

**HOUSING AUTHORITY
OF THE COUNTY OF SANTA CRUZ
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(Including Auditors' Report Thereon)**

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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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 business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Santa Cruz, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We did not audit the financial statements of Merrill Road Associates, a California Limited Partnership, which is reported as the discretely presented component unit in the Authority-wide financial statements.

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 did not audit the financial statements of Merrill Road Associates, a California Limited Partnership, which is reported as the discretely presented component unit in the Authority-wide financial statements. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the discretely presented component unit, is based on the report of the other auditors. 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 and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2016, 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 4-12 and schedules of funding progress for PERS and OPEB on page 49 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 and the other auditors 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 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 53-60 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 January 18, 2017 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 the 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.

Harr & Dolan

January 18, 2017

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 13. These statements include audited financial statement data for Merrill Road Associates, as of December 31, 2015, as a discretely presented component unit. However, 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 2016, Congress increased operating subsidy, known as proration, for the Housing Choice Voucher (HCV) and Public Housing (PH) Programs, which are two of the Authority’s major funds. As a result, these programs experienced a positive change in net position for the fiscal year.

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$17,494,756 (net position). Of this amount, \$5,458,119 (unrestricted net position) may be used to meet the Authority’s ongoing obligations. The Authority’s total net position increased by \$1,703,608, while the unrestricted net position increased by \$2,125,099.

Total grant revenues increased by \$7,097,013 (12.52%) from the prior fiscal year, due primarily to increased HAP, of approximately \$6,300,000.

The overall expenses of the Authority programs increased by \$5,708,525 (9.67%) over the prior year. Most of this increase was attributable to HAP expense.

The 41st Avenue office building in Capitola has two commercial tenants, one with a five year lease commencing on May 19, 2015, with a termination date of July 31, 2020. The other tenant has a five year lease terminating on December 31, 2017. This property is producing positive cash flow to add to the Authority’s cash reserves.

Overview of the Financial Statements

The Authority’s basic financial statements comprise three components:

- Authority-wide financial statements – pages 13-15
- Fund financial statements – pages 16-20
- Notes to financial statements – pages 21-48

This report also contains other Required Supplementary Information (RSI) other than the MD&A which can be found beginning on page 49 and Supplemental Information beginning on page 51.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

Authority-Wide Financial Statements

The authority-wide financial statements (see pages 13-15) are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

These Statements include a Statement of Net Position, which is similar to a Balance Sheet. The Statement of Net Position reports all financial and capital resources for the Authority. The statement is presented in the format where assets equal liabilities plus 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 \$239,920 have been eliminated for this presentation.

Net Position is reported in three broad categories:

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

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

The Authority-wide financial statements also include a Statement of Activities, which is similar to an Income Statement. This Statement measures net revenue (expense) for each of the Authority's functions and reports by program. General revenue is reported separately. The activities for the enterprise funds are presented by federal program administered by the Authority. Interfund revenue and expenses in the amount of \$1,930,603 have been eliminated for this presentation. Please see Note 1(I) for additional details.

Fund Financial Statements

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

The Authority consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector. Many of the funds maintained by the Authority are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control.

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

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-

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

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.

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

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

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

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

Financial Analysis of the Authority's Funds

Total Net Position increased by \$1,703,608 Authority-wide, most notably in three program areas. The Public Housing Program increased its Net Position by approximately \$500,000 due to revenue exceeding costs of operations and maintenance and the Housing Choice Voucher Program by approximately \$900,000 due to revenue exceeding expenses. The Business Activities program's Net Position increased by approximately \$230,000 due to the commercial tenant revenues generated from the Mission Street Warehouse and 41st Avenue property.

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**

	2016	2015	Increase/(Decrease)	
			Amount	%
Current assets	\$ 10,489,959	\$ 9,179,546	\$ 1,310,413	14.28%
Restricted assets	2,059,188	1,847,459	211,729	11.46%
Capital assets	11,295,754	12,034,491	(738,737)	6.14%
Other assets	875,442	870,742	4,700	0.54%
Total Assets	<u>24,720,343</u>	<u>23,932,238</u>	<u>788,105</u>	3.29%
Total Deferred Outflows	<u>2,341,145</u>	<u>2,581,983</u>	<u>(240,838)</u>	9.33%
Current liabilities	1,198,423	1,141,088	57,335	5.02%
Payable from restricted cash	403,341	330,036	73,305	22.21%
Long-term liabilities	6,343,401	7,882,278	(1,538,877)	19.52%
Total Liabilities	<u>7,945,165</u>	<u>9,353,402</u>	<u>(1,408,237)</u>	15.06%
Total Deferred Inflows	<u>1,621,567</u>	<u>1,369,671</u>	<u>251,896</u>	18.39%
Net investment in capital assets	10,390,708	10,942,150	(551,442)	5.04%
Restricted	1,645,930	1,515,978	129,952	8.57%
Unrestricted	5,458,118	3,333,020	2,125,098	63.76 %
Total Net Position	<u>\$ 17,494,756</u>	<u>\$ 15,791,148</u>	<u>\$ 1,703,608</u>	10.79%

Major Factors Affecting the Statement of Net Position

The decline in net position invested in capital assets is due to depreciation expense. The increase in unrestricted net position is also attributable to a decrease in long-term liabilities, which reduced the unfunded pension obligation as a result of a lump sum payment.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

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

**TABLE 2
CHANGE IN UNRESTRICTED NET POSITION**

	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Unrestricted Net Position - July 1	\$ 3,333,020	\$ 9,498,122	\$(6,165,102)	64.91%
Net gain (loss)	1,703,608	273,377	1,430,231	532.17%
Prior period adjustment - GASB 68	-	(7,197,400)	7,197,400	100.00%
Special item - Hollister HA merger	-	(195,062)	195,062	100.00%
Adjustments:				
Depreciation (1)	858,229	1,004,683	(146,454)	14.58%
Excess HAP used (1) (2)	70,472	283,216	(212,744)	75.12%
Principle paid on debt	(193,595)	(184,140)	(9,455)	5.13%
Deposits into restricted funds	(153,061)	(58,350)	(94,711)	162.32%
Interest on restricted funds (1)	(3,618)	(3,312)	(306)	9.24%
Other restricted revenue (1)	(38,330)	(48,075)	9,745	20.27%
Capital asset additions not funded by capital grants	(119,492)	(43,389)	(76,103)	175.40%
Increase in restricted migrant funds	(5,415)	(1,838)	(3,577)	194.61%
Use of restricted funds for modernization	-	4,279	(4,279)	100.00%
Change in interest payable on long-term debt (1)	<u>6,300</u>	<u>909</u>	<u>5,391</u>	593.07%
Unrestricted Net Position - June 30	<u>\$ 5,458,118</u>	<u>\$ 3,333,020</u>	<u>\$ 2,125,098</u>	63.76%

(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, 2016
(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**

			<u>Increase/(Decrease)</u>	
	<u>2016</u>	<u>2015</u>	<u>Amount</u>	<u>%</u>
Revenues:				
Rents	\$ 2,167,409	\$ 2,088,341	79,068	3.79 %
Grants	63,772,826	56,675,813	7,097,013	12.52 %
Interest	33,718	35,636	(1,918)	5.38 %
Other revenues	<u>479,574</u>	<u>514,981</u>	<u>(35,407)</u>	6.88 %
Total revenues	<u>66,453,527</u>	<u>59,314,771</u>	<u>7,138,756</u>	12.04 %
Expenses:				
Administration	4,074,779	4,627,655	(552,876)	11.95 %
Tenant services	369,004	497,086	(128,082)	25.76 %
Utilities	520,720	486,604	34,116	7.01 %
Maintenance	895,422	953,456	(58,034)	6.09 %
Extra ordinary maintenance	679,543	68,188	611,355	896.57 %
General	691,935	775,392	(83,457)	10.77 %
Housing assistance payments	56,617,680	50,576,269	6,041,411	11.95 %
Depreciation	858,229	1,004,683	(146,454)	14.58 %
Debt service – interest	<u>42,607</u>	<u>52,061</u>	<u>(9,454)</u>	18.16 %
Total expenses	<u>64,749,919</u>	<u>59,041,394</u>	<u>5,708,525</u>	9.67 %
Net increase (decrease) to net position	1,703,608	273,377		
Special item	-	(138,333)		
Beginning net position	15,791,148	22,853,504		
Prior period adjustments	<u>-</u>	<u>(7,197,400)</u>		
Ending net position	<u>\$ 17,494,756</u>	<u>\$ 15,791,148</u>		

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

Total revenues increased by \$7,138,756 (12.04%) over the prior fiscal year. Grant revenue increased by \$7,097,013 primarily due to increased HAP expense.

The total expenses of all the Authority programs increased by \$5,708,525 (9.67%) over the prior year, attributable mainly to increased HAP expense. Extraordinary Maintenance and Utility expenses also increased, while Administrative, Tenant Services, Maintenance and General expenses decreased. \$573,650 of the increase in Extraordinary Maintenance expense was due to dwelling improvements funded through the Buena Vista Migrant Center rehabilitation grant.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

Fund Net Asset Analysis

**TABLE 4
FUND NET POSITION**

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

	Public Housing	Housing Choice Vouchers	Business Activities	Nonmajor Funds	Total
Net position, beginning of year	\$ 10,522,214	\$(2,844,760)	\$ 5,178,543	\$ 2,935,151	\$ 15,791,148
Operating income (loss)	(455,792)	(58,235,265)	253,341	(2,943,070)	(61,380,786)
Non-operating revenue (expenses):					
Grants	947,583	59,131,292	-	3,693,951	63,772,826
Unrestricted interest	11,145	1,335	6,851	3,186	22,517
Restricted interest	-	-	-	3,618	3,618
Interest earned on notes rec	-	-	7,583	-	7,583
Extra ordinary maintenance	-	-	-	(679,543)	(679,543)
Debt-service interest	-	-	(35,164)	(7,443)	(42,607)
Net income (loss) before transfers and special items	502,936	897,362	232,611	70,699	1,703,608
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Change in net position	502,936	897,362	232,611	70,699	1,703,608
Net position, end of year	<u>\$ 11,025,150</u>	<u>\$(1,947,398)</u>	<u>\$ 5,411,154</u>	<u>\$ 3,005,850</u>	<u>\$ 17,494,756</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

DEBT ADMINISTRATION AND CAPITAL ASSETS

Debt Outstanding

As of year-end, the Authority had \$829,149 in debt (bonds, notes, etc.) outstanding compared to \$1,022,744 last year, a \$193,595 decrease. A more detailed presentation of the Authority's debt, summarized below in Table 5, can be found in Note 7 to the basic financial statements.

**TABLE 5
OUTSTANDING DEBT AT YEAR END**

<u>Business-type activities</u>	<u>2016</u>	<u>2015</u>
Office Building Mortgage	\$ 521,534	\$ 686,271
USDA Farm Worker Housing	97,615	126,473
State of California HCD Loan	<u>210,000</u>	<u>210,000</u>
Total	<u>\$ 829,149</u>	<u>\$ 1,022,744</u>

Capital Assets

As of year-end, the Authority had \$11,295,754 invested in a variety of capital assets as reflected in table 6, which represents a net decrease of \$738,737 from the end of last year, which is the result of \$858,229 of depreciation expense, offset by \$119,492 in additions. The \$119,492 of capital additions consists of sidewalk, walkway, and ADA compliance improvements to the Mission Street administrative building and the demolition of the structure on the Natural Bridges property. Table 7 summarizes the change in capital assets, which is presented in more detail in Note 6 to the basic financial statements.

