



HOUSING AUTHORITY of the COUNTY of RIVERSIDE



FINANCIAL STATEMENTS
Proprietary (Enterprise) Fund Type
AND
AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2012



SMITH MARION & CO.
CERTIFIED PUBLIC ACCOUNTANTS

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE

Proprietary (Enterprise) Fund Type

FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL INFORMATION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Financial Statements:	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13
Notes to Financial Statements	14 – 27
SUPPLEMENTARY FINANCIAL INFORMATION	
Financial Statements:	
Combining Statement of Net Assets – All Programs	28
Combining Statement of Revenues, Expenses and Changes in Net Assets– All Programs	29

FINANCIAL INFORMATION



Board of Supervisors
Housing Authority of the County of Riverside
Riverside, CA

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Housing Authority of the County of Riverside as of June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of Housing Authority of the County of Riverside. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Authority of the County of Riverside as of June 30, 2012, and the change in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 10 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the County of Riverside's financial statements as a whole. The combining financial statements on pages 27-28 are also not a required part of the financial statements. The combining financial statements are the responsibility of management and were derived from and relate 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 as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


October 12, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

The purpose of this Management's Discussion and Analysis (MD&A) is to provide a narrative overview, financial highlights and analyses of the audited annual financial statements of the Housing Authority of the County of Riverside (the "Housing Authority"). This MD&A section is required by the provisions of the Governmental Accounting Standards Board (GASB) Statement 34, and is presented in conjunction with the accompanying Basic Financial Statements.

The financial statements are reported based on a twelve-month fiscal year, which starts on July 1 of one calendar year and ends on June 30 of the next calendar year; the fiscal year is named by the calendar year in which the fiscal year ends. Therefore, the basic annual financial statements presented in this report are for Fiscal Year 2012, which started July 1, 2011 and ended June 30, 2012.

THE PURPOSE OF THE HOUSING AUTHORITY

The Housing Authority of the County of Riverside (Housing Authority) was established in 1942 under the U.S. Housing Act of 1937 and the State of California Housing Authority Law of 1938. The Housing Authority is a government agency which is chartered by the State of California to administer the development, rehabilitation or financing of affordable housing programs. The area of jurisdiction of the Housing Authority is the entire County of Riverside. Permanent operational offices are maintained in the cities of Riverside and Indio to facilitate the provision of services.

The primary mission of the Housing Authority is to assist low and moderate income families, including elderly and disabled persons, by operating programs which provide them decent, safe and sanitary housing at affordable costs.

FINANCIAL HIGHLIGHTS

The Housing Authority ended the fiscal year of operations with assets of \$26,834,835; liabilities of \$10,845,672; and net assets of \$15,989,163, which consisted of \$7,999,437 invested in land, buildings and equipment; \$2,983,735 in restricted assets; and \$5,005,991 in unrestricted assets.

The ending net assets of \$15,989,163 represents a decrease in net assets of \$5,369,299 from the prior fiscal year, which resulted from operating revenues of \$85,641,944, operating expenses of \$91,461,676, and Capital Contribution of \$558,550, along with a net loss from nonoperating revenues and expenses of \$108,117.

These financial highlights are detailed further in the **Presentation of Condensed Financial Information With Analysis of Overall Financial Position**, as shown on page 5.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Housing Authority is a special purpose government agency and is a blended component unit of the County of Riverside. The Housing Authority conducts its financial operations in a business-type approach and is defined as a governmental enterprise fund by GASB. Therefore, the Housing Authority is required to present its financial statements in the format of enterprise fund financial statements.

As a blended component unit of a larger governmental body, the Housing Authority provides its financial statements to the County of Riverside, which includes the Housing Authority's financial information in the County's Comprehensive Annual Financial Report (CAFR). Accordingly, the Housing Authority does not issue its own financial statements in the format of government wide statements.

As the major funding source for housing authorities, the U.S. Department of Housing and Urban Development (HUD) established financial reporting requirements and guidelines for presenting the annual basic financial statements. HUD's preference is for housing authorities to report all of their activities in single column format and, if necessary, present combining financial statements to reflect the activity of individual funds. The Housing Authority implemented this approach in Fiscal Year 1999 when it converted its accounting system to Generally Accepted Accounting Principles (GAAP) and continues with the same financial statement presentations in the current fiscal year. Therefore, the Housing Authority's basic financial statements show one enterprise fund, while the combining financial statements are included as supplementary financial information.

For internal tracking and control, the Housing Authority maintains separate funds in its general ledger for all of its multiple enterprise funds, but has combined all of these various funds into three major funds for financial reporting purposes. These three major funds are identified as Authority Funds, HUD Public Housing Funds, and HUD Section 8 Funds. While detailed fund information is not presented in the annual basic financial statements, separate accounts are maintained for each fund and sub-fund to control and manage money for particular purposes and to ensure that the Housing Authority is properly using specific appropriations and grants.

The *enterprise fund financial statements* consist of three documents:

- 1) Statement of Net Assets
- 2) Statement of Revenues, Expenses and Changes in Net Assets
- 3) Statement of Cash Flows

The *Statement of Net Assets* presents information on all of the Housing Authority's assets and liabilities, with the difference between the two reported as net assets. The Statement of Net Assets replaces the Balance Sheet. The new terminology of "net assets" replaces the Balance Sheet terminology of "equity" or "fund balance".

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Housing Authority's net assets changed during the fiscal year. All changes in net assets are reported in the proprietary (enterprise) fund financial statements based on full accrual of revenues and expenses, regardless of the timing of cash flows. As a result, the accrual of revenues and expenses as reported in this statement would affect cash flow in future fiscal periods. Revenues, whether received or not, are properly recorded in the fiscal period in which they are earned; expenses, whether paid out or not, are properly recorded in the fiscal period in which the related debt obligation is incurred.

The *Statement of Cash Flows* presents information on cash flows from operating activities, capital and related financing activities, and investing activities. The accrual of revenues and expenses from prior fiscal years would affect the cash flow in the current fiscal period.

The proprietary (enterprise) fund financial statements are on pages 11-13 of this report.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided by this agency in the proprietary (enterprise) fund financial statements. The notes to the financial statements are on pages 14-27 of this report.

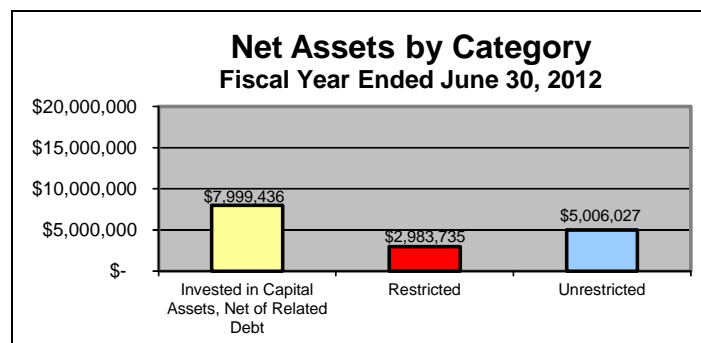
PRESENTATION OF CONDENSED FINANCIAL INFORMATION WITH ANALYSIS OF OVERALL FINANCIAL POSITION

Statement of Net Assets

Financial statements, presented as follows, are shown in a condensed format to compare amounts from the current fiscal year (2012) to amounts from the prior fiscal year (2011). These condensed financial statements are accompanied by charts to illustrate selected aspects of financial information, along with brief narrative analyses.

