T	Total Operating Expenses	$ 89,178	$ 66,180

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
SUPPLEMENTARY INFORMATION REQUIRED BY HCD
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)

		6/30/2019	6/30/2018
Reconciliation of Previous Schedules to Changes in Net Position			
5000T	Total revenue	$ 86,797	$ 79,299
6000T	Total cost of operations	(89,178)	(66,180)
5060	Operating income before depreciation	(2,381)	13,119
6600	Depreciation	(12,723)	(12,722)
6830	Interest on notes payable (long-term)	(6,300)	(6,300)
3250	Net loss (page 5)	$ (21,404)	$ (5,903)
Surplus Cash Computation and the Distribution of Surplus Cash			
5000T	Total revenue	$ 86,797	$ 79,299
6000T	Total cost of operations	(89,178)	(66,180)
5060	Operating income before depreciation	(2,381)	13,119
	Adjustments:		
5440	Interest earned on restricted deposits	(140)	(137)
	Adjusted operating income	(2,521)	12,982
	Other activity:		
	Replacement reserve deposits	(2,400)	(2,400)
	Replacement reserve withdrawn and expensed	8,178	-
	Operating cash flow/surplus cash	$ 3,257	$ 10,582

Per the Regulatory Agreement, borrower distribution is the lessor of:

8% gross rental income ($23,737 for 2019)	$ 1,899
8% gross rental income ($21,828 for 2018)	$ 1,746
or $50 per unit per month (6 units)	$ 3,600

Surplus cash - borrower distribution	$ 1,899	$ 1,746
Surplus cash - repayment of interest on HCD loan	1,358	8,836
Distribution of surplus cash	$ 3,257	$ 10,582

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
SUPPLEMENTARY INFORMATION REQUIRED BY HCD
JUNE 30, 2019
(Continued)

Cash on Hand and in Banks

See Note 2

Property and Equipment

See Note 3

Debt Service

See Note 4

Replacement Reserve Account

See Note 5.B.

Taxes

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

Tenant Security Deposits

Tenant security deposits were fully funded as of June 30, 2019. The account does not earn interest. See also Note 2.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are being paid on a current basis.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States of America, the financial statements of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, as of and for the year ended June 30, 2019, and the related notes to the financial statements, that comprise this Fund's financial statements, and have issued our report thereon dated February 12, 2020.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the County of Santa Cruz's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Brommer Street Transitional Housing Enterprise Fund financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those in charge with governance.

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

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

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

Harn & Dolan

February 12, 2020

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
JUNE 30, 2019

AUTHORITY'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements, notes, and supplemental information of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, as of and for the years ended June 30, 2019 and 2018, and to the best of our knowledge and belief, these financial statements, notes, and supplementary information are complete and accurate.

Signature	Title	Date
[signature]	Executive Director	3/6/2020
[signature]	Finance Director	3/6/2020

AGENDA ITEM SUMMARY

MEETING DATE: March 25, 2020 **ITEM NUMBER:** 5C

FROM: Executive Director

SUBJECT: Update on Housing Authority Response to COVID-19

RECOMMENDATION: Grant Temporary Emergency Authority to Executive Director and/or Deputy Executive Director to Modify or Make Exceptions to Personnel Policies and Make Any Other Policy Changes or Exceptions Necessary to Continue Essential Services While Ensuring Staff Safety and Following Public Health Guidelines. This Authority Will Remain in Effect Until May 31st, 2020 Unless Modified by the Board of Commissioners Before That Date.

BACKGROUND SUMMARY:

The County of Santa Cruz Health Services Agency has issued a Shelter-In-Place directive to residents of Santa Cruz County in response to the COVID-19 pandemic. Essential businesses and government services are exempt from this directive. Therefore, the Housing Authority must continue essential services while taking steps to protect the safety of staff and residents and remaining in compliance with other public health guidelines including social distancing.

In order to accomplish this, HA staff request temporary emergency authority to allow us to effectively respond to rapidly evolving information, operational considerations, and orders from local, state and federal authorities regarding the COVID-19 pandemic. Some actions have already been taken on an emergency basis, as encouraged or required by public health officials.

- Public access to the office lobby has been suspended.
- Routine face-to-face appointments have been postponed.
- Routine annual or bi-annual inspections have been postponed.
- Staff have been permitted flexible use of paid leave, and/or permitted to work remotely

HA staff is working with statewide and national PHA advocacy groups to request urgently needed regulatory and programmatic relief, and will request regulatory flexibility from HUD including waivers allowing:

- Late annual re-examinations
- Late inspections
- Late submittal of required reporting
- Authority to accept tenant self-certification of decreases in income
- Authority to accept tenant and landlord self-certification of compliance with inspection standards

At this point in time, HA staff are focusing efforts on the most essential agency functions required for the health and safety of our program participants, especially emergency work orders, new housing assistance payment contracts to allow searching voucher holders to “lease up”, and processing requests to increase subsidy for families with a decrease in income. At the same time, HA management are working to promote the health and safety of our staff by reducing or eliminating unnecessary face-to-face contact (including closing our office to the public), allowing additional flexibility with use of paid leave to accommodate staff who are in vulnerable populations due to age or underlying health conditions, as well as for staff who are sick, who are caring for someone who is sick, and to care for minor children who cannot attend school due to school closures.

The requested emergency authority is temporary, expiring on May 31, 2020 unless extended or modified by the Board of Commissioners before that date.

RECOMMENDATION: Grant Temporary Emergency Authority to Executive Director and/or Deputy Executive Director to Modify or Make Exceptions to Personnel Policies and Make Any Other Policy Changes or Exceptions Necessary to Continue Essential Services While Ensuring Staff Safety and Following Public Health Guidelines. This Authority Will Remain in Effect Until May 31st, 2020 Unless Modified by the Board of Commissioners Before That Date.