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

<u>Business-type activities</u>	<u>2016</u>	<u>2015</u>
Land and land rights	\$ 7,090,601	\$ 7,064,795
Buildings	32,037,515	31,953,202
Equipment	860,513	851,140
Accumulated Depreciation	<u>(28,692,875)</u>	<u>(27,834,646)</u>
Total	<u>\$ 11,295,754</u>	<u>\$ 12,034,491</u>

**TABLE 7
CHANGE IN CAPITAL ASSETS**

Beginning Balance 7/1/2015	\$ 12,034,491
Additions	119,492
Depreciation	<u>(858,229)</u>
Ending Balance 6/30/2016	<u>\$ 11,295,754</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

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

OTHER POTENTIALLY SIGNIFICANT MATTERS

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

- (1) The Authority currently has two lease agreements for the 41st Avenue Office, with terms ending on December 31, 2017 and July 31, 2020. Since there is no longer any mortgage on the building, the \$180,000 or so of rental income can be used to rebuild the Authority's cash reserves, which were depleted by the purchase and renovation of the Mission Street office. See Note 17 for more detailed information.
- (2) In recent years, the Housing Choice Voucher Program has received a flat fee for administrative expenses determined by HUD based on program size, historical lease up numbers, and available appropriations. As of January 1, 2009, HUD changed the method for calculating administrative fees for the Voucher Program back to a per unit leased fee. The rates are published by HUD, and subject to quarterly pro-rations based on available funding levels. The pro-rations for the 2015-2016 fiscal year were roughly 82.78% of the per unit fees calculated (as opposed to 74.4% in 2014-15), and the difference is now recorded as an allowance for doubtful account on the balance sheet.
- (3) The Government Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 27*. See also Note 1.M. on page 27 for more details.
- (4) The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions - an amendment of GASB 45*. See also Note 1.M. on page 27 for more details.

FINANCIAL CONTACT

The individual to be contacted regarding this report is:

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Housing Authority of the County of Santa Cruz
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HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government Business-type Activities	Component Unit Merrill Road Associates
ASSETS		
Current assets:		
Cash and investments (Note 2 and 18)	\$ 9,732,692	\$ 28,290
Due from other agencies	591,569	-
Due from related parties (Note 18)	12,000	-
Tenant accounts receivable	16,712	2,994
Allowance for doubtful accounts	(5,321)	(189)
Accounts receivable - other	147,580	-
Allowance for doubtful accounts	(147,580)	-
Interest receivable	2,417	-
Prepaid expenses	136,039	2,779
Notes receivable (Note 5)	3,851	-
Total current assets	10,489,959	33,874
Restricted assets:		
Restricted cash (Note 3 and 18)	2,059,188	306,075
Capital assets (Note 6 and 18):		
Land	7,090,601	1,039,931
Buildings	32,037,515	2,752,708
Equipment	860,513	26,200
Accumulated depreciation	(28,692,875)	(1,351,001)
Total capital assets	11,295,754	2,467,838
Other noncurrent assets:		
Long-term notes receivable (Note 5)	19,557	-
Long-term notes receivable - Merrill Road Associates (Note 5)	704,272	-
Interest on long-term notes - Merrill Road Associates (Note 5)	151,613	-
Total other noncurrent assets	875,442	-
Total assets	24,720,343	2,807,787
DEFERRED OUTFLOWS		
Pension plans (Note 12)	2,341,145	-

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION
JUNE 30, 2016
(Continued)

	Primary Government Business-type Activities	Component Unit Merrill Road Associates
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 316,724	\$ 3,122
Due to related parties - Authority	-	12,000
Due to other agencies	204,508	-
Accrued salaries	246,896	-
Payable from restricted assets:		
Tenant security deposits	204,865	14,197
Current portion of long-term debt (Note 7)	203,620	-
Current portion of compensated absences (Note 10)	81,305	1,201
Unearned revenue (Note 8)	145,370	57
Total current liabilities	1,403,288	30,577
Noncurrent liabilities:		
Long-term debt (Note 7 and 18)	625,529	1,495,167
Long-term debt - Authority (Note 18)	-	704,272
Compensated absences (Note 10)	314,116	3,026
Payable from restricted assets:		
Family Self Sufficient escrow	198,476	-
Interest on long-term debt (Note 7 and 18)	75,897	688,244
Interest on long-term debt - Authority (Note 18)	-	151,613
Net pension liability (Note 12)	5,327,859	-
Total noncurrent liabilities	6,541,877	3,042,322
Total liabilities	7,945,165	3,072,899
DEFERRED INFLOWS		
Pension plan (Note 12)	1,621,567	-
NET POSITION		
Net position (Note 11 and 18):		
Net investment in capital assets	10,390,708	284,427
Restricted	1,645,930	290,843
Unrestricted	5,458,118	(840,382)
Total net position	\$ 17,494,756	\$ (265,112)

The accompanying notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Function/Programs</u>					Net (Expenses) Revenue and Changes in Net Position	
	<u>Expenses</u>	Program revenue			<u>Primary Govt</u>	<u>Component Unit</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Business-type</u>	<u>Merrill Road</u>
	<u>Services</u>	<u>Grants</u>	<u>Grants</u>	<u>Activities</u>	<u>Associates</u>	
Business-Type Activities:						
Housing Choice Voucher	\$ 58,134,201	\$ 73,957	\$ 59,131,292	\$ -	\$ 1,071,048	
Public Housing	1,958,895	1,535,136	597,527	-	173,768	
Public Housing Capital Fund	-	-	350,056	-	350,056	
Mainstream Voucher	1,175,078	734	1,167,056	-	(7,288)	
USDA Rural Rental Assistance	668,990	622,242	54,050	-	7,302	
Shelter Plus Care	427,894	-	429,315	-	1,421	
Section 8 Moderate Rehabilitation	427,256	-	465,621	-	38,365	
Supportive Housing	86,479	20,660	55,286	-	(10,533)	
Section 8 Moderate Rehabilitation - SRO	81,037	-	91,375	-	10,338	
Family Self Sufficiency Program	138,879	-	140,354	-	1,475	
HOME Investment Partnerships Act	37,318	-	37,035	-	(283)	
Community Development Block Grant	20,433	-	19,635	-	(798)	
State of California - Migrant Housing	950,878	16,195	984,172	-	49,489	
Other State and Local	235,687	12,465	250,052	-	26,830	
Business Activities	406,894	369,212	-	-	(37,682)	
Total Primary Government	<u>\$ 64,749,919</u>	<u>\$ 2,650,601</u>	<u>\$ 63,772,826</u>	<u>\$ -</u>	<u>1,673,508</u>	
Component Unit:						
Merrill Road Associates	<u>\$ 244,783</u>	<u>\$ 146,420</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (98,363)</u>
General revenue and special items:						
Unrestricted interest				22,517		-
Interest on long-term notes receivable				7,583		-
Total general revenue and special item				<u>30,100</u>		<u>-</u>
Change in net position				1,703,608		(98,363)
Net position - beginning of the year				<u>15,791,148</u>		<u>(166,749)</u>
Net position - end of the year				<u>\$ 17,494,756</u>		<u>\$ (265,112)</u>

The accompanying notes are an integral part of this statement

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
ASSETS					
Current assets:					
Cash and investments (Note 2)	\$ 5,773,651	\$ 820,103	\$ 1,559,442	\$ 1,579,496	\$ 9,732,692
Due from other agencies	-	60,807	-	530,762	591,569
Due from other funds (Note 4)	-	-	427,795	-	427,795
Due from related parties (Note 18)	-	-	12,000	-	12,000
Tenant accounts receivable	14,304	-	1,625	783	16,712
Allowance for doubtful accounts	(5,321)	-	-	-	(5,321)
Accounts receivable - other	-	146,548	-	1,032	147,580
Allowance for doubtful accounts	-	(146,548)	-	(1,032)	(147,580)
Interest receivable	1,085	-	1,063	269	2,417
Prepaid expenses	14,587	15,384	95,187	10,881	136,039
Notes receivable (Note 5)	-	-	3,851	-	3,851
Total current assets	5,798,306	896,294	2,100,963	2,122,191	10,917,754
Restricted assets:					
Restricted cash (Note 3)	160,008	312,484	25,407	1,561,289	2,059,188
Capital assets (Note 6):					
Land	4,104,506	-	2,573,019	413,076	7,090,601
Buildings	20,513,859	-	5,392,046	6,131,610	32,037,515
Equipment	118,910	-	741,603	-	860,513
Accumulated depreciation	(18,694,330)	-	(4,173,394)	(5,825,151)	(28,692,875)
Total capital assets	6,042,945	-	4,533,274	719,535	11,295,754
Other noncurrent assets:					
Long-term notes receivable (Note 5)	-	-	723,829	-	723,829
Interest on long-term notes (Note 5)	-	-	151,613	-	151,613
Total other noncurrent assets	-	-	875,442	-	875,442
Total assets	12,001,259	1,208,778	7,535,086	4,403,015	25,148,138
DEFERRED OUTFLOWS					
Pension plans (Note 12)	75,870	384,545	1,846,917	33,813	2,341,145

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016
(Continued)

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
<u>LIABILITIES</u>					
Current liabilities:					
Accounts payable	\$ 49,262	\$ 64,719	\$ 72,249	\$ 130,494	\$ 316,724
Due to other funds (Note 4)	-	-	105,961	321,834	427,795
Due to other agencies	119,025	-	-	85,483	204,508
Accrued salaries	25,723	135,826	53,851	31,496	246,896
Payable from restricted cash:					
Tenant security deposits	120,285	-	25,407	59,173	204,865
Current portion of long-term debt (Note 7)	-	-	174,462	29,158	203,620
Current portion compensated absences	11,625	36,908	24,859	7,913	81,305
Unearned revenue (Note 8)	8,792	2,571	4,819	129,188	145,370
Total current liabilities	<u>334,712</u>	<u>240,024</u>	<u>461,608</u>	<u>794,739</u>	<u>1,831,083</u>
Noncurrent liabilities:					
Long-term debt (Note 7)	-	-	347,072	278,457	625,529
Compensated absences (Note 10)	44,913	142,593	96,041	30,569	314,116
Payable from restricted cash:					
Family self sufficient escrow	39,723	158,753	-	-	198,476
Interest on long-term debt (Note 7)	-	-	-	75,897	75,897
Net pension liability (Note 12)	441,711	2,014,308	2,729,806	142,034	5,327,859
Total noncurrent liabilities	<u>526,347</u>	<u>2,315,654</u>	<u>3,172,919</u>	<u>526,957</u>	<u>6,541,877</u>
Total liabilities	<u>861,059</u>	<u>2,555,678</u>	<u>3,634,527</u>	<u>1,321,696</u>	<u>8,372,960</u>
DEFERRED INFLOWS					
Pension plans (Note 12)	<u>190,920</u>	<u>985,043</u>	<u>336,322</u>	<u>109,282</u>	<u>1,621,567</u>
<u>NET POSITION</u> (Note 11)					
Net investment in capital assets	6,042,945	-	4,011,740	336,023	10,390,708
Restricted	-	153,731	-	1,492,199	1,645,930
Unrestricted	<u>4,982,205</u>	<u>(2,101,129)</u>	<u>1,399,414</u>	<u>1,177,628</u>	<u>5,458,118</u>
Total net position	<u>\$ 11,025,150</u>	<u>\$(1,947,398)</u>	<u>\$ 5,411,154</u>	<u>\$ 3,005,850</u>	<u>\$ 17,494,756</u>

The accompanying notes are an integral part of this statement

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
Operating revenue:					
Rents and other tenant revenue	\$ 1,525,764	\$ -	\$ 11,004	\$ 639,313	\$ 2,176,081
Other	9,371	73,957	1,931,219	29,365	2,043,912
Total operating revenue	<u>1,535,135</u>	<u>73,957</u>	<u>1,942,223</u>	<u>668,678</u>	<u>4,219,993</u>
Operating expenses:					
Administrative	556,923	3,330,377	1,376,529	385,850	5,649,679
Tenant services	1,036	-	-	367,968	369,004
Utilities	230,548	-	64,501	225,671	520,720
Maintenance	535,585	26,874	78,156	279,205	919,820
General	234,176	358,071	(24,145)	88,873	656,975
Housing assistance payments	-	54,593,900	-	2,032,452	56,626,352
Depreciation (Note 6)	432,659	-	193,841	231,729	858,229
Total operating expenses	<u>1,990,927</u>	<u>58,309,222</u>	<u>1,688,882</u>	<u>3,611,748</u>	<u>65,600,779</u>
Operating income (loss)	(455,792)	(58,235,265)	253,341	(2,943,070)	(61,380,786)
Nonoperating revenue (expenses):					
Grants	947,583	59,131,292	-	3,693,951	63,772,826
Interest - unrestricted	11,145	1,335	6,851	3,186	22,517
Interest - restricted	-	-	-	3,618	3,618
Interest - notes (Note 5)	-	-	7,583	-	7,583
Extra ordinary maintenance	-	-	-	(679,543)	(679,543)
Debt service - interest (Note 7)	-	-	(35,164)	(7,443)	(42,607)
Net income (loss) before transfers and special items	502,936	897,362	232,611	70,699	1,703,608
Transfers in (out)	-	-	-	-	-
Change in net position	502,936	897,362	232,611	70,699	1,703,608
Net position-beginning of the year	<u>10,522,214</u>	<u>(2,844,760)</u>	<u>5,178,543</u>	<u>2,935,151</u>	<u>15,791,148</u>
Net position - end of year	<u>\$ 11,025,150</u>	<u>\$ (1,947,398)</u>	<u>\$ 5,411,154</u>	<u>\$ 3,005,850</u>	<u>\$ 17,494,756</u>