Housing Authority of the County of Riverside Statement of Net Assets

	2012	2011
ASSETS		
Current Assets:		
Cash	\$ 10,884,791	\$ 15,626,985
Accounts Receivable	104,435	160,731
Due From Other Governments	855,361	813,194
Prepaid Expenses	2,176	32,758
Total Current Assets	11,846,763	16,633,668
Noncurrent Assets:		
Restricted Investments	193,560	187,948
Capital Assets:		
Land, Structures, and Equipment	45,637,780	44,991,261
Less Accumulated Depreciation	(30,843,233)	(29,690,671)
Capital Assets, net	14,794,547	15,300,590
Total Assets	\$ 26,834,870	\$ 32,122,206
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ -	\$ 13,603
Deferred Income	586,200	587,972
Due To HUD	18,178	25,815
Other Liabilities	633,610	441,466
Tenants Security Deposits	172,870	179,561
Accrued Interest Payable	6,650	7,365
Accrued Compensated Absences Payable	116,147	117,790
Bonds Payable - Current Portion	135,000	125,000
Total Current Liabilities	1,668,655	1,498,572
Noncurrent Liabilities:		
Compensated Absences Payable	1,045,302	1,060,113
Other Liabilities	723,231	731,013
Notes Payable	6,795,110	6,795,110
Bonds Payable	613,374	678,936
Total Noncurrent Liabilities	9,177,017	9,265,172
Total Liabilities	\$ 10,845,672	\$ 10,763,744
NET ASSETS		
Invested In Capital Assets, Net Of Related Debt	\$ 7,999,436	\$ 8,505,480
Restricted	2,983,735	5,969,381
Unrestricted	5,006,027	6,883,601
Total Net Assets	\$ 15,989,198	\$ 21,358,462



As previously illustrated by the Statement of Net Assets, the Housing Authority ended the fiscal year of operations with assets of \$26,834,835 and liabilities of \$10,845,672 resulting in net assets of \$15,989,163. These net assets consisted of \$7,999,437 (50%) invested in capital assets such as land, buildings and equipment, net of related debt; \$2,983,735 (19%) in restricted assets; and \$5,005,991 (31%) in unrestricted assets.

The ending net assets of \$15,989,163 represent a decrease in net assets of \$5,369,299 from the prior fiscal year's ending net assets of \$21,358,462.

While the majority of the Housing Authority's total net assets is reported as invested in capital assets (\$7,999,437) and is reported as net of related debt as per GASB requirements, it should be noted that the capital assets themselves are not the source to pay for any related debt liabilities; instead, the resources to repay such debt come from operating revenues.

Restricted net assets (\$2,983,735) are reported separately to show legal constraints from debt covenants and program restrictions that limit the Housing Authority's ability to use those net assets for day-to-day operations.

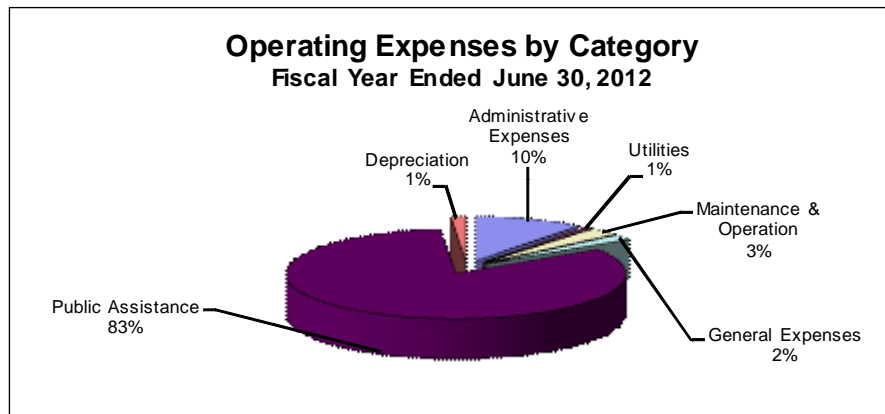
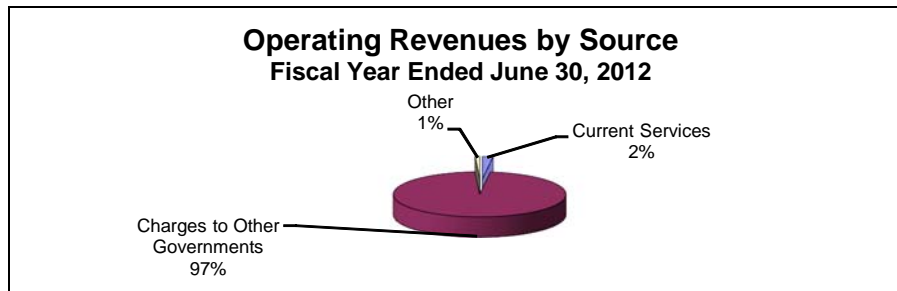
Unrestricted net assets (\$5,005,991) while designated as not having legal or program restrictions include \$18,178 of funds owed back to HUD. Therefore, \$4,987,813 (99.6%) of unrestricted net assets is available for use as working capital in day-to-day operations.

Statement of Revenues, Expenses and Changes in Net Assets

Financial statements, presented as follows, are shown in a condensed format to compare amounts from the current fiscal year (2012) to amounts from the prior fiscal year (2011). These condensed financial statements are accompanied by charts to illustrate selected aspects of financial information, along with brief narrative analyses.

**Housing Authority of the County of Riverside
Statement of Revenues, Expenses, and Changes in Net Assets**

	2012	2011
Operating Revenues:		
Current Services	\$ 1,695,088	\$ 1,757,474
Charges To Other Governments	83,197,376	84,469,341
Other	749,480	941,988
Total Operating Revenues	\$ 85,641,944	\$ 87,168,803
Operating Expenses:		
Administrative Expenses	\$ 9,538,794	\$ 9,700,779
Utilities	617,790	636,591
Maintenance & Operation	2,577,493	1,968,221
General Expenses	1,675,943	1,703,208
Public Assistance	75,735,487	70,155,309
Depreciation	1,316,169	1,896,513
Total Operating Expenses	\$ 91,461,676	\$ 86,060,621
Operating Income (Loss)	\$ (5,819,732)	\$ 1,108,182
Nonoperating Revenues (Expenses)		
Investment Income	\$ 33,592	\$ 61,323
Interest On Notes And Bonds	(152,807)	(161,228)
Gain (Loss) On Sale Of Property	11,133	10,488
Total Nonoperating Revenue (Expenses)	\$ (108,082)	\$ (89,417)
Capital Contribution	558,550	43,319
Change In Net Assets	\$ (5,369,264)	\$ 1,062,084
Net Assets-Beginning	21,358,462	20,296,378
Adjustment To Net Assets		
Restated Net Assets - Beginning	21,358,462	20,296,378
Net Assets - Ending	\$ 15,989,198	\$ 21,358,462



As shown by the Statement of Revenues, Expenses and Changes in Net Assets, the Housing Authority's net assets decreased by \$5,369,299 from the prior fiscal year, which is attributed to the following:

- Decrease in Current Services as a result of lower occupancy at Desert Rose Apartments in Ripley.
- Decrease in Charges to Other Governments due to the reduction in subsidy for the Section 8 Voucher Program's Housing Assistance Payment (HAP).
- Decrease in Other Revenue due to fewer participants forfeiting escrow account balances from the Section 8 Family Self Sufficiency (FSS) Program.
- Increase in Maintenance and Operation expenses due to construction of lease offices for Public Housing Managers per HUD's Asset Management regulations for site-based management. In addition, Public Housing capital improvements including painting and concrete work were completed throughout East and West County Public Housing sites in preparation for HUD's next annual inspections.
- Increase in Maintenance and Operation expenses due to capital improvements in Housing Authority's Administration building to save on storage costs and address safety concerns.
- Increase in Public Assistance expense to support full lease-ups in the Section 8 Voucher Program.
- Increase in Capital Contribution is primarily related to the construction of lease offices for Public Housing Managers in order to maintain compliance with Asset Management by having onsite property management and services.

ANALYSIS OF SIGNIFICANT BUDGET VARIANCES

The Housing Authority's fiscal department works closely with the other departments to monitor the annual operating budget throughout the fiscal year in order to avoid over expenditure of available funds. Monthly and quarterly financial documents are prepared to assist in this process.

Comparison of Original Budget and Final Budget

Overall, the original operating budget of \$88,451,998 remained the same from the Original Budget to the Final Budget except for minor adjustments, as illustrated below.

**Housing Authority of the County of Riverside
Budget Comparison
For the Year Ended June 30, 2012**

	Final Budget	Original Budget	% change
Operating Revenues:			
Current Services	\$ 1,778,549	\$ 1,778,549	0.00%
Charges To Other Governments	84,630,384	84,630,384	0.00%
Other	2,070,411	2,070,411	0.00%
Total Operating Revenues	\$ 88,479,344	\$ 88,479,344	0.00%
Operating Expenses:			
Administrative Expenses	\$ 11,770,873	\$ 11,767,823	0.03%
Utilities	619,530	619,530	0.00%
Maintenance & Operation	3,657,926	3,660,976	-0.08%
General Expenses	1,160,774	1,160,774	0.00%
Public Assistance	71,242,895	71,242,895	0.00%
Depreciation	-	-	0.00%
Total Operating Expenses	\$ 88,451,998	\$ 88,451,998	0.00%
Operating Income (Loss)	\$ 27,346	\$ 27,346	0.00%
Nonoperating Revenues (Expenses)			
Investment Income	61,019	61,019	0.00%
Interest On Notes And Bonds	(88,365)	(88,365)	0.00%
Total Nonoperating Revenue (Expenses)	\$ (27,346)	\$ (27,346)	0.00%
Change In Net Assets	\$ (0)	\$ -	

Comparison of Actual Operating Results and Final Budget

Overall, the actual operating expenses of \$91,461,676 (including depreciation of \$1,316,169 not required to be budgeted) were higher than the final budgeted expenses of \$88,451,998 by about 3%.

**Housing Authority of the County of Riverside
Actuals vs. Budget
For the Year Ended June 30, 2012**

	Actuals	Final Budget
Operating Revenues:		
Current Services	\$ 1,695,088	\$ 1,778,549
Charges To Other Governments	83,197,376	84,630,384
Other	749,480	2,070,411
Total Operating Revenues	\$ 85,641,944	\$ 88,479,344
Operating Expenses:		
Administrative Expenses	\$ 9,538,794	\$ 11,770,873
Utilities	617,790	619,530
Maintenance & Operation	2,577,493	3,657,926
General Expenses	1,675,943	1,160,774
Public Assistance	75,735,487	71,242,895
Depreciation	1,316,169	-
Total Operating Expenses	\$ 91,461,676	\$ 88,451,998
Operating Income (Loss)	\$ (5,819,732)	\$ 27,346
Nonoperating Revenues (Expenses)		
Investment Income	\$ 33,592	\$ 61,019
Interest On Notes And Bonds	(152,807)	(88,365)
Gain (Loss) On Sale Of Property	11,133	
Total Nonoperating Revenue (Expenses)	\$ (108,082)	\$ (27,346)
Capital Contribution	558,550	-
Change In Net Assets	\$ (5,369,264)	\$ -

The most significant differences between the actual operating results and final budgeted amounts are explained as follows:

- The decrease in Current Services was a result of higher vacancies in the Desert Rose Apartments because more tenants moved out of the units as their rental subsidy from the Redevelopment Agency (RDA) ended after one year of tenancy.
- The decrease in Charges To Other Governments was primarily due to unrealized budgeted funds for the following programs:
 - HA Development Division. Projected RDA grant and proceeds for the sale of the Molino Way project and Mira Loma subsidy did not materialize by the end of the fiscal year as expected.
 - Capital Fund Program. The focus during the fiscal year was to expend all funds from the two older grants in order to meet HUD deadlines. Contracts for the newer grant were signed in the next fiscal year; therefore, the projected funding for this grant was not received since there were only minimal expenses for the planning stages that were reimbursed by HUD.
- The decrease in Administrative Expenses was a result of HUD's direction in the elimination of reporting the management fees as part of the consolidated expenses, which were included in the Final Budget. Further, a hiring freeze was imposed during the fiscal year due to County wide layoffs, so not all budgeted positions were filled and vacated positions were not back filled.
- The decrease in Maintenance & Operation occurred because construction costs for Molino Way and Mira Loma projects for the HA Development Division did not materialize due to site survey issues.
- The increase in Public Assistance occurred as the Housing Assistance Payment (HAP) reserves were utilized to cover full lease-ups and higher subsidy payments for Section 8 participants.
- The expense for Depreciation was included in the Actuals, but excluded from the Final Budget.
- The decrease in Investment Income was due to the use of reserves to cover full lease-ups and higher subsidy payments for Section 8 program participants.
- The Capital Contribution category includes revenues received for the Capital Fund Program, which were budgeted under Other Revenue but are shown in a separate line in the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Overall, at June 30, 2012, the Housing Authority's investment in capital assets, consisting of land, buildings, furniture, and equipment is reported at its net asset value of \$14,794,547, which is the acquisition cost of \$45,637,780 less accumulated depreciation of \$30,843,233. This year, changes in capital assets were due to the improvements to Public Housing sites through the Capital Fund program, and the purchase of five (5) vehicles and four (4) Utility Carts for the Public Housing sites.

Capital Fund Program

HUD's Capital Fund program provides an annual formula grant to the Housing Authority for major repairs and modernization of HUD affordable housing in the cities of Banning, Beaumont, Desert Hot Springs, Indio, Lake Elsinore, Mecca, Moreno Valley, Perris, Riverside, San Jacinto and Thermal. More detailed information pertaining to capital assets is presented in the notes to the financial statements (Pages 19-20, Note 4).

Long-Term Debt

At the end of the current fiscal year, the Housing Authority had long-term bonds outstanding with a book value of \$613,374. Principal and interest payments continue to reduce the total debt outstanding. More detailed information pertaining to long-term debt is presented in the notes to the financial statements (Page 21, Notes 6 & 8).

CURRENTLY KNOWN FACTS: ECONOMIC FACTORS

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected by the Federal budget. Despite improvement in the economy on the national level, the State of California still lags behind and continues to experience a long recovery process from the recession. Due to the slow economic progress, the need for affordable housing is still prevalent as job loss and foreclosures continue to transpire. This situation has contributed to the high lease-up rates for the Housing Authority's Section 8 Voucher Program and improved occupancy rates in the Housing Authority's Public Housing sites.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Housing Authority of the County of Riverside's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Fiscal Manager at the Housing Authority of the County of Riverside, 5555 Arlington Avenue, Riverside, CA 92504.