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
Cash flows from operating activities:					
Tenant receipts	\$ 1,550,190	\$ -	\$ 2,332	\$ 644,630	\$ 2,197,152
Other receipts	15	71,034	355,874	29,365	456,288
Migrant rent collected in deficit of disbursements to HCD	-	-	-	(636)	(636)
Payroll and benefit expenditures	(740,401)	(3,654,173)	(244,709)	(631,010)	(5,270,293)
Administrative expenditures	(59,617)	(404,404)	(6,477)	(62,836)	(533,334)
Tenant services expenditures	(1,036)	-	-	(235,114)	(236,150)
Utilities expenditures	(230,549)	-	(64,501)	(225,670)	(520,720)
Maintenance expenditures	(419,486)	(26,874)	4,681	(141,644)	(583,323)
General expenditures	(144,289)	(47,079)	(8,693)	(28,739)	(228,800)
Housing assistance payments	-	(54,520,097)	-	(2,032,453)	(56,552,550)
Net cash provided (used) by operating activities	(45,173)	(58,581,593)	38,507	(2,684,107)	(61,272,366)
Cash flows from noncapital financing activities:					
Operating grants received	947,583	59,273,814	-	3,416,505	63,637,902
Related party transactions	-	-	20,188	-	20,188
Repayment of notes issued	-	-	8,889	-	8,889
Extra-ordinary maintenance expenditures	-	-	-	(679,543)	(679,543)
Issuance of notes receivable	-	-	(1,340)	-	(1,340)
Interfund transactions	(32,033)	(175,021)	67,984	139,070	-
Net cash provided by noncapital financing activities	915,550	59,098,793	95,721	2,876,032	62,986,096
Cash flows from capital financing activities:					
Acquisition of capital assets	(65,195)	-	(54,297)	-	(119,492)
Principal paid on debt	-	-	(164,736)	(28,859)	(193,595)
Interest paid on debt	-	-	(35,164)	(1,143)	(36,307)
Net cash used by capital financing activities	(65,195)	-	(254,197)	(30,002)	(349,394)
Cash flows from investing activities:					
Interest receipts	11,157	1,335	6,863	3,190	22,545
Interest on restricted cash	-	-	-	3,618	3,618
Interest returned to granting agency	-	(2,497)	-	-	(2,497)
Net cash provided by investing activities	11,157	(1,162)	6,863	6,808	23,666
Net increase (decrease) to cash	816,339	516,038	(113,106)	168,731	1,388,002
Cash at beginning of year	5,117,320	616,549	1,697,955	2,972,054	10,403,878
Cash at end of year	\$ 5,933,659	\$ 1,132,587	\$ 1,584,849	\$ 3,140,785	\$ 11,791,880

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)

	Business-type Activities				Total
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	
Cash and investments	\$ 5,773,651	\$ 820,103	\$ 1,559,442	\$ 1,579,496	\$ 9,732,692
Restricted cash	<u>160,008</u>	<u>312,484</u>	<u>25,407</u>	<u>1,561,289</u>	<u>2,059,188</u>
Total	<u>\$ 5,933,659</u>	<u>\$ 1,132,587</u>	<u>\$ 1,584,849</u>	<u>\$ 3,140,785</u>	<u>\$11,791,880</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (455,792)	\$(58,235,265)	\$ 253,341	\$ (2,943,070)	\$(61,380,786)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	432,659	-	193,841	231,729	858,229
Interfund transactions	32,033	175,021	(255,858)	48,804	-
Related party transactions	-	-	(12,000)	-	(12,000)
Migrant rent collected in deficit of payments made to HCD	-	-	-	(636)	(636)
(Increase) Decrease in:					
Tenants accounts receivable	2,690	-	1,598	(297)	3,991
Prepaid expenses	625	1,752	25,340	332	28,049
Deferred outflows	27,370	141,721	47,274	24,473	240,838
Increase (Decrease) in:					
Accounts payable	17,407	(87,598)	59,322	48,517	37,648
Due to other agencies	6,943	-	-	-	6,943
Tenant security deposits	(489)	-	-	3,087	2,598
Accrued salaries	1,047	7,703	(11,405)	7,415	4,760
Unearned revenues	1,872	-	(605)	2,527	3,794
FSS escrows	10,997	62,207	-	-	73,204
Compensated absences	1,832	(3,173)	(47,535)	4,212	(44,664)
Net pension liability	(152,994)	(792,189)	(264,251)	(136,796)	(1,346,230)
Deferred inflows	<u>28,627</u>	<u>148,228</u>	<u>49,445</u>	<u>25,596</u>	<u>251,896</u>
Net cash provided (used) by operating activities	<u>\$ (45,173)</u>	<u>\$ (58,581,593)</u>	<u>\$ 38,507</u>	<u>\$ (2,684,107)</u>	<u>\$ (61,272,366)</u>

Noncash Transactions:

- Interest revenue of \$7,583 was accrued on the loan from Merrill Road Associates. Payments on this loan depend on the generation of surplus cash by the project. No payments were received on this loan during the current fiscal year.

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) General Statement

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

(B) Financial Reporting Entity

The Authority's basic financial statements include the accounts of all the Authority's operations. The criteria 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 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 discretely presented component unit. The accompanying financial statements present the Authority and its discretely presented component unit, an entity whose nature and significant relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

Discretely Presented 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 qualifies 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 Authority was the initial general partner and in 1996 transferred 100% of their partnership interest to Merrill Road Housing Corporation. 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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 1 (continued)

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 land was valued at \$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 Merrill Road Associates is an organization for which the nature and significance of its relationship with the Authority is such that exclusion from the financial statements would cause the Authority's financial statements to be misleading or incomplete, this entity has been included in the Authority's financial statements as a discretely presented component unit. See also Note 18.

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, 2931 Mission Street, Santa Cruz, CA 95060.

(C) Basis of Presentation

Government-wide Financial Statements:

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

Fund Financial Statements:

Fund financial statements of the Authority are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, net 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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 1 (continued)

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

PROPRIETARY FUND TYPES

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

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

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

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred. Under this basis of accounting and measurement focus, the Authority applies all GASB pronouncements.

The Authority reports the following major enterprise funds:

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

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 1 (continued)

Business - The primary activity of the Authority's Business Fund is the maintenance of the administration buildings. Sixty percent of one building is currently occupied by the Authority's staff, while the other forty percent is leased to a commercial tenant. The other building is leased to two commercial tenants.

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

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

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

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

(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 cost, while the unrealized gain is reported as interest receivable.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 1 (continued)

(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 Financial 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 Note 12.

In addition to liabilities, the Statement of Financial 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 Note 12.

(H) Net Position

Net position represents 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 improvements of those assets, including accrued interest. Net position is reported as restricted when there are limitations imposed on its use either through constitutional

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 1 (continued)

provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

(I) Interfund Transactions

Interfund assets/liabilities:

Short-term amounts owed between funds are classified as “Due to/from other funds”. For the purpose of the Authority-wide Statement of Net Position, the due to/from other funds in the amount of \$427,795, have been eliminated. See also Note 4.

Interfund revenue/expenses:

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

The Authority accumulates various administrative overhead costs in a separate fund. These costs are allocated to all programs. The elimination is entirely within the Business Enterprise Fund.	\$ 1,312,040
The Authority accumulates the costs of maintaining the administrative office building and IT equipment in a fund separate from all other funds. These costs are allocated to all programs. See also Note 14.	219,992
The Migrant Enterprise Funds pays an administrative fee to the Business Activities Enterprise Fund.	32,306
The majority of the rent for the Authority owned Spruce Street unit is housing assistance payments received from the Housing Choice Voucher Program.	<u>8,672</u>
Total interfund revenue/expenses	<u><u>\$ 1,573,010</u></u>

Interfund transfers:

An interfund transfer of \$233 was made from the State and Local Enterprise Fund to the HOME Enterprise Fund to cover operating costs. Intra-fund transfers were also made to transfer operating grants from the Public Housing Capital Fund Program to the Public Housing Program and to move funds between programs in the Business Enterprise Fund. See the Financial Data Schedule beginning on 53 for the specific amounts.

(J) Encumbrances

Encumbrance accounting is not employed by the Authority.

(K) Income Taxes

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 1 (continued)

(L) 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.

(M) New GASB Pronouncements

The Government Accounting Standards Board (GASB) has issued several new pronouncements that the Authority has reviewed for application to their accounting and reporting.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement will have similar requirement for OPEB as the GASB Statement No 68 had for pension plans. Beginning in 2017, governmental agencies will be required to record OPEB liability in a similar fashion to the recognition of the net pension liability required of GASB Statement No. 68. Management anticipates that the implementation of this Statement will impact the financial statements in future years; however, its impact is anticipated to be less of a financial burden than the implementation of the GASB Statement No. 68.

Note 2 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 9,732,692
Restricted cash	<u>2,059,188</u>
Total cash and investments	<u>\$ 11,791,880</u>

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 350
Demand deposits	<u>11,791,530</u>
Total cash and investments	<u>\$ 11,791,880</u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

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 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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 2 (continued)

must be held in the pledging bank's trust department in a separate depository in an account for the Authority.

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

The Housing Authority of the County of Santa Cruz executed a "General Depository Agreement" with Santa Cruz County Bank on October 30, 2015. 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	\$ 263,901
Demand deposits with Santa Cruz County Bank, in excess of the amount insured, but covered by the depository agreement	9,750,055
Deposits with LAIF, at market	<u>1,777,574</u>
Total deposits	<u><u>\$ 11,791,530</u></u>

Investment in State Investment Pool

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

At June 30, 2016, an account was maintained in the name of the Housing Authority of the County of Santa Cruz for \$1,776,471. The total cost value of investment in LAIF was \$1,776,471. The total fair value of investments in LAIF was \$1,777,574. The fair value total includes a realized gain of \$1,103. The gains were based on a fair value adjustment factor of 1.000621222 that was calculated by the State of California Treasurer's Office.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 2 (continued)

LAIF is a part of the State of California Pooled Money Investment Account (PMIA). At June 30, 2016, the fair value of the State of California Pooled Money Investment Account (PMIA), including accrued interest, was \$75,497,087,667. The PMIA portfolio had securities in the form of structured notes totaling \$400 million and asset-backed securities totaling \$1,718,918,000. The PMIA has policies, goals and objectives for the portfolio to make certain that the goals of safety, liquidity, and yield are not jeopardized. These policies are formulated by investment staff and reviewed by both the PMIA and LAIF Advisory Boards on an annual basis.

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:	
Housing Choice Voucher excess HAP funds	\$ 153,731
USDA project replacement	1,307,854
Brommer Street replacement	87,277
Buena Vista Migrant operating reserves	95,937
Mortgage Credit Certificate program deposit	11,048
Offset by payable from restricted assets:	
Tenant security deposits	204,865
FSS program participants' escrow funds	<u>198,476</u>
Total restricted cash	<u>\$ 2,059,188</u>

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

With the exception of the cash held for tenant security deposits and migrant operations, the above balances are maintained in a separate savings account for each fund. These savings accounts earn

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 3 (continued)

interest ranging from 0.15% 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 and migrant operations is co-mingled with the Authority's other cash.

Note 4 - INTERFUND BALANCES

The programs below owe the Business Activities fund the following as of June 30, 2016:

Shelter Plus Care	\$ 196,452
Family Self Sufficiency	72,975
HOME	84
Other State/Local	52,323
Business Activities	<u>105,961</u>
Total owed to Business Activities	<u>\$ 427,795</u>

Note 5 - NOTES RECEIVABLE

The following is a summary of the Authority's changes in notes receivable for the fiscal year ended June 30, 2016:

	<u>Balance</u> <u>7/1/2015</u>	<u>Loans</u> <u>Made</u>	<u>Payments</u> <u>Received</u>	<u>Balance</u> <u>6/30/2016</u>	<u>S/T</u> <u>Portion</u>
MRA Land Loan	\$ 252,763	\$ -	\$ -	\$ 252,763	\$ -
MRA Permanent Loan	451,509	-	-	451,509	-
Arroyo Verde	19,504	-	-	19,504	-
Employee computer loans	<u>11,453</u>	<u>1,340</u>	<u>(8,889)</u>	<u>3,904</u>	<u>3,851</u>
Totals	<u>\$ 735,229</u>	<u>\$ 1,340</u>	<u>\$ (8,889)</u>	<u>\$ 727,680</u>	<u>\$ 3,851</u>

The notes from Merrill Road Associates, a California limited partnership (MRA) are secured by deeds of trust on the property owned by MRA. The land loan accrues interest at the rate of three percent per annum. The permanent loan bears no interest. Annual principal and interest payments on these notes depend on the generation of surplus cash from operations by the project for each calendar year. Surplus cash, in the amount of \$9,309, has been generated over the past two years by the project and is distributable to the Authority for payment on the land loan. The surplus cash has not been distributed to the Authority; therefore, no portion of these notes has been reported as current. Interest has been accrued on the land loan in the amount of \$151,613. Of this amount, \$7,583 was recorded as revenue in the current period. As explained in Note 18, the Authority can exercise significant influence over the management of MRA and it is reported as a discretely presented component unit.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 5 (continued)

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.

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

Note 6 - CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2016 is as follows:

	Balance 7/1/2015	Additions	Deletions/ Transfers	Balance 6/30/2016
Capital assets, not being depreciated:				
Land	\$ 7,064,795	\$ 25,806	\$ -	\$ 7,090,601
Construction-in-progress	-	-	-	-
Total capital assets, not being depreciated	<u>7,064,795</u>	<u>25,806</u>	<u>-</u>	<u>7,090,601</u>
Capital assets depreciated:				
Buildings	31,953,202	84,313	-	32,037,515
Equipment	<u>851,140</u>	<u>9,373</u>	<u>-</u>	<u>860,513</u>
Total capital assets being depreciated	<u>32,804,342</u>	<u>93,686</u>	<u>-</u>	<u>32,898,028</u>
Total capital assets	<u>39,869,137</u>	<u>119,492</u>	<u>-</u>	<u>39,988,629</u>
Accumulated depreciation:				
Buildings	(27,048,148)	(804,742)	-	(27,852,890)
Equipment	<u>(786,498)</u>	<u>(53,487)</u>	<u>-</u>	<u>(839,985)</u>
Total accumulated depreciation	<u>(27,834,646)</u>	<u>(858,229)</u>	<u>-</u>	<u>(28,692,875)</u>
Total capital assets depn, net	<u>4,969,696</u>	<u>(764,543)</u>	<u>-</u>	<u>4,205,153</u>
Total capital assets, net	<u>\$ 12,034,491</u>	<u>\$ (738,737)</u>	<u>\$ -</u>	<u>\$ 11,295,754</u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 6 (continued)

The changes by project are as follows:

	<u>Balance</u> <u>7/1/2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>6/30/2016</u>
Capital assets:				
Public Housing	\$ 24,672,080	\$ 65,195	\$ -	\$ 24,737,275
USDA	5,741,132	-	-	5,741,132
Supportive Housing	803,554	-	-	803,554
Business	<u>8,652,371</u>	<u>54,297</u>	<u>-</u>	<u>8,706,668</u>
	<u>\$ 39,869,137</u>	<u>\$ 119,492</u>	<u>\$ -</u>	<u>\$ 39,988,629</u>
Depreciation:				
Public Housing	\$ (18,261,671)	\$ (432,659)	\$ -	(18,694,330)
USDA	(5,202,330)	(216,281)	-	(5,418,611)
Supportive Housing	(391,092)	(15,448)	-	(406,540)
Business	<u>(3,979,553)</u>	<u>(193,841)</u>	<u>-</u>	<u>(4,173,394)</u>
	<u>\$ (27,834,646)</u>	<u>\$ (858,229)</u>	<u>\$ -</u>	<u>\$ (28,692,875)</u>

Note 7 - LONG-TERM DEBT

Following is a summary of the Authority's changes in long-term debt for the year ended June 30, 2016:

	<u>Balance</u> <u>7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2016</u>	<u>Short-term</u> <u>Portion</u>
Office building mortgage	\$ 686,271	\$ -	\$ (164,737)	\$ 521,534	\$ 174,462
U.S. Department of Agriculture	126,473	-	(28,858)	97,615	29,158
State of California HCD loans	<u>210,000</u>	<u>-</u>	<u>-</u>	<u>210,000</u>	<u>-</u>
	<u>\$ 1,022,744</u>	<u>\$ -</u>	<u>\$ (193,595)</u>	<u>\$ 829,149</u>	<u>\$ 203,620</u>

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

Year Ending	<u>Mortgage</u>		<u>USDA Notes</u>		<u>HCD Loans</u>		<u>Total</u>
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>	
June 30							
2017	\$ 174,462	\$ 25,438	\$ 29,158	\$ 843	\$ -	\$ -	\$ 229,901
2018	184,763	15,137	20,342	692	-	-	220,934
2019	162,309	4,276	10,566	489	-	-	177,640
2020	-	-	10,258	383	-	-	10,641
2021	-	-	10,361	280	-	-	10,641
2022-2024	-	-	16,930	275	-	-	17,205
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,000</u>	<u>346,500</u>	<u>556,500</u>
	<u>\$ 521,534</u>	<u>\$ 44,851</u>	<u>\$ 97,615</u>	<u>\$ 2,962</u>	<u>\$ 210,000</u>	<u>\$ 346,500</u>	<u>\$ 1,223,462</u>

The U.S. Department of Agriculture notes accrue interest at 1% per annum and require monthly payments of \$2,500. Interest expenses in the amount of \$1,143 was incurred, paid, and shown as nonoperating expense for the fiscal year ended June 30, 2016.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 7 (continued)

On March 29, 2004, the Authority borrowed \$2,000,000 to purchase an administrative building located on Mission Street in Santa Cruz. The note is amortized over fifteen years, requires monthly payments of \$16,658 and accrues interest at a rate of 5.75% per annum. Interest of \$35,164 was incurred, paid, and included as nonoperating expenses for the year ended June 30, 2016.

The Authority signed a promissory note with the California Department of Housing and Community Development dated October 31, 2001. This \$210,000 note carries a simple interest rate of 3% per annum. The payment of principle and interest on this note is deferred until November 30, 2056; or until the project generates surplus cash, to the extent of 80% of surplus cash generated, paid first to outstanding interest, than to principle. Interest totaling \$75,897 has been accrued and reported as a long-term liability as of June 30, 2016. Of this amount, \$6,300 was incurred and expensed during the current fiscal year.

Note 8 - UNEARNED REVENUE

Unearned revenue consists of:

Prepaid rent - Public Housing	\$	8,792	
USDA		3,556	
Supportive Housing		507	
Office building		4,819	
Migrant center		707	\$ 18,381
HUD administrative fee revenue			10,207
Funds held for the City of Capitola			116,647
Funds held for the City of Santa Cruz			135
			\$ 145,370

Note 9 - DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all permanent employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income 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 \$2,842,910 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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 10 - COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation leave, which will be paid to employees upon separation from the Authority's service or used in future periods. The Authority permits employees to accumulate earned but unused sick leave. This leave will either be used in future periods or paid to employees upon separation from the Authority in the amount of 50%, after five years of service; 75%, after ten years of service; and 100%, after fifteen years of service, of the value of the unused sick leave. Accrued vacation and vested sick leave have been valued by the Authority; allocated to all the programs, including Merrill Road Associates and the Hollister Housing Authority; and recorded as "Compensated Absences". As of June 30, 2016, accrued vacation and vested sick leave were valued at \$399,612. Of this amount, \$395,421 was allocated to the Authority, with \$314,116 considered by management to be a long-term liability.

Note 11 - NET POSITION

A. Net Investment in Capital Assets

Net investment in capital assets consist of the following:

Capital assets, net of depreciation (see Note 6)	\$ 11,295,754
Long-term debt (see Note 7)	(829,149)
Accrued interest on long-term debt (See Note 7)	<u>(75,897)</u>
Net investment in capital assets	<u>\$ 10,390,708</u>

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:

Excess Housing Choice Voucher HAP funding	\$ 153,731
USDA replacement reserve	1,306,737
Brommer Street replacement reserve	87,277
Funds held for Buena Vista Migrant operations	87,185
Funds held on deposit for MCC guarantees	<u>11,000</u>
	<u>\$ 1,645,930</u>

The current excess HAP funding balance is made up of the following:

Balance as of June 30, 2015	\$ 185,873
Excess funding used	(70,473)
FSS forfeitures and fraud recovery	<u>38,331</u>
Balance as of June 30, 2016	<u>\$ 153,731</u>

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Note 11 (continued)

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

C. Deficit Unrestricted Net Position

The following shows individual enterprise funds with deficit unrestricted net position balances:

	<u>Unrestricted</u> <u>June 30, 2016</u>	<u>Unrestricted</u> <u>June 30, 2015</u>	<u>Difference</u>
Housing Choice Voucher	\$ (2,101,129)	\$ (3,030,633)	\$ 929,504
Shelter Plus Care	(13,567)	(14,717)	1,150
HOME	(62)	-	(62)
Buena Vista Migrant	395	(11,329)	11,724

During the fiscal year ended June 31, 2015, the Authority implemented the GASB Statement No. 68 (See also Note 12). The implementation of this GASB decreased net position by \$7.2 million and created a deficit unrestricted net assets balance in the above funds. The Authority allocated \$3,148,282, or 43.75%, of the Authority's prior period adjustment for net pension liability and the related accruals of deferred outflows and inflows to the Housing Choice Voucher Program, while \$14,960 was allocated to the Shelter Plus Care Program, and \$11,359 to the Migrant Farm Labor Housing Program.

Note 12 - 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 June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of this report. This report is a publicly available report that can be obtained at CalPERS' website under Forms and Publications.

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

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(Continued)

Note 12 (continued)

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).

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:

	<u>1st Tier</u>	<u>2nd Tier</u>	<u>3rd Tier</u>	<u>4th Tier</u>
Employer rates:				
2015/2016	12.764%	9.353%	6.709%	6.250%
2016/2017	13.504%	9.558%	7.159%	6.555%
2017/2018	13.545%	9.599%	7.200%	6.533%
2018/2019 (projected)	13.5%	9.6%	7.2%	6.5%

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:

	<u>1st Tier</u>	<u>2nd Tier</u>	<u>3rd Tier</u>	<u>4th Tier</u>
2015/2016	\$ 588,694	\$ 3,509	\$ 56	\$ 0
2016/2017	238,431	5,032	0	9
2017/2018	289,046	7,778	53	22
2018/2019 (projected)	380,251	12,814	212	44

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(Continued)

Note 12 (continued)

The amounts contributed to the pension plan exceeded the amounts required for the fiscal year ended June 30, 2016, as follows:

	<u>Employer Contribution</u>	<u>Employee Contribution</u>	<u>Total</u>
Tier 1	\$ 856,785	\$ 168,030	\$ 1,024,815
Tier 2	87,450	62,824	150,274
Tier 3	10,017	10,393	20,410
Tier 4	<u>11,356</u>	<u>11,380</u>	<u>22,736</u>
Total required contributions made	965,608	252,627	1,218,235
Miscellaneous employee contributions	-	<u>1,809</u>	<u>1,809</u>
Total payments made to PERS	<u>\$ 965,608</u>	<u>\$ 254,436</u>	<u>\$ 1,220,044</u>

Funding Trend

Fiscal year:	<u>Employer Contribution</u>	<u>Employee Contribution</u>	<u>Total</u>
June 30, 2015	\$ 2,523,285	\$ 267,051	\$ 2,790,336
June 30, 2014	804,089	265,370	1,069,459
June 30, 2013	801,980	269,547	1,071,527
June 30, 2012	877,294	286,935	1,164,229
June 30, 2011	740,767	278,023	1,018,790
June 30, 2010	690,587	267,692	958,279
June 30, 2009	639,987	258,123	898,110
June 30, 2008	619,132	246,206	865,338
June 30, 2007	640,051	261,222	901,273
June 30, 2006	604,402	245,705	850,107

For the above ten years ended June 30, 2015, the Authority made 100% of the actuarially determined contributions. The 2015 contribution included a \$1,685,034 lump sum payment to reduce the net pension liability and lower the future payments required by CalPERS.