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE

Proprietary (Enterprise) Fund Type

STATEMENT OF NET ASSETS

JUNE 30, 2012

(dollars are in thousands)

ASSETS

Current Assets

Cash	\$	7,572
Cash (restricted)		3,313
Subtotal Cash		<u>10,885</u>
Accounts receivable (Net)		104
Due from other governments		855
Prepaid expenses		2
Total Current Assets		<u>11,846</u>

Restricted investments 193

Capital assets (net) 14,795

TOTAL ASSETS 26,834

LIABILITIES

Current Liabilities

Accounts payable		-
Deferred income		586
Due to HUD		18
Other liabilities		634
Tenants security deposits		173
Accrued interest payable		7
Compensated absences payable		116
Bonds payable-current portion		135
Total Current Liabilities		<u>1,669</u>

Noncurrent Liabilities

Compensated absences payable		1,045
Other liabilities		723
Notes payable		6,795
Bonds payable		613
Total Noncurrent Liabilities		<u>9,176</u>
TOTAL LIABILITIES		<u>10,845</u>

NET ASSETS

Investment in capital assets, net of related debt		7,999
Restricted		2,984
Unrestricted		5,006
TOTAL NET ASSETS	\$	<u>15,989</u>

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE

Proprietary (Enterprise) Fund Type

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

(dollars are in thousands)

REVENUES

Operating Revenues

Current services	\$	1,695
Charges to other governments		83,197
Other		749
Total Operating Revenues		85,641

EXPENSES

Operating Expenses

Personnel services		9,459
Utilities		618
Maintenance & operation		2,557
General expenses		1,402
Insurance expenses		374
Public assistance		75,735
Depreciation		1,316
Total Operating Expenses		91,461
Operating Income (Loss)		(5,820)

Nonoperating Revenues (Expenses)

Investment income		34
Interest expense on notes and bonds		(153)
Gain (loss) on sale of capital asset		11
Total Nonoperating Revenues (Expenses)		(108)

Capital Contribution

559

Change in net assets

(5,369)

Net Assets - beginning

21,358

Net Assets - ending

\$ 15,989

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE

Proprietary (Enterprise) Fund Type
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

(dollars are in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$	2,492
Receipts from grants		83,147
Payments to suppliers		(5,380)
Payments to employees for services		(8,777)
Payments for housing assistance		(75,735)
Net Cash Provided (Used) By Operating Activities		(4,253)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets (net of soft costs)		(810)
Proceeds from capital contribution grant		559
Principal paid on debt		(125)
Interest paid on debt		(153)
Net Cash Provided (Used) By Financing Activities		(529)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of additional restricted investments		(5)
Proceeds from sale of capital assets		11
Investment income		34
Net Cash Provided (Used) By Investing Activities		40,000

Net Increase (Decrease) In Cash (4,742)

CASH AND CASH EQUIVALENTS - Beginning of Year 15,627

CASH AND CASH EQUIVALENTS - Ending of Year \$ 10,885

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$	(5,820)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		1,316
Amortization of deferred charges		69
Changes in assets and liabilities:		
(Increase) decrease accounts receivable		57
(Increase) decrease due from other governments		(42)
(Increase) decrease prepaid expenses		31
Increase (decrease) accounts payable		(15)
Increase (decrease) deferred income		(2)
Other		153
Total Adjustments		1,567
Net cash used by operating activities	\$	(4,253)

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Housing Authority of the County of Riverside (Authority), a component unit of the County of Riverside, operates as a public authority whose primary goal is to provide decent, safe and sanitary housing in a suitable living environment for families that cannot afford private housing that comply with housing quality standards.

The Authority as a reporting entity operates the following programs:

Public Housing Authority (PHA) Owned Housing Program - Annual Contribution Contract SF-68 (469 Units)

Section 8 Housing Assistance Payment Program – Annual Contribution Contract SF-528 (8,945 units)

Authority Programs – Various housing developments with the assistance of bond and grant funding (94 units)

(b) Basis of Accounting

The books of accounts are maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

The Authority applies all applicable Financial Accounting Standards Board (FASB) Statements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

(c) Proprietary Fund Type

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets.

In addition, the accounting records of the Authority are organized on the basis of funds. Each of the Authority's programs is accounted for in a separate fund.

The basic accounting and reporting entity is a "fund." A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, including resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

(d) Revenues

Operating revenues are recognized in the accounting period in which they are earned and become measurable. Intergovernmental grant revenue received for capital acquisitions or construction is reported as operating revenues. Revenues are also derived from dwelling rental income and operating subsidies from HUD.

(e) Expenses

Expenses are recognized in the accounting period in which the related liability is incurred.

(f) Cash and Investments

Investments are reported in the accompanying statement of net assets at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rate.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Authority pools cash and investments of all funds, except for assets held by fiscal agents. Investment income earned by the pooled investments is allocated to certain funds based on those funds' average investment balance.

(g) Fixed Assets

Land, structures, equipment, development projects, and modernization costs are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. Estimated useful lives range from 5-25 years. Fixed assets that cost \$5,000 or more are capitalized.

(h) Employee Leave Benefits

Permanent Authority employees earn from 10 to 20 vacation days a year, depending upon their length of employment, and 13 sick days a year. Employees can carry forward up to the equivalent number of vacation days earned in the immediately preceding thirty-six month period and an unlimited number of unused sick leave days.

Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave. If an employee retires, the employee is entitled to a portion of accumulated sick leave hours. In no event, however, shall the total payment exceed a sum equal to 960 hours. It is the policy of the Authority to reflect the employee vacation leave benefits liability in the financial statements, and an estimated portion of the sick leave liability.

(i) Insurance Coverage

For apartment managers and temporary employees, the Authority is insured for workers' compensation claims by California Housing Workers' Compensation Authority. Under this program, the pool provides coverage for all claims in accordance with worker's compensation state laws. For permanent Authority employees who are County employees, the County of Riverside self-insures for workers' compensation.

(j) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have a maturity date at time of purchase of three months or less. Restricted investments are considered cash equivalents as defined above.

(k) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Combined Statement of Net Assets:

Cash	\$ 7,572,059
Restricted cash	3,312,732
Restricted investments	193,560
Total cash and investments	<u>\$ 11,078,351</u>

Cash and investments consisted of the following:

Deposits with financial institutions	\$ 8,865,958
Local Agency Investment Fund	2,018,833
Investments	193,560
Total cash and investments	<u>\$ 11,078,351</u>

Required Note Disclosures

Acknowledging that deposits and investments of state and local governments are subject to various risks, the Governmental Accounting Standards Board Statement 40 (GASB 40) requires note disclosures about investment policies and five deposit and investment risks identified as custodial credit risk, credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Since the County of Riverside elected to implement GASB 40 in Fiscal year 2004, the Housing Authority, a component unit of the County of Riverside, was required to implement GASB 40 for Fiscal Year 2004 as well.

Investment Policy

In October 1999 (Fiscal Year 2000), the Board of Commissioners of the Housing Authority formally adopted the Investment Policy, which was updated and approved on July 27, 2010. This Investment Policy identifies the specific types of deposits and investments which are authorized by that Investment Policy, by the Department of Housing and Urban Development (HUD) and by the California Government Code (CGC).