C. Actuarial Methods and Assumptions

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Mortality rate tables	Derived using CalPERS membership data for all funds

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(Continued)

Note 12 (continued)

Post retirement benefits Increase	Contract COLA up to 2.75% until purchasing power Projection allowance floor on purchasing power applies, 2.75% thereafter
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The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Change of Assumption - The discount rate was changed from 7.5% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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 (11-60 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. The expected rate of return was set by calculating the 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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(Continued)

Note 12 (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses:

Asset Class:	New Strategic Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global equity	47.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	12.0%	6.83%	6.95%
Real estate	11.0%	4.50%	5.13%
Infrastructure and forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%

D. Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period for the risk pool:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2014	\$ 13,110,948,452	\$ 10,639,461,174	\$ 2,471,487,278
Service Cost	335,248,541	-	335,248,541
Interest on total pension liability	977,551,637	-	977,551,637
Changes in benefit terms	485,762	-	485,762
Changes of assumptions	(242,065,946)	-	(242,065,946)
Difference between expected and actual experience	25,585,821	-	25,585,821
Net plan to plan resource movement	-	65,452,197	(65,452,197)
Contribution - Employer	-	376,902,997	(376,902,997)
Contribution - Employee	-	154,112,658	(154,112,658)
Net investment income	-	240,587,946	(240,587,946)
Benefit payments, including refunds	(568,251,183)	(568,251,183)	-
Administrative expenses	-	(12,229,721)	12,229,721
Net changes during June 30, 2015	528,554,632	256,574,894	271,979,738
Balance as of June 30, 2015	<u>\$ 13,639,503,084</u>	<u>\$ 10,896,036,068</u>	<u>\$ 2,743,467,016</u>

The Authority's proportionate share of the risk pool's total pension liability, fiduciary net position, and net pension liability are as follows:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2014	\$ 26,368,790	\$ 19,694,701	\$ 6,674,089
Percentage of the pool	0.201112%	0.185110%	0.270043%
Balance as of June 30, 2015	\$ 27,456,183	\$ 22,128,324	\$ 5,327,859
Percentage of the pool	0.201299%	0.203086%	0.194202%

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Note 12 (continued)

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, 2015 calculated using the discount rate of 7.65%, 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 <u>6.65%</u>	Current Discount rate <u>7.65%</u>	1% increase <u>8.65%</u>
Risk pool's net pension liability	4,600,985,615	2,743,467,016	1,209,869,645
Authority's proportionate share	9,068,026	5,327,859	2,240,743

E. Deferred Outflows and Inflows of Resources

The Authority has recorded the following deferred outflows and inflows of resources based on the actuarial report and the schedules of employer allocations by rate plan prepared by CalPERS. The measurement date of these reports and schedules was June 30, 2015. The deferred outflows also include contributions made to CalPERS subsequent to the measurement date of June 30, 2015, but prior to the Authority's fiscal year end of June 30, 2016.

	<u>Deferred Outflows of resources</u>	<u>Deferred Inflows of resources</u>
Miscellaneous risk pool:		
Changes in assumptions	\$ -	\$ 178,364,381
Difference between expected and actual experiences	18,852,710	-
Net difference between projected and actual earnings on investments	<u>-</u>	<u>89,416,230</u>
	18,852,710	267,780,611
Authority's allocation basis	<u>0.284974%</u>	<u>0.284974%</u>
Authority's proportionate share	53,725	763,105
Authority specific adjustments:		
Changes in employer's proportions	29,183	858,462
Net difference between prorated employer contributions and actual employer contributions	51,024	-
Amortization of lump sum made June 2015	1,241,604	-
Authority contributions made between June 30, 2015 and June 30, 2016	<u>965,609</u>	<u>-</u>
	<u>\$ 2,341,145</u>	<u>\$ 1,621,567</u>

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:

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(Continued)

Note 12 (continued)

Measurement period:	Deferred outflow (Inflow) of resources
2017	\$ (184,582)
2018	(187,825)
2019	(199,337)
2020	325,713

The amounts reported as deferred outflows of resources related to pensions, contributions made after the measurement date of June 30, 2015, should have the effect of reducing net pension liability during the next actuarial measurement period.

F. Pension Expense

The following is a breakdown of the plan's pension expense, as well as the Authority's proportionate share of the pension expense, for the measurement period ended June 30, 2015:

	Risk Pool Amount	Authority's Share
Service Cost	\$ 335,248,541	\$ 674,852
Interest on total pension liability	977,551,637	1,967,802
Change in benefit terms	485,762	-
Recognized change in assumptions	(63,701,565)	-
Recognized differences between expected and actual experience	6,733,111	-
Net plan to plan resource movement	(65,452,197)	-
Employee contributions	(154,112,658)	(263,772)
Projected earnings on pension plan investments	(812,065,459)	(1,649,191)
Recognized differences between projected and actual earning on plan investments	(67,903,910)	7,480
Recognized portion of adjustments due to differences in proportions	-	(290,380)
Administrative expense	12,229,721	34,852
Total pension expense	<u>\$ 169,012,983</u>	<u>\$ 481,643</u>

See also page 49 for the Required Supplementary Information, Schedule of Funding Progress for PERS. These schedules 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.

Note 13 - POST RETIREMENT HEALTHCARE BENEFITS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)* established accounting standards for postemployment benefits. The standard does not require funding of OPEB expense, but any difference between the annual required contribution (ARC) and the amount funded during the year is required to be

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(Continued)

Note 13 (continued)

recorded in the Authority's Statement of Net Assets as an increase (or decrease) in OPEB obligation. The Authority's OPEB liability is fully funded. Recognition of the liability accumulated for prior years is phased in over 30 years, commencing with the 2009 liability. The Authority obtained an actuarial valuation in accordance with the standards of the Statement. The Authority has contracted with CalPERS to administer the funding of the projected benefits in a California Employers Retiree Benefit Trust (CERBT).

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.

Eligibility: As of June 30, 2016, thirteen employees were eligible and receiving these benefits. The authority had another 56 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, 2016.

Funding Policy: The goal of GASB 45 is to match recognition of retiree medical expense with the periods during which the benefit is earned. The entry age normal cost method effectively meets this goal in most circumstances. The Authority has adopted an entry age normal cost prefunding approach to the funding of their other post employment benefit (OPEB) liability. The Authority makes actual payments of \$122 per month in 2015 and \$125 per month in 2016, per eligible retiree, to the healthcare benefit provider. Eligible retirees pay the remaining monthly balance due for insurance. Active employees make no payments toward OPEB until retirement. The Authority then makes deposits into their CERBT held by CalPERS for the difference between the actuarially determined annual OPEB cost and the out-of-pocket payments made to the healthcare benefit provider.

Actuarial Assumptions: The following assumptions as of January 1, 2015, were selected by the Authority in accordance with the requirements of GASB 45:

Discount Rate	7.28% (a decrease from the prior rate of 7.61%)
Funding Method	Entry age normal funding method, with the normal costs allocated to fiscal years as a level percentage of salaries. The UAAL is amortized as a level percentage of salaries over a closed 30-year period beginning July 1, 2008.
Turnover (withdrawal)	2014 CalPERS OPEB Assumptions Model
Mortality	2014 CalPERS OPEB Assumptions Model

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(Continued)

Note 13 (continued)

Medical costs trend	4% increase (a change from the prior rate of 4.5%)
Coverage elections	75% of future eligible retirees are assumed to participate
Retirement	2014 CalPERS OPEB Assumptions Model

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

	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>
Actuarial Present Value of Projected Benefits (APVPB)	\$ 763,612	\$ 763,612	\$ 784,548
Actuarial Accrued Liability (AAL)	\$ 621,685	\$ 595,005	\$ 726,854
Annual Required Contribution (ARC)			
Normal Costs	\$ 24,413	\$ 22,327	\$ 15,530
Amortization of unfunded AAL	23,559	19,178	25,641
Interest to June 30	3,651	3,159	-
Total ARC (annual OPEB costs)	<u>\$ 51,623</u>	<u>\$ 44,664</u>	<u>\$ 41,171</u>
OBEP payments made on behalf of participants	\$ 16,733	\$ 18,313	\$ 19,266
Deposit made to CalPERS trust (CERBT)	34,890	26,351	21,905
ARC funded during the year ended June 30, 2016	<u>\$ 51,623</u>	<u>\$ 44,664</u>	<u>\$ 41,171</u>
CERBT balance as of July 1	\$ 246,428	\$ 328,872	\$ 354,346
Deposits made	34,890	26,351	-
Deposits in transit	-	-	21,905
Investment earnings (net of admin expenses)	47,554	(877)	3,388
CERBT balance as of June 30	<u>\$ 328,872</u>	<u>\$ 354,346</u>	<u>\$ 379,639</u>
Actuarial Accrued Liability (AAL)			
unfunded at the end of the period	<u>\$ 292,813</u>	<u>\$ 240,659</u>	<u>\$ 347,215</u>
Covered payroll, per the actuarial report	<u>\$3,875,342</u>	<u>\$ not avail</u>	<u>\$ not avail</u>
Covered payroll, per PERS reporting		<u>\$3,460,607</u>	<u>\$3,328,404</u>
Normal costs as a percent of payroll	0.63%	0.65%	0.47%
ARC as a percent of payroll	1.33%	1.29%	1.24%
Unfunded AAL as a percent of payroll	7.56%	6.95%	10.43%
Percent of ARC funded during the year	100.0%	100.0%	100.0%

No liability has been recorded for the unfunded AAL. The OPEB expense of \$41,171 was included in the current year operations. The trust balance of \$379,639 is not recorded as an asset of the Authority since the funds are placed in trust for the benefit of the employees.

The most recent actuarial report received by the Authority, dated April 6, 2016, estimated the annual require contribution for the fiscal year ended June 30, 2017 to be \$42,455. See page 49 for the Schedule of Funding Progress for OPEB. This schedule presents 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.

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(Continued)

Note 13 (continued)

Future Changes: A new standard, GASB 75, will replace GASB 45 beginning July 1, 2017. This new standard will require the Authority to record the UAAL as a liability on its balance sheet in a manner similar to the current requirements of GASB 68. As noted above the UAAL as of June 30, 2016, was \$347,215.

Note 14 - INTRA-AUTHORITY RENT

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

Housing Choice Voucher	\$ 166,349
Public Housing	32,033
USDA	9,260
Mainstream Voucher	2,587
Section 8 Moderate Rehabilitation	782
Supportive Housing	629
CDBG	629
Shelter Plus Care	270
Section 8 Moderate Rehabilitation - SRO	205
HOME	11
Other State and Local	2,125
Business	<u>5,112</u>
Total Authority wide revenue/expense	<u><u>\$ 219,992</u></u>

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

Note 15 - INTRA-AUTHORITY HAP

A tenant of the Authority's Housing Choice Voucher Program (CFDA #14.871) has chosen to live in a housing unit owned by the Authority. This Housing Assistance Payment (HAP) is recorded as expenditures of the Housing Choice Voucher Program Enterprise Fund and revenue of the Business Enterprise Fund. These transactions totaled \$8,672 for the fiscal year ended June 30, 2016. This interfund type transaction was eliminated in the Authority-wide Statement of Activities, but was not eliminated in the Statement of Revenues, Expenses and Changes in Fund Net Position.

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(Continued)

Note 16 - LEASES

A. The Authority leases office space owned in the City of Capitola to two tenants. These commercial leases have terms ending on December 31, 2017 and July 31, 2020. The combined monthly lease payments are approximately \$15,200. Rent increases occur annually at a rate of 3.5% per year. Rent for the year of \$182,360 was reported as revenue of the Business Enterprise Fund. This building is valued on the books of accounts as of June 30, 2016 as follows:

	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Land	\$ 537,500	\$ -	\$ 537,500
Building	1,406,827	(1,349,939)	56,888
Equipment	14,000	(14,000)	-
Total	<u>\$ 1,958,327</u>	<u>\$ (1,363,939)</u>	<u>\$ 594,388</u>

B. The Authority leases approximately 40% of its office building, located on Mission Street in Santa Cruz. This commercial lease commenced on September 15, 2014 and has a 10 year term. The monthly lease payments are approximately \$11,000 per month, plus 39.16% of common area operating costs. Rent for the year of \$135,371 was reported as revenue of the Business Enterprise Fund. The future rental revenue is expected to be approximately \$132,000 for each of the next 5 years.