The Investment Policy of the Housing Authority does not name the five specific deposit and investment risks identified by GASB 40, but this Investment Policy does address these risks in principal by stating that it shall be the policy of the Housing Authority to invest funds in a manner which will provide the maximum safety, liquidity and reasonable investment return while meeting the daily cash flow demands of the Housing Authority and conforming to all statutes governing the investment of Housing Authority funds.

Authorized Types of Deposits and Investments

All types of deposits with financial institutions and all types of investments made by the Housing Authority during Fiscal Year 2012 were authorized by its own Investment Policy, by HUD and by the CGC. The type and value of these deposits with financial institutions and investments as of June 30, 2012 are identified below.

Deposits with Financial Institutions

Insured Demand Deposit Accounts

Bank of America	\$ 7,483,327	84.41%
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Other Deposit Accounts

County of Riverside	1,014,104	11.44%
Petty Cash	1,300	0.01%

Insured Money Market Deposit Accounts

Bank of America	367,227	4.14%
Total Insured Deposits	<u>\$ 8,865,958</u>	<u>100.00%</u>

Disclosure Required for Risks Related to Deposits with Financial Institutions

Custodial Credit Risk

For **deposits**, **custodial credit risk** 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 its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The Investment Policy of the Housing Authority, HUD and the California Government Code do not address legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure such deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investments

State Depository Funds

Local Agency Investment Fund (LAIF)	\$ 2,018,833	91.3%
Trustee Indenture Funds		
US Bank Debt Service Funds	193,560	8.7%
Total Investments	\$ 2,212,393	100.0%

Disclosure Required for Risks Related to Investments

State Depository Funds

All Housing Authority funds on deposit with the Local Area Investment Fund (LAIF) are subject to the California Government Code (CGC). All securities purchased by the LAIF are purchased under the authority of CGC Section 16430 and 16480.4. CGC Section 16429.3 states that money placed with the state treasurer for deposit in the LAIF shall not be subject to transfer, loan or impoundment by any state official or state agency. CGC Section 16429.4 states that the right of a qualified government agency 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.

Trustee Indenture Funds

All Housing Authority funds in the possession of US Bank, designated bond trustee, are subject to written debt agreements. US Bank, by written agreement with the Housing Authority, is required to put all available debt service funds of the Housing Authority into their First American Treasury Obligations Fund (Money Market Class Y Shares), which is invested exclusively in short-term US Treasury obligations and repurchase agreements secured by US Treasury obligations.

Custodial Credit Risk

For **investments**, **custodial credit risk** is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to 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.

All Housing Authority funds invested in LAIF and in Trustee Indenture Funds are subject to the California Government Code and to written debt agreements, respectively, and are not subject to any significant degree of custodial credit risk.

Credit Risk

For **investments, credit risk** is the risk that an issuer of an **investment** will not fulfill its obligation to the holder of the investment.

All Housing Authority funds invested in LAIF and in Trustee Indenture Funds are subject to the California Government Code and to written debt agreements, respectively, and are not subject to any significant degree of credit risk.

Concentration of Credit Risk

For **investments, concentration of credit risk** is the risk associated with the Authority having 5% or more of total investments with any one issuer.

The Housing Authority has 91.3% (\$2,018,833) of its investments in LAIF, which is subject to the California Government Code which places no limits on the amount of funds the Housing Authority may invest in LAIF.

Interest Rate Risk

For **investments, interest rate risk** is the risk that changes in market interest rates will adversely affect the fair value of or cash flow from an investment.

All Housing Authority funds invested in LAIF and any required cash flows from LAIF are subject to the California Government Code and are not subject to any significant degree of interest rate risk.

All Housing Authority funds invested in Trustee Indenture Funds are subject to written debt agreements and are not subject to any significant degree of interest rate risk.

Foreign Currency Risk

For **investments, foreign currency risk** is the risk that changes in the value of foreign currency will adversely affect the fair value of an investment.

All Housing Authority funds invested in LAIF and in Trustee Indenture Funds are subject to the California Government Code and to written debt agreements, respectively, and are not subject to any significant degree of foreign currency risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable (net) includes tenant receivables (less allowance for bad debt), interest receivable, miscellaneous receivables, and other receivables which include due from other funds (internal) and due from other governments, as following:

Accounts receivable (net)

Tenant receivables

Current tenants	\$	13,905
Noncurrent tenants		80,177
Gross tenant receivable		<u>94,082</u>
Less: allowance for bad debt		<u>(2,447)</u>
Net tenant receivables		91,635

Interest receivable		6,345
Miscellaneous receivables		<u>6,455</u>

Total accounts receivable (net) 104,435

Other receivables

Due from other governments 855,361

Grand Total Receivables (net) \$ 959,796

4. CAPITAL ASSETS

A summary of the land, structures and equipment for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable Capital Assets:				
Land	\$ 3,631,036	\$ -	\$ -	\$ 3,631,036
Development work-in-progress	575,134	897,200	(779,062)	693,272
Subtotal	<u>4,206,170</u>	<u>897,200</u>	<u>(779,062)</u>	<u>4,324,308</u>
Depreciable Capital Assets:				
Buildings and improvements	39,580,900	570,833	-	40,151,733
Equipment	1,204,191	121,155	(163,607)	1,161,739
Subtotal	<u>40,785,091</u>	<u>691,988</u>	<u>(163,607)</u>	<u>41,313,472</u>
Total Capital Assets	<u>44,991,261</u>	<u>1,589,188</u>	<u>(942,669)</u>	<u>45,637,780</u>
Accumulated depreciation				
Buildings	(28,705,941)	(1,235,420)	-	(29,941,361)
Equipment	(984,730)	(80,749)	163,607	(901,872)
Subtotal	<u>(29,690,671)</u>	<u>(1,316,169)</u>	<u>163,607</u>	<u>(30,843,233)</u>
Total	<u>\$ 15,300,590</u>	<u>\$ 273,019</u>	<u>\$ (779,062)</u>	<u>\$ 14,794,547</u>

Depreciation expense for the year ended June 30, 2012 was \$1,316,169.

Implementation of Governmental Accounting Standards Board (GASB) Pronouncements:

Governmental Accounting Standards Board No. 51 Accounting and Financial Reporting for Intangible Assets. This Statement requires the inclusion of intangible assets as capital assets for accounting and financial reporting purposes.

The Housing Authority does not possess any assets that may be considered intangible assets, whether purchased or internally-generated. Therefore, this GASB Statement has no financial impact to the Housing Authority's financial statements.

In Fiscal Year 2010, the Housing Authority purchased for \$1 a bank-owned property located in Geordie Way, in the City of Riverside. Site planning has started and is set to take place in Fiscal Year 2013. The Housing Authority plans to either sell the home to first time homebuyers or rent it to low or moderate-income families.

In Fiscal Year 2011, the Housing Authority purchased three (3) homes using its Unrestricted Net Assets of the Section 8 Program to increase affordable housing stock for the benefit of the Section 8 participants. All of the homes were completely rehabilitated and are currently occupied as single-family rental units by income-eligible participants of the Section 8 Program.

5. REVENUE BONDS PAYABLE

Refunding Revenue Bonds 1998 Series A

On January 27, 1998, the Authority issued \$2,405,000 of Refunding Revenue Bonds, 1998 Series A (Corona Project). The bonds were issued to provide a portion of the funds needed to advance refund \$52,270,000 of outstanding Revenue Bonds, Issue A of 1988. The net proceeds of this bond issue were used, together with \$45,674,896 received from the sale of certain property plus certain reserve and sinking fund monies, to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt services payments on the Revenue Bonds, Issue A of 1988. As a result, the Revenue Bonds, Issue A of 1988, are considered to be defeased and the liability for those bonds has been removed from the Authority Project's statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,388,754. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the straight-line method. The economic gain or loss that resulted from this advance refunding is not available.

The 1998 bonds consist entirely of term bonds of which \$1,625,000 of the term bonds mature on December 1, 2018 and accrue interest at 6.25%. Interest on the bonds is payable semiannually on June 1 and December 1 of each year, commencing June 1, 1998. The bonds maturing December 1, 2018 are subject to mandatory sinking fund redemption beginning on December 1, 1998 in amounts ranging from \$80,000 to \$200,000. The redemption price is equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date of redemption.

The bonds are secured by an agreement with the City of Corona, which has pledged to pay \$218,000 to the Housing Authority each year until the bonds are redeemed in their entirety on December 1, 2018. The bond indenture requires the Housing Authority to remit the entire \$218,000 received each year to the bond trustee to pay for the bond's annual debt service payments, which in Fiscal year 2012 were \$125,000 (Principal) and \$84,084 (Interest). The Housing Authority reports the \$218,000 received each year as revenue. In Fiscal Year 2012, the \$218,000 represented about .25% of the total expenses of the Housing Authority. MBIA Insurance Corporation has issued a surety bond in lieu of a cash funded reserve. The outstanding balance as of June 30, 2012 before applying the deferred charge was \$1,165,000.

6. DEBT SERVICE REQUIREMENTS TO MATURITY

The annual requirements to amortize outstanding long-term bonds payable of the Authority as of June 30, 2012 are as follows:

Year ending June 30	1998 Series A
2013	\$ 210,179
2014	210,589
2015	210,314
2016	209,354
2017	207,709
2018-2020	417,056
Total Debt Service	<u>1,465,201</u>
Less: Interest payments	(300,201)
Outstanding Principal	<u>1,165,000</u>
Less: Current portion	(135,000)
Subtotal	<u>1,030,000</u>
Less: Deferred Charges	(416,626)
Balance Long Term	<u><u>\$ 613,374</u></u>

7. INTEREST PAYABLE

The accrued interest payable consists of unpaid interest accrued on outstanding bonds and notes that are due and payable within one year of the balance sheet date. Below is a summary of the accrued interest payable balance at June 30, 2012:

Revenue Bonds – 1998 Series A \$ 6,650

8. LONG-TERM BONDS PAYABLE

The following is a schedule of changes in long-term bonds payable for the year ended June 30, 2012:

	Balance at June 30, 2011	Principal		Balance at June 30, 2012
		Additions	Deletions	
1998 Series A	\$ 1,290,000	\$ -	\$ (125,000)	\$ 1,165,000
Deferred charges	(486,064)	-	69,438	(416,626)
Less current portion	(125,000)	(135,000)	125,000	(135,000)
Totals	<u>\$ 678,936</u>	<u>\$ (135,000)</u>	<u>\$ 69,438</u>	<u>\$ 613,374</u>

9. ARBITRAGE REBATE TO FEDERAL AGENCY

The Internal Revenue Code of 1986, Sections 103 and 141 through 150, details the amount of interest earnings an issuer of tax-exempt bonds can earn on the proceeds. The interest earnings rate cannot exceed the yield on the tax-exempt revenue bonds. The issuer is required to rebate to the federal government any excess earnings.

Every fifth year, until the last revenue bond is paid or redeemed, an arbitrage calculation is required and an installment is due. At least ninety percent of the arbitrage calculation is required to be paid at the installment due date. As of June 30, 2012, no arbitrage payments were owed; therefore, none were paid.

10. NOTES PAYABLE

In Fiscal Year 2006, the ownership of the Ripley Migrant Center property was transferred from the State of California to the Housing Authority. Title of the property was granted to the Housing Authority in consideration of a Note Payable to the U.S. Department of Agriculture (USDA) for \$3,795,110 and another Note Payable to the State Farmer Housing Grant Program for the award of \$3,000,000. The total Notes Payable of \$6,795,110, which was set as the value of the buildings, is not subject to any liens and encumbrances as long as the construction, development, rehabilitation and operation of the rental units are fulfilled for a period of 20 years.

USDA Rural Development	\$ 3,795,110
Farmworker Housing Grant	<u>3,000,000</u>
Total	<u><u>\$ 6,795,110</u></u>

In Fiscal Year 2007, the Housing Authority received a grant of \$1,000,000 from the Riverside County Redevelopment Agency (RDA) as contribution to the rehabilitation cost of the Ripley Migrant Center.

In addition, the RDA agreed to loan \$7,500,000 to the Housing Authority for the construction, rehabilitation and maintenance of the Ripley Migrant Center. In FY 2008, the Board of Commissioners approved the conversion of the RDA loan to a grant for the full amount.

As of June 30, 2009 the rehabilitation of the Ripley Migrant Center, renamed as Desert Rose Apartments, was 100% complete. In Fiscal Year 2012, the waiting list was kept open for lease-up.

11. RETIREMENT PLANS

The Authority contributes through the County of Riverside to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee **defined benefit pension plan**. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public agencies within the State of California.

All full-time, part-time and seasonal benefited County employees are eligible to participate in the system. Benefits are vested after five years of service. Eligible County employees who retire at or after fifty years of age with five years of credited service are entitled to an annual retirement benefit, payable monthly for life. The County makes the contribution required of County employees hired prior to January 9, 1992 on their behalf and for their account. Miscellaneous County employees hired after the above date make their own contributions for the first five years.

On May 22, 2001 the County Board of Supervisors approved and authorized action to transition employees of the Authority to become County employees retroactive to May 3, 2001. These employees became subject to the provisions of the PERS retirement plan with no carry over vesting in years of service from the prior retirement plan. On May 17, 2006, employees of the Housing Authority who were hired prior to May 3, 2001 were 100% vested in the PERS retirement plan after 5 years of uninterrupted service.

The following information summarizes plan activity for the fiscal year ending June 30, 2012:

Total Authority Gross Salaries:	\$ 7,008,481
Total Authority Regular Salaries Subject to PERS:	5,288,941
Total Authority Contributions Required and Paid:	1,108,460

Before Authority employees became County employees, the Authority fully funded a **defined contribution pension plan** on behalf of qualified employees and for their account. During the current fiscal year, the Authority participated in the PERS plan through the County of Riverside and was not required and did not make any contributions to the prior plan. In August 2002 the prior pension plan was formally terminated and plan assets were distributed to the entitled employees in accordance with written instructions as specified by each current or former employee.

Implementation of Governmental Accounting Standards Board (GASB) Pronouncements:

Governmental Accounting Standards Board No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement requires that the state and local governmental employers recognize the annual cost of other nonpension benefits (OPEB) in the same manner they do for pensions. Disclosure requirements include funding policy followed, the actuarial valuation process and assumptions.

The Housing Authority does not offer postemployment healthcare to current staff. As employees of Riverside County, Housing Authority employees receive retirement benefits through PERS, as disclosed in the County of Riverside’s Comprehensive Annual Financial Report (CAFR).

Governmental Accounting Standards Board No. 50 Pension Disclosures.