Note 17 - 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 18 - RELATED PARTIES

Merrill Road Associates

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

The purpose of MRA is to acquire, construct, own, hold for investment, operate, manage, lease or sell partnership property for low and very low income persons. MRA currently owns and operates a fifteen unit apartment complex in Aptos, California. The project 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

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(Continued)

Note 18 (continued)

requirements of the California Department of Housing and Community Development through the Rental Housing Construction Program (RHCP).

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 now considers MRA to be a discretely presented component unit of the Authority. Beginning with the fiscal year ending June 30, 2012, the Authority has reported MRA as a discretely presented component unit in the Authority-Wide Statement of Net Asset and Statement of Activities. The fiscal year end of this discretely presented component unit is December 31. The MRA activity is reported in a separate column to distinguish it from the primary government which presents the activity of the Authority as a whole.

An audit was conducted on this entity as of December 31, 2015, by Armanino LLP. The opinions were not modified. This audit report may be obtained by contacting the Authority at the address on page 12. The Authority reports the balances for this discretely presented component unit as of December 31, 2015, which differs from that of the Authority's fiscal year end of June 30, 2016. The differences in the account balances due to the differing year ends are not considered material. 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.

MRA pays the Authority a management fee of \$12,000 per year, to the extent of surplus cash. MRA owes the Authority \$12,000, payable from surplus cash, as of June 30, 2016. MRA reimburses the Authority for various costs paid by the Authority on its behalf. As of June 30, 2016, MRA owes the Authority \$0 for this activity. Also, as noted in Note 5 to the basic financial statements, MRA owes the Authority \$855,885 in principle and interest, for two loans secured by deeds of trust on the project.

MRA's cash consists of demand deposits as well as cash on hand. Restricted cash consists of replacement and operating reserves required by RHCP totaling \$290,843 as of December 31, 2015; as well as security deposit funds held on behalf of tenants in the amount of \$15,232. Property and equipment are recorded at cost of acquisition or construction. Buildings are depreciated using a straight-line method over 40 years, while equipment is depreciated over 12 years. Depreciation expense for the year ended December 31, 2015 was \$73,230.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

(Continued)

Note 18 (continued)

In addition to the \$855,885 owed to the Authority, MRA has debt owed to the Redevelopment Agency (RDA) of the County of Santa Cruz in the amount of \$300,000 and the State of California, Rental Housing Construction Program (RHCP), in the amount of \$1,195,167. Both loans are deferred until 2036. The RDA loan is interest free and may be forgiven by the RDA if the Authority continues to maintain the units in accordance with the loan provision for an additional 20 years. The RHCP loan carries a rate of 3% per annum. Interest payable on this loan, as of December 31, 2015, is \$688,244.

MRA's net position consists of \$284,427 Net Investment in Capital Assets, consisting of property and equipment of \$2,467,838, less debt of \$1,495,167 and interest of \$688,244; \$290,843 Restricted Net Position, consisting of restricted cash held for replacement and operating reserves as required by RHCP; and a deficit Unrestricted Net Position balance of \$840,382.

Note 19 - INSURANCE

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

The Authority is a member of the Housing Authority Risk Retention Pool (HARRP). HARRP was established by public housing authorities participating in an intergovernmental cooperation agreement pursuant to specific statutes in Oregon, Washington, California and Nevada for the purpose of operating and maintaining a cooperative program of risk management and loss indemnification. HARRP offers property, general liability, automobile, fidelity, and officers' liability insurance to participants. There were 90 member public housing authorities at December 31, 2015. 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, 2016. The loss limits for the various types of insurance were "stated value" for property with a \$1,000 deductible per occurrence (\$300,000 mold claim sub limit); \$2,000,000 for general liability (\$2,000,000 aggregate) with no deductible per occurrence; \$2,000,000 for errors and omissions with a 10% co-pay deductible; \$1,000,000 for automobile with actual cash value for comprehensive and collision coverage and a \$250 and \$500 deductible, respectively; \$100,000 for fidelity with a \$1,000 deductible. The Authority is also insured through a private insurance company for umbrella insurance which brings all limits up to \$5,000,000 with a \$10,000 deductible. The Authority paid private insurance companies approximately \$15,000 for this coverage.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2016**

**Schedule of Funding Progress for PERS
Plan's Proportionate Share**

<u>Valuation Date</u>	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Net Pension Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Net Pension Liability as a % of Payroll</u>
Tier 1 - 3% at 60						
6/30/11	\$ 20,465,168	\$ 13,883,154	\$ 6,582,014	67.8%	\$ 2,615,988	251.607 %
6/30/12	21,319,967	13,890,263	7,429,704	65.2%	2,579,936	287.980 %
6/30/13	22,649,451	15,990,204	6,659,247	70.6%	2,295,944	290.044 %
6/30/14	25,045,335	18,910,426	6,134,909	75.5%	2,228,314	275.316 %
6/30/15	26,125,956	20,719,758	5,406,198	79.3%	2,204,198	245.268 %
Tier 2 - 2% at 55						
6/30/11	\$ 482,801	\$ 395,074	\$ 87,727	81.8%	\$ 1,083,414	8.097%
6/30/12	695,771	536,974	158,797	77.2%	1,021,607	15.544%
6/30/13	965,991	785,057	180,934	81.3%	1,069,583	16.916%
6/30/14	1,351,043	1,227,438	123,605	90.9%	1,089,558	11.345%
6/30/15	1,599,761	1,428,426	171,335	89.3%	1,095,581	15.639%
Tier 3 - 2% at 60						
6/30/13	\$ 21,741	\$ 18,332	\$ 3,409	84.3%	\$ 130,053	2.621%
6/30/14	48,218	47,711	507	99.0%	125,765	0.403%
6/30/15	78,326	75,163	3,163	96.0%	139,443	2.268%
Tier 4 - 2% at 62 (PEPRA)						
6/30/14	\$ 120	\$ 125	\$ (5)	104.5%	\$ 43,448	0.000%
6/30/15	6,062	5,563	499	91.8%	85,056	0.587%

Information for a ten year trend is not available. Prior to June 30, 2011, the CalPERS plan did not calculate the above information for individual members. The trend information was reported for the risk pool as a whole.

Schedule of Funding Progress for OPEB

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability</u>	<u>Actual Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/09	\$ 484,356	\$ 42,893	\$ 441,463	8.9%	\$ 3,159,614	13.97 %
6/30/10	535,397	94,399	440,998	17.6%	3,262,301	13.52 %
6/30/11	494,942	152,823	342,119	30.9%	3,700,989	9.24 %
6/30/12	543,278	188,290	354,988	34.7%	3,821,271	9.29 %
6/30/13	570,685	246,428	324,257	43.2%	3,753,357	8.64 %
6/30/14	621,685	328,872	292,813	52.8%	3,875,342	7.56 %
6/30/15	595,005	354,346	240,659	59.6%	3,460,607	6.95 %
6/30/16	726,854	379,639	347,215	52.2%	3,328,404	10.43 %

SUPPLEMENTAL INFORMATION

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Department of Housing and Urban Development (HUD)</u>		
Direct Programs:		
Supportive Housing Program	14.235	\$ 55,286
Shelter Plus Care Program	14.238	429,315
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	81,242
Public and Indian Housing Program	14.850	597,527
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	428,039
Housing Choice Voucher Cluster:		
Housing Choice Voucher Program	14.871	58,309,222
Mainstream Voucher Program	14.879	1,177,664
Public Housing Capital Fund Program	14.872	350,056
Family Self Sufficiency Program	14.896	140,354
Passed thru the County of Santa Cruz:		
HOME Investment Partnership Act Grant #12-HOME-8559	14.239	3,784
Passed thru the City of Santa Cruz:		
HOME Investment Partnership Act Grant HOME #M-15-MC060236	14.239	33,251
Community Development Block Grant Grant CDBG #B-15-MC-06-0024	14.218	9,527
Passed thru the City of Capitola:		
Community Development Block Grant Grant #14-CDBG-9877	14.228	<u>26,538</u>
Subtotal HUD		<u>61,641,805</u>
<u>United States Department of Agriculture (USDA)</u>		
Direct Programs:		
Rural Rental Assistance Payments Program	10.427	<u>54,050</u>
Total federal awards expended		<u>\$ 61,695,855</u>

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, 2016

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

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.

	<u>HUD Funding</u>	<u>Program Expenditures</u>	<u>Federal funds Expended</u>
Housing Assistance Payments	\$ 54,523,427	\$ 54,593,900	\$ 54,593,900
Administrative Costs /FSS /Homeownership	<u>4,607,865</u>	<u>3,715,322</u>	<u>3,715,322</u>
	<u>\$ 59,131,292</u>	<u>\$ 58,309,222</u>	<u>\$ 58,309,222</u>

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

4. The expenditures reported for the Section 8 Moderate Rehabilitation, Section 8 Moderate Rehabilitation Single Room Occupancy, and Mainstream Voucher Programs represent each programs' operating expenditures in their entirety, including operating transfers out; regardless of the amount of HUD annual contributions earned.
5. Expenditures for the Public Housing Capital Fund Program agree with actual revenues and expenditures, including operating transfers made to the Public Housing Program, for the fiscal year.
6. Expenditures for the Family Self Sufficiency Program, Shelter Plus Care Program, Supportive Housing Program, CDBG Program, and HOME Investment Partnership Act consist only of the Federal grant funds received.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
FINANCIAL DATA SCHEDULE (CA072)
BALANCE SHEET
AS OF JUNE 30, 2016

	Pubic Housing (including Capital Fund)	PIH Family Self- Sufficiency Program	Other State & Local	Business Activities	Merrill Road Associates (DPCU)	Rural Rental Assistance Payments
CFDA Number	14.850/14.872	14.896				10.427
111 Cash - Unrestricted	\$5,773,651	\$0	\$420,604	\$1,559,441	\$28,290	\$260,685
112 Cash - Restricted - Modernization and Development	\$0	\$0	\$56,442	\$0	\$203,007	\$1,307,854
113 Cash - Other Restricted	\$39,723	\$0	\$50,544	\$0	\$87,837	\$0
114 Cash - Tenant Security Deposits	\$120,285	\$0	\$10,300	\$25,407	\$15,232	\$46,815
100 Total Cash	\$5,933,659	\$0	\$537,890	\$1,584,848	\$334,366	\$1,615,354
122 Accounts Receivable - HUD Other Projects	\$0	\$68,173	\$0	\$0	\$0	\$0
124 Accounts Receivable - Other Government	\$0	\$0	\$231,813	\$0	\$0	\$4,375
125 Accounts Receivable - Miscellaneous	\$0	\$0	\$0	\$12,000	\$0	\$0
126 Accounts Receivable - Tenants	\$14,305	\$0	\$9	\$1,625	\$2,993	\$775
126.1 Allowance for Doubtful Accounts -Tenants	-\$5,321	\$0	\$0	\$0	-\$189	\$0
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current	\$0	\$0	\$0	\$3,850	\$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	\$1,084	\$0	\$0	\$1,064	\$0	\$0
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$10,068	\$68,173	\$231,822	\$18,539	\$2,804	\$5,150
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	\$14,587	\$0	\$5,657	\$95,187	\$2,779	\$4,310
144 Inter Program Due From	\$0	\$0	\$0	\$427,795	\$0	\$0
150 Total Current Assets	\$5,958,314	\$68,173	\$775,369	\$2,126,369	\$339,949	\$1,624,814
161 Land	\$4,104,506	\$0	\$0	\$2,573,019	\$1,039,931	\$124,076
162 Buildings	\$20,513,859	\$0	\$0	\$5,392,047	\$2,752,708	\$5,617,056
163 Furniture, Equipment & Machinery - Dwellings	\$0	\$0	\$0	\$0	\$26,200	\$0
164 Furniture, Equipment & Machinery - Administration	\$118,910	\$0	\$0	\$741,603	\$0	\$0
165 Leasehold Improvements	\$0	\$0	\$0	\$0	\$0	\$0
166 Accumulated Depreciation	-\$18,694,330	\$0	\$0	-\$4,173,394	-\$1,351,001	-\$5,418,611
167 Construction in Progress	\$0	\$0	\$0	\$0	\$0	\$0
168 Infrastructure	\$0	\$0	\$0	\$0	\$0	\$0
160 Total Capital Assets, Net of Accumulated Depreciation	\$6,042,945	\$0	\$0	\$4,533,275	\$2,467,838	\$322,521
171 Notes, Loans and Mortgages Receivable - Non-Current	\$0	\$0	\$0	\$723,829	\$0	\$0
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due	\$0	\$0	\$0	\$0	\$0	\$0
174 Other Assets	\$0	\$42,741	\$0	\$151,613	\$0	\$0
180 Total Non-Current Assets	\$6,042,945	\$42,741	\$0	\$5,408,717	\$2,467,838	\$322,521
200 Deferred Outflow of Resources	\$75,870		\$9,099	\$1,846,917		\$19,794
290 Total Assets and Deferred Outflow of Resources	\$12,077,129	\$110,914	\$784,468	\$9,382,003	\$2,807,787	\$1,967,129