The County of Riverside has implemented GASB 50 and its effect is on the County’s financial statements. The required disclosures are included in the County of Riverside’s CAFR, since such information is unavailable to the Housing Authority.

12. BOND CONDUIT FINANCING

The Authority is associated with the issuance of the following tax exempt Mortgage Revenue Bonds (Bonds) that were issued for various development firms. The Bonds are not and will never become general obligations of the issuer but are limited obligations of the issuer and are payable solely from the sources set forth in the indenture. The Bonds and the premium, if any, and interest thereon do not and never shall constitute a debt or an indebtedness or an obligation of the issuer or the State of California (State) or any other political subdivision of the State or a loan of the faith or credit or the taxing power of any of them, within the meaning of any constitutional or statutory provisions, nor shall the Bonds be construed to create any moral obligation on the part of the issuer, the State or any other political subdivision of the State with respect to the payment of the Bonds. The Bonds shall not be payable from the general revenues of the issuer and in no event shall the Bonds be payable out of any funds or properties other than those specifically pledged therefor. The issuer has no taxing power. As of June 30, 2012, the outstanding balances of these Revenue Bonds are as follows:

Description	Issue Date	Final Maturity Date	Amount of Issue	Outstanding Balance June 30, 2012
Tyler Village, Series C	1999	2027	\$ 9,000,000	\$ 8,400,000
Victoria Springs, Issue C	1989	2019	9,600,000	9,000,000
Ridgecrest, Series B	1999	2032	5,865,000	5,515,000
Wildomar, Series A	1999	2029	6,700,000	4,915,000
Mission Village, Series A-1	2008	2040	3,019,918	2,927,280
Total Issuances			<u>\$ 34,184,918</u>	<u>\$ 30,757,280</u>

13. OTHER LIABILITIES

	Current	Non-current
Accrued payroll expenses	\$ 360,183	\$ -
Accrued insurance expenses for April 2012 through June 2012	35,860	-
Accrued audit costs for fiscal year ending June 30, 2012	28,638	-
Accrued administrative expense	12,664	-
Accrued capital improvement expense	148,660	-
Accrued expenses for the HOPWA program	47,606	-
Family Self-Sufficiency Program Escrow	-	723,231
Total Issuances	<u>\$ 633,611</u>	<u>\$ 723,231</u>

Family Self-Sufficiency Program Escrow

With the consent of the U.S. Housing and Urban Development (HUD), the Housing Authority manages a Family Self-Sufficiency (FSS) Program that allows eligible low-income families who have Section 8 vouchers to join an employment and savings program. The program offers case management services that help participants pursue employment and other goals, and escrow accounts into which the Housing Authority deposits the increased rental charges that the families pay as their earnings rise. When families complete the program after five years (with an option of a 2 year extension), they can withdraw the funds from escrow for any purpose. As of June 30, 2012, there were 625 participants with escrow amounts totaling \$723,231.

14. OTHER PROGRAM AWARDS

The Neighborhood Stabilization Program (NSP) was enacted under Title III of Division B of the Housing and Economic Recovery Act of 2008 (HERA) and appropriated under Community Development Block Grant (CDBG) funds for the purpose of assisting in the redevelopment of abandoned and foreclosed homes. The intent of NSP is to stabilize neighborhoods in areas with greatest need and to stem the decline of house values of neighborhood homes in the County of Riverside.

On November 25, 2008, the Board of Supervisors approved the activity of acquisition, rehabilitation, and resale of housing units as a component of NSP. The 2008-2009 One Year Action Plan of the 2004-2009 Five year Consolidated Plan calls for the County of Riverside to partner with eligible public and private non-profit organizations.

The County's Economic Development Agency (EDA), through its CDBG program, was awarded \$48 million in NSP funding. EDA publicized a Notice of Funding Availability (NOFA) on March 17, 2009 for the purpose identified above.

The Housing Authority applied for and was awarded a total of \$5.4 million of NSP funds. The total award consists of \$2.4 million designated for Cathedral City, and \$3 million for Target Areas within Lake Elsinore, Canyon Lake, Temecula, Beaumont, Rubidoux, Murrieta, San Jacinto, Home Gardens, and French Valley.

In Fiscal Year 2010, the Housing Authority purchased 26 homes for a total of \$4,100,369, which were paid for directly by EDA to the escrow company. The Housing Authority received \$432,933 as reimbursement for planning and construction costs expended during the rehabilitation of some of the homes. As of Fiscal Year 2011, there were 16 homes sold, 3 homes pending close of escrow, 2 with purchase offers, and 5 homes undergoing negotiations.

In Fiscal Year 2011, the Housing Authority was awarded by the County to receive \$1,000,000 in NSP program income funds to continue to purchase foreclosed homes, rehabilitate, and resale to moderate first-time homebuyers. By the end of the fiscal year, the Housing Authority purchased 3 homes, with a 4th one pending close of escrow. The rehabilitation of the homes began in conjunction with the process of searching for qualified potential buyers.

In Fiscal Year 2012, of the 26 homes purchased in 2010, 1 remaining home was in escrow and scheduled to close early next fiscal year. In addition, of the 4 homes purchased in 2011, 3 were sold in 2012 to eligible households with 1 remaining property in escrow for sale as of June 30, 2012.

The Housing Authority was contracted by the EDA to administer Homelessness Prevention and Rapid Re-Housing Program (HPRP). The primary purpose of the HPRP is to provide homelessness prevention assistance and services to households that would otherwise become homeless, many due to economic circumstances, and to provide assistance to rapidly "re-house" and stabilize those that are homeless. In March 2009, the U.S. Department of Housing and Urban Development (HUD) awarded \$4,276,900 of HPRP funds from the American Recovery and Reinvestment Act of 2009 (ARRA). This program has serviced a total of 170 families. The grant funding for this program is set to expire early next fiscal year.

15. IMPLEMENTATION OF OTHER GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

GASB No. 53 Accounting and Financial Reporting for Derivative Instruments.

This Statement requires state and local governments to recognize, measure, and disclose certain complex financial arrangements to manage specific risks or to make investments. The Housing Authority did not enter into investments identified as derivative instruments; therefore, this Statement has no financial impact to the Housing Authority's financial statements.

GASB No. 54 Fund Balance Reporting and Governmental Fund Type Definitions.

This Statement pertains to changes in the presentation of fund balances for Governmental-type financial statements. Since the Housing Authority presents its financial statements as Proprietary (Enterprise) Funds, this Statement does not apply.

GASB Board No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.

The objective of this Statement is to address issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

All Housing Authority's financial reporting for post employment benefit plans are handled by the County of Riverside. Therefore, matters involving GASB 57 are addressed in the County's Comprehensive Annual Financial Report.

GASB Board No. 58 Accounting and Financial Reporting for Chapter 9 Bankruptcies.

This statement requires financial reporting from government agencies that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The Housing Authority did not file for bankruptcy; therefore, this Statement has no financial impact to the Housing Authority's financial statements.

GASB Board No. 59 Financial Instruments Omnibus.

This statement was issued to improve existing standards regarding financial reporting of certain financial instruments and external investment pools, and covers issues in six Statements: 25 and 43, 31, 40, 53, NCGA 4.

All Housing Authority's financial reporting for postemployment benefit plans are handled by the County of Riverside. Therefore, matters involving GASB 25 and 43 are addressed in the County's CAFR.

The applicability of GASB 31 and 40 are addressed in Notes 2 of this audit report, which includes clarification on interest rate risk. The requirement to provide users with information on 2a7-like pools is not applicable.

As noted above, the Housing Authority does not have investments as derivative instruments, therefore, GASB 53 and NCGA 4 do not apply to the Housing Authority.

GASB Board No. 60 Accounting and Financial Reporting for Service Concession Arrangements.

This statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.

The Housing Authority does not have any long-term arrangements to operate major capital assets. Therefore, this Statement does not apply to the Housing Authority.

GASB Board No. 61 The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34.

This Statement is designed to improve financial reporting for governmental entities by amending the requirements of Statement No. 14, The Financial Reporting Entity, and No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

GASB Board No. 62 Codification of Accounting and Financial Reporting Guidance.

This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

The Housing Authority continues to adhere to GASB Standards in its operations, reporting, and internal controls. The Housing Authority is also subject to review by its auditors in accordance with Government Auditing Standards.

16. SUBSEQUENT

On June 28, 2011, Governor Brown signed AB 1 x 26, the Assembly Bill to dissolve redevelopment agencies throughout the State of California, and AB 1 x 27, the companion bill to allow redevelopment agencies to continue activities after making payment to the state. On December 29, 2011, the California Supreme Court announced its decision to uphold AB 1 x 26 and strike down AB 1 x 27, which eliminated redevelopment agencies.

Pursuant to AB 1 x 26, the County of Riverside Board of Supervisors adopted Resolution No. 2012-035 on January 10, 2012, which designated the Housing Authority of the County of Riverside as the Successor Agency for the redevelopment housing function. On the same date, the Housing Authority accepted, via adoption of Resolution No. 2012-001, the responsibility of performing all activities as the successor to the redevelopment housing function. On February 1, 2012 all California redevelopment agencies were eliminated and the Housing Authority assumed all the former redevelopment housing functions previously performed by the Redevelopment Agency for the County of Riverside, including all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities.

On July 3, 2012 the Board of Commissioners adopted Resolution No. 2012-005 authorizing the Housing Authority to accept any and all assets, liabilities, duties, loans, leases, and obligations associated with the housing activities of the former Redevelopment Agency for the County of Riverside upon approval by the Oversight Board.

On July 17, 2012 the Board of Commissioners adopted Resolution No. 2012-009 to accept the release and transfer of fund assets from the Successor Agency to the Redevelopment Agency for the County of Riverside to the Housing Authority. The fund assets include the Low and Moderate Income Housing Funds identified in the July through December 2012 Recognized Obligation Schedule (ROPS) and the Housing Bond Proceeds, held by the Bank of New York Mellon as trustee, for draw downs and reimbursement of enforceable obligations, subject to approval by the Oversight Board.

The transfers of assets include 57 parcels of land with a total estimated value of \$34.3 million; leases that would generate annual revenues of approximately \$77 thousand; and deferred loan receivables with an estimated total of \$55 million.

SUPPLEMENTARY FINANCIAL INFORMATION

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE
COMBINING STATEMENT OF NET ASSETS- ALL PROGRAMS
JUNE 30, 2012

	Public Housing Program	Section 8 Program	Authority Program	Inter-Program Eliminating Entries	Totals
ASSETS					
Cash	\$ 1,208,941	\$ 2,427,205	\$ 3,935,913	\$ -	\$ 7,572,059
Restricted cash	-	2,945,505	367,227	-	3,312,732
Accounts receivable (Net)	62,673	3,788	37,974	-	104,435
Due from other funds	212,364	-	892,977	(1,105,341)	-
Due from other governments	34,490	63,498	757,373	-	855,361
Prepaid expenses	-	-	2,176	-	2,176
Restricted investments	-	-	193,560	-	193,560
Capital assets	34,597,023	487,922	10,552,835	-	45,637,780
Accumulated Depreciation	(25,718,586)	(408,590)	(4,716,057)	-	(30,843,233)
TOTAL ASSETS	10,396,905	5,519,328	12,023,978	(1,105,341)	26,834,870
LIABILITIES					
Accounts payable	-	-	-	-	-
Deferred income	-	-	586,200	-	586,200
Due to other funds	212,364	-	892,977	(1,105,341)	-
Due to HUD	-	18,178	-	-	18,178
Other liabilities	129,330	919,491	308,020	-	1,356,841
Tenants security deposits	154,333	-	18,537	-	172,870
Accrued interest payable	-	-	6,650	-	6,650
Compensated absences payable	215,516	445,200	500,733	-	1,161,449
Bonds payable	-	-	748,374	-	748,374
Notes payable	-	-	6,795,110	-	6,795,110
TOTAL LIABILITIES	711,543	1,382,869	9,856,601	(1,105,341)	10,845,672
NET ASSETS					
Investment in capital assets, net of related debt	8,878,437	79,331	(958,332)	-	7,999,436
Restricted	-	2,422,948	560,787	-	2,983,735
Unrestricted	806,925	1,634,180	2,564,922	-	5,006,027
TOTAL NET ASSETS	\$ 9,685,362	\$ 4,136,459	\$ 2,167,377	\$ -	\$ 15,989,198

HOUSING AUTHORITY OF THE COUNTY OF RIVERSIDE

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS- ALL PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2012

	Public Housing Program	Section 8 Program	Authority Program	Inter-Program Eliminating Entries	Totals
REVENUES					
Operating Revenues					
Dwelling rental	\$ 1,421,551	\$ -	\$ 273,537	\$ -	\$ 1,695,088
Contributions	1,796,713	76,036,924	5,363,739	-	83,197,376
Management fees	1,145	-	2,425,642	(2,426,787)	-
Other revenue	162,089	385,822	201,569	-	749,480
Total Operating Revenues	3,381,498	76,422,746	8,264,487	(2,426,787)	85,641,944
EXPENSES					
Operating Expenses					
Personnel services	1,008,582	7,221,777	3,655,036	(2,426,787)	9,458,608
Utilities	451,164	-	166,626	-	617,790
Maintenance & operation	1,849,573	107,377	600,279	-	2,557,229
General expenses	158,243	208,481	1,035,226	-	1,401,950
Insurance expenses	272,491	6,344	95,608	-	374,443
Housing assistance payments	-	73,290,049	2,445,438	-	75,735,487
Depreciation	845,384	35,877	434,908	-	1,316,169
Total Operating Expenses	4,585,437	80,869,905	8,433,121	(2,426,787)	91,461,676
Operating Income (Loss)	(1,203,939)	(4,447,159)	(168,634)	-	(5,819,732)
Nonoperating Revenues (Expenses)					
Investment income	4,118	21,295	8,179	-	33,592
Interest expense on notes and bonds	-	-	(152,807)	-	(152,807)
Gain (loss) on sale of property	7,795	1,921	1,417	-	11,133
Transfers	-	(487,577)	487,577	-	-
Total Nonoperating Revenues (Expenses)	11,913	(464,361)	344,366	-	(108,082)
Capital Contribution	558,550	-	-	-	558,550
Change in net assets	(633,476)	(4,911,520)	175,732	-	(5,369,264)
Net Assets - Beginning	10,318,838	9,047,979	1,991,645	-	21,358,462
Transfers	-	-	-	-	-
Net Assets - Ending	\$ 9,685,362	\$ 4,136,459	\$ 2,167,377	\$ -	\$ 15,989,198