Section 8 Moderate Rehab Single Room Occupancy	HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14,249	14,239	14,238	14,879	14,218	14,235	14,871	14,228	14,856			
\$58,107	\$0	\$0	\$290,643	\$581	\$12,948	\$820,103		\$535,927	\$9,760,980		\$9,760,980
\$0	\$0	\$0	\$0	\$0	\$87,277	\$0		\$0	\$1,654,580		\$1,654,580
\$0	\$0	\$0	\$0	\$0	\$0	\$312,484		\$0	\$490,588		\$490,588
\$0	\$0	\$0	\$0	\$0	\$2,058	\$0		\$0	\$220,097		\$220,097
\$58,107	\$0	\$0	\$290,643	\$581	\$102,283	\$1,132,587	\$0	\$535,927	\$12,126,245	\$0	\$12,126,245
\$0	\$0	\$197,189	\$0	\$0	\$15,989	\$60,806		\$0	\$342,157		\$342,157
\$0	\$0	\$0	\$0	\$13,224	\$0	\$0		\$0	\$249,412		\$249,412
\$227	\$0	\$0	\$0	\$0	\$0	\$78,506		\$18	\$90,751		\$90,751
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$19,707		\$19,707
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	-\$5,510		-\$5,510
-\$226	\$0	\$0	\$0	\$0	\$0	-\$78,506		-\$18	-\$78,750		-\$78,750
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$3,850		\$3,850
\$0	\$0	\$0	\$787	\$0	\$0	\$68,042		\$0	\$68,829		\$68,829
\$0	\$0	\$0	-\$787	\$0	\$0	-\$68,042		\$0	-\$68,829		-\$68,829
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$269	\$2,417		\$2,417
\$1	\$0	\$197,189	\$0	\$13,224	\$15,989	\$60,806	\$0	\$269	\$624,034	\$0	\$624,034
\$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	\$0		\$0
\$35	\$0	\$0	\$323	\$0	\$423	\$15,384		\$132	\$138,817		\$138,817
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$427,795	-\$427,795	\$0
\$58,143	\$0	\$197,189	\$290,966	\$13,805	\$118,695	\$1,208,777	\$0	\$536,328	\$13,316,891	-\$427,795	\$12,889,096
\$0	\$0	\$0	\$0	\$0	\$289,000	\$0		\$0	\$8,130,532		\$8,130,532
\$0	\$0	\$0	\$0	\$0	\$514,554	\$0		\$0	\$34,790,224		\$34,790,224
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$26,200		\$26,200
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$860,513		\$860,513
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	-\$406,540	\$0		\$0	-\$30,043,876		-\$30,043,876
\$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	\$397,014	\$0	\$0	\$0	\$13,763,593	\$0	\$13,763,593
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$723,829		\$723,829
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$34	\$0	\$0	\$1,223	\$0	\$0		\$0	\$195,611		\$195,611
\$0	\$34	\$0	\$0	\$1,223	\$397,014	\$0	\$0	\$0	\$14,683,033	\$0	\$14,683,033
\$460		\$2,687	\$5,722	\$608	\$1,348	\$384,545		\$1,747	\$2,348,797	\$0	\$2,348,797
\$58,603	\$34	\$199,876	\$296,688	\$15,636	\$517,057	\$1,593,322	\$0	\$538,075	\$30,348,721	-\$427,795	\$29,920,926

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, 2016
(Continued)

	Pubic Housing (including Capital Fund)	PIH Family Self- Sufficiency Program	Other State & Local	Business Activities	Merrill Road Associates (DPCU)	Rural Rental Assistance Payments
311 Bank Overdraft	\$0	\$0	\$0	\$0	\$0	\$0
312 Accounts Payable <= 90 Days	\$49,262	\$0	\$96,317	\$72,249	\$2,321	\$26,538
313 Accounts Payable >90 Days Past Due	\$0	\$0	\$0	\$0	\$0	\$0
321 Accrued Wage/Payroll Taxes Payable	\$25,723	\$9,145	\$10,905	\$53,851	\$0	\$7,497
322 Accrued Compensated Absences - Current Portion	\$11,625	\$2,401	\$1,120	\$24,859	\$1,201	\$3,364
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	\$0	\$0	\$0	\$0
332 Account Payable - PHA Projects	\$0	\$0	\$0	\$0	\$0	\$0
333 Accounts Payable - Other Government	\$119,025	\$0	\$75,041	\$0	\$0	\$0
341 Tenant Security Deposits	\$120,285	\$0	\$10,300	\$25,407	\$14,197	\$46,815
342 Unearned Revenue	\$8,792	\$0	\$117,489	\$4,819	\$57	\$3,556
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	\$0	\$0	\$0	\$174,462	\$0	\$29,158
344 Current Portion of Long-term Debt - Operating Borrowings	\$0	\$0	\$0	\$0	\$0	\$0
345 Other Current Liabilities	\$0	\$0	\$0	\$0	\$12,000	\$0
346 Accrued Liabilities - Other	\$0	\$0	\$0	\$0	\$800	\$0
347 Inter Program - Due To	\$0	\$72,975	\$52,323	\$105,961	\$0	\$0
348 Loan Liability - Current	\$0	\$0	\$0	\$0	\$0	\$0
310 Total Current Liabilities	\$334,712	\$84,521	\$363,495	\$461,608	\$30,576	\$116,928
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$0	\$0	\$0	\$347,072	\$2,199,439	\$68,457
352 Long-term Debt, Net of Current - Operating Borrowings	\$0	\$0	\$0	\$0		\$0
353 Non-current Liabilities - Other	\$39,723	\$0	\$0	\$0	\$839,857	\$0
354 Accrued Compensated Absences - Non Current	\$44,913	\$9,275	\$4,324	\$96,041	\$3,026	\$12,981
355 Loan Liability - Non Current	\$0	\$0	\$0	\$0	\$0	\$0
356 FASB 5 Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
357 Accrued Pension and OPEB Liabilities	\$441,711	\$0	\$9,367	\$2,729,806	\$0	\$114,827
350 Total Non-Current Liabilities	\$526,347	\$9,275	\$13,691	\$3,172,919	\$3,042,322	\$196,265
300 Total Liabilities	\$861,059	\$93,796	\$377,186	\$3,634,527	\$3,072,898	\$313,193
400 Deferred Inflow of Resources	\$190,920	\$15,643	\$19,496	\$336,322		\$51,580
508.4 Net Investment in Capital Assets	\$6,042,945	\$0	\$0	\$4,011,740	\$284,428	\$224,906
511.4 Restricted Net Position	\$0	\$0	\$98,186	\$0	\$290,843	\$1,306,737
512.4 Unrestricted Net Position	\$4,982,205	\$1,475	\$289,600	\$1,399,414	-\$840,382	\$70,713
513 Total Equity - Net Assets / Position	\$11,025,150	\$1,475	\$387,786	\$5,411,154	-\$265,111	\$1,602,356
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$12,077,129	\$110,914	\$784,468	\$9,382,003	\$2,807,787	\$1,967,129

Section 8 Moderate Rehab Single Room Occupancy	HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State Program	Section 8 Moderate Rehab	Subtotal	Eiminations	Total
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$1	\$0	\$21	\$12	\$0	\$7,601	\$64,718		\$4	\$319,044		\$319,044
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$167	\$0	\$142	\$2,109	\$397	\$498	\$135,826		\$636	\$246,896		\$246,896
\$46	\$0	\$0	\$581	\$0	\$229	\$36,908		\$176	\$82,510		\$82,510
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$2,152	\$0	\$0	\$0	\$0	\$0	\$0		\$8,290	\$10,442		\$10,442
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$194,066		\$194,066
\$0	\$0	\$0	\$0	\$0	\$2,058	\$0		\$0	\$219,062		\$219,062
\$0	\$0	\$0	\$7,636	\$0	\$506	\$2,571		\$0	\$145,426		\$145,426
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$203,620		\$203,620
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$12,000		\$12,000
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$800		\$800
\$0	\$84	\$196,452	\$0	\$0	\$0	\$0		\$0	\$427,795	-\$427,795	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$2,366	\$84	\$196,615	\$10,338	\$397	\$10,892	\$240,023	\$0	\$9,106	\$1,861,661	-\$427,795	\$1,433,866
\$0	\$0	\$0	\$0	\$0	\$210,000	\$0		\$0	\$2,824,968		\$2,824,968
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$75,897	\$158,753		\$0	\$1,114,230		\$1,114,230
\$179	\$0	\$0	\$2,243	\$0	\$886	\$142,593		\$681	\$317,142		\$317,142
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$2,416	\$0	\$12,077	\$30,296	\$0	\$7,786	\$2,014,308		\$9,265	\$5,371,859		\$5,371,859
\$2,595	\$0	\$12,077	\$32,539	\$0	\$294,569	\$2,315,654	\$0	\$9,946	\$9,628,199	\$0	\$9,628,199
\$4,961	\$84	\$208,692	\$42,877	\$397	\$305,461	\$2,555,677	\$0	\$19,052	\$11,489,860	-\$427,795	\$11,062,065
\$1,191	\$12	\$4,751	\$14,882	\$1,339	\$3,506	\$985,043		\$4,530	\$1,629,215	\$0	\$1,629,215
\$0	\$0	\$0	\$0	\$0	\$111,117	\$0		\$0	\$10,675,136		\$10,675,136
\$0	\$0	\$0	\$0	\$0	\$87,277	\$153,731		\$0	\$1,936,774		\$1,936,774
\$52,451	-\$62	-\$13,567	\$238,929	\$13,900	\$9,696	-\$2,101,129	\$0	\$514,493	\$4,617,736		\$4,617,736
\$52,451	-\$62	-\$13,567	\$238,929	\$13,900	\$208,090	-\$1,947,398	\$0	\$514,493	\$17,229,646	\$0	\$17,229,646
\$58,603	\$34	\$199,876	\$296,688	\$15,636	\$517,057	\$1,593,322	\$0	\$538,075	\$30,348,721	-\$427,795	\$29,920,926

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, 2016**

	Public Housing (Including Capital Fund)	PIH Family Self- Sufficiency Program	Other State & Local	Business Activities	Merril Road Associates (DPCU)	Rural Rental Assistance Payments
CFDA Number	14.850/14.872	14.896				10.427
70300 Net Tenant Rental Revenue	\$1,395,688	\$0	\$0	\$11,004	\$143,511	\$585,206
70400 Tenant Revenue - Other	\$130,076	\$0	\$0	\$0	\$2,137	\$33,576
70500 Total Tenant Revenue	\$1,525,764	\$0	\$0	\$11,004	\$145,648	\$618,782
70600 HUD PHA Operating Grants	\$947,583	\$140,354	\$0	\$0	\$0	\$0
70610 Capital Grants	\$0	\$0	\$0	\$0	\$0	\$0
70800 Other Government Grants	\$0	\$0	\$1,207,685	\$0	\$0	\$54,050
71100 Investment Income - Unrestricted	\$11,145	\$0	\$615	\$6,851	\$68	\$592
71200 Mortgage Interest Income	\$0	\$0	\$0	\$7,583	\$0	\$0
71400 Fraud Recovery	\$0	\$0	\$0	\$0	\$0	\$0
71500 Other Revenue	\$9,371	\$0	\$28,615	\$1,931,218	\$0	\$15
71600 Gain or Loss on Sale of Capital Assets	\$0	\$0	\$0	\$0	\$0	\$0
72000 Investment Income - Restricted	\$0	\$0	\$44	\$0	\$704	\$3,445
70000 Total Revenue	\$2,493,863	\$140,354	\$1,236,959	\$1,956,656	\$146,420	\$676,884
91100 Administrative Salaries	\$353,369	\$0	\$43,067	\$867,266	\$18,949	\$102,179
91200 Auditing Fees	\$3,714	\$178	\$1,580	\$19	\$6,465	\$1,148
91300 Management Fee	\$0	\$0	\$32,306	\$0	\$8,589	\$0
91400 Advertising and Marketing	\$231	\$0	\$4,152	\$11,173	\$0	\$1,381
91500 Employee Benefit contributions - Administrative	\$111,904	\$0	\$13,754	\$109,664	\$9,152	\$32,595
91600 Office Expenses	\$32,033	\$0	\$2,125	\$5,111	\$0	\$9,260
91700 Legal Expense	\$654	\$0	\$920	\$3,054	\$0	\$126
91800 Travel	\$1,141	\$0	\$100	\$3,139	\$0	\$127
91810 Allocated Overhead	\$51,282	\$0	\$3,857	\$8,321	\$0	\$14,827
91900 Other	\$2,596	\$0	\$21,404	\$368,781	\$400	\$1,090
91000 Total Operating - Administrative	\$556,924	\$178	\$123,265	\$1,376,528	\$43,555	\$162,733
92100 Tenant Services - Salaries	\$0	\$98,710	\$0	\$0	\$0	\$0
92200 Relocation Costs	\$904	\$0	\$0	\$0	\$0	\$0
92300 Employee Benefit Contributions - Tenant Services	\$0	\$33,190	\$0	\$0	\$0	\$0
92400 Tenant Services - Other	\$132	\$953	\$139,490	\$0	\$0	\$0
92500 Total Tenant Services	\$1,036	\$132,853	\$139,490	\$0	\$0	\$0
93100 Water	\$83,211	\$0	\$3,922	\$6,543	\$3,246	\$11,057
93200 Electricity	\$36,766	\$0	\$37,841	\$50,041	\$1,666	\$16,581
93300 Gas	\$6,602	\$0	\$22,188	\$1,901	\$123	\$2,477
93600 Sewer	\$98,520	\$0	\$67,153	\$5,138	\$8,933	\$57,165
93800 Other Utilities Expense	\$5,450	\$0	\$0	\$878	\$1,256	\$0
93000 Total Utilities	\$230,549	\$0	\$131,104	\$64,501	\$15,224	\$87,280
94100 Ordinary Maintenance and Operations - Labor	\$84,488	\$0	\$43,492	\$466	\$5,674	\$24,401
94200 Ordinary Maintenance and Operations - Materials and Other	\$35,238	\$0	\$5,440	\$2,504	\$5,111	\$11,042
94300 Ordinary Maintenance and Operations Contracts	\$401,656	\$0	\$56,068	\$76,536	\$32,146	\$101,962
94500 Employee Benefit Contributions - Ordinary Maintenance	\$14,203	\$0	\$13,103	-\$1,350	\$2,640	\$4,095
94000 Total Maintenance	\$535,585	\$0	\$118,103	\$78,156	\$45,571	\$141,500

Section 8 Moderate Rehab Single Room Occupancy	HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14,249	14,239	14,238	14,879	14,218	14,235	14,871	14,228	14,856			
\$0	\$0	\$0	\$0	\$0	\$13,733	\$0		\$0	\$2,149,142	-\$8,672	\$2,140,470
\$0	\$0	\$0	\$0	\$0	\$6,798	\$0		\$0	\$172,587		\$172,587
\$0	\$0	\$0	\$0	\$0	\$20,531	\$0	\$0	\$0	\$2,321,729	-\$8,672	\$2,313,057
\$91,375	\$0	\$429,315	\$1,167,056	\$0	\$55,286	\$59,131,292		\$465,621	\$62,427,882		\$62,427,882
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$37,035	\$0	\$0	\$19,635	\$0	\$0	\$26,539	\$0	\$1,344,944		\$1,344,944
\$96	\$0	\$0	\$489	\$3	\$15	\$1,335		\$1,376	\$22,585		\$22,585
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$7,583		\$7,583
\$0	\$0	\$0	\$734	\$0	\$0	\$70,814		\$0	\$71,548		\$71,548
\$0	\$0	\$0	\$0	\$0	\$0	\$3,143		\$0	\$1,972,362	-\$1,564,338	\$408,024
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$129	\$0		\$0	\$4,322		\$4,322
\$91,471	\$37,035	\$429,315	\$1,168,279	\$19,638	\$75,961	\$59,206,584	\$26,539	\$466,997	\$68,172,955	-\$1,573,010	\$66,599,945
\$2,766	\$141	\$3,555	\$34,920	\$8,432	\$6,926	\$2,245,918		\$10,562	\$3,698,050	-\$849,762	\$2,848,288
\$28	\$88	\$127	\$375	\$70	\$78	\$22,179		\$105	\$36,154		\$36,154
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$40,895	-\$32,306	\$8,589
\$0	\$0	\$0	\$0	\$0	\$12	\$962		\$0	\$17,911	-\$11,145	\$6,766
\$734	\$17	\$984	\$9,357	\$1,226	\$2,176	\$601,304		\$2,820	\$895,687	-\$110,237	\$785,450
\$205	\$11	\$270	\$2,587	\$629	\$629	\$166,349		\$782	\$219,991	-\$219,991	\$0
\$3	\$0	\$2	\$35	\$8	\$368	\$3,801		\$10	\$8,981	-\$2,983	\$5,998
\$3	\$0	\$4	\$281	\$9	\$10	\$2,075		\$11	\$6,900	-\$3,067	\$3,833
\$328	\$15	\$337	\$4,141	\$1,011	\$1,007	\$266,363		\$1,252	\$352,741		\$352,741
\$75	\$0	\$18	\$45	\$11	\$33	\$21,426		\$46	\$415,925	-\$345,409	\$70,516
\$4,142	\$272	\$5,297	\$51,741	\$11,396	\$11,239	\$3,330,377	\$0	\$15,588	\$5,693,235	-\$1,574,900	\$4,118,335
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$98,710		\$98,710
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$904		\$904
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$33,190		\$33,190
\$0	\$37,035	\$291	\$0	\$8,425	\$23,334	\$0	\$26,539	\$0	\$236,199		\$236,199
\$0	\$37,035	\$291	\$0	\$8,425	\$23,334	\$0	\$26,539	\$0	\$369,003	\$0	\$369,003
\$0	\$0	\$0	\$0	\$0	\$2,658	\$0		\$0	\$110,637		\$110,637
\$0	\$0	\$0	\$0	\$0	\$873	\$0		\$0	\$143,768		\$143,768
\$0	\$0	\$0	\$0	\$0	\$97	\$0		\$0	\$33,388		\$33,388
\$0	\$0	\$0	\$0	\$0	\$3,659	\$0		\$0	\$240,568		\$240,568
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$7,584		\$7,584
\$0	\$0	\$0	\$0	\$0	\$7,287	\$0	\$0	\$0	\$535,945	\$0	\$535,945
\$0	\$0	\$0	\$0	\$0	\$1,673	\$0		\$0	\$160,194		\$160,194
\$0	\$0	\$0	\$0	\$0	\$2,041	\$0		\$0	\$61,376		\$61,376
\$32	\$1	\$136	\$403	\$70	\$14,842	\$26,874		\$122	\$710,848	-\$24,398	\$686,450
\$0	\$0	\$0	\$0	\$0	\$281	\$0		\$0	\$32,972		\$32,972
\$32	\$1	\$136	\$403	\$70	\$18,837	\$26,874	\$0	\$122	\$965,390	-\$24,398	\$940,992

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
FINANCIAL DATA SCHEDULE (CA072)
REVENUE AND EXPENSE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2016
(Continued)

	Public Housing (Including Capital Fund)	PIH Family Self- Sufficiency Program	Other State & Local	Business Activities	Merril Road Associates (DPCU)	Rural Rental Assistance Payments
96110 Property Insurance	\$23,733		\$7,984	\$4,922	\$4,150	\$6,967
96120 Liability Insurance	\$5,715	\$0	\$2,638	\$57	\$0	\$1,734
96130 Workmen's Compensation	\$30,713	\$0	\$9,472	\$12,969	\$1,780	\$10,302
96140 All Other Insurance	\$0	\$0	\$866	\$0	\$0	\$6,183
96100 Total insurance Premiums	\$60,161	\$0	\$20,960	\$17,948	\$5,930	\$25,186
96200 Other General Expenses	\$1,627	\$0	\$0	\$3,650	\$12,800	\$0
96210 Compensated Absences	\$51,606	\$5,848	\$13,876	-\$45,742	\$715	\$14,284
96300 Payments in Lieu of Taxes	\$119,025	\$0	\$0	\$0	\$0	\$0
96400 Bad debt - Tenant Rents	\$1,757	\$0	\$0	\$0	\$0	\$388
96500 Bad debt - Mortgages	\$0	\$0	\$0	\$0	\$0	\$0
96000 Total Other General Expenses	\$174,015	\$5,848	\$13,876	-\$42,092	\$13,515	\$14,672
96710 Interest of Mortgage (or Bonds) Payable	\$0	\$0	\$0	\$35,164	\$0	\$1,143
96720 Interest on Notes Payable (Short and Long Term)	\$0	\$0	\$0	\$0	\$43,438	\$0
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$35,164	\$43,438	\$1,143
96900 Total Operating Expenses	\$1,558,270	\$138,879	\$546,798	\$1,530,205	\$167,233	\$432,514
97000 Excess of Operating Revenue over Operating Expenses	\$935,593	\$1,475	\$690,161	\$426,451	-\$20,813	\$244,370
97100 Extraordinary Maintenance	\$0	\$0	\$647,658	\$0	\$4,320	\$29,455
97200 Casualty Losses - Non-capitalized	\$0	\$0	\$0	\$0	\$0	\$0
97300 Housing Assistance Payments	\$0	\$0	\$0	\$0	\$0	\$0
97350 HAP Portability-In	\$0	\$0	\$0	\$0	\$0	\$0
97400 Depreciation Expense	\$432,658	\$0	\$0	\$193,841	\$73,230	\$216,281
90000 Total Expenses	\$1,990,928	\$138,879	\$1,194,456	\$1,724,046	\$244,783	\$678,250
10010 Operating Transfer In	\$350,056	\$0	\$0	\$91,662	\$0	\$0
10020 Operating transfer Out	-\$350,056	\$0	-\$233	-\$91,662	\$0	\$0
10100 Total Other financing Sources (Uses)	\$0	\$0	-\$233	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$502,935	\$1,475	\$42,270	\$232,610	-\$98,363	-\$1,366
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$0	\$0	\$0
11030 Beginning Equity	\$10,522,215	\$0	\$345,516	\$5,178,544	-\$166,748	\$1,603,722
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$0	\$0	\$0	\$0
11170 Administrative Fee Equity						
11180 Housing Assistance Payments Equity						
11190 Unit Months Available	2726	0	0	12	180	816
11210 Number of Unit Months Leased	2724	0	0	12	178	804
11270 Excess Cash	\$5,439,437					

Section 8 Rehab Single Room Occupancy	HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
\$0	\$0	\$0	\$0	\$0	\$682	\$0		\$0	\$48,438		\$48,438
\$76	\$0	\$0	\$692	\$0	\$171	\$32,520		\$284	\$43,887		\$43,887
\$30	\$4	\$43	\$422	\$98	\$528	\$27,056		\$125	\$93,542	-\$12,574	\$80,968
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$7,049		\$7,049
\$106	\$4	\$43	\$1,114	\$98	\$1,381	\$59,576	\$0	\$409	\$192,916	-\$12,574	\$180,342
\$0	\$0	\$0	\$520	\$0	\$0	\$16,312		\$0	\$34,909		\$34,909
\$348	\$18	-\$586	\$1,628	\$1,073	\$967	\$282,183		\$1,322	\$327,540	\$47,534	\$375,074
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$119,025		\$119,025
\$0	\$0	\$0	\$0	\$0	-\$115	\$0		\$0	\$2,030		\$2,030
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$348	\$18	-\$586	\$2,148	\$1,073	\$852	\$298,495	\$0	\$1,322	\$483,504	\$47,534	\$531,038
\$0	\$0	\$0	\$0	\$0	\$6,300	\$0		\$0	\$42,607		\$42,607
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$43,438		\$43,438
\$0	\$0	\$0	\$0	\$0	\$6,300	\$0	\$0	\$0	\$86,045	\$0	\$86,045
\$4,628	\$37,330	\$5,181	\$55,406	\$21,062	\$69,230	\$3,715,322	\$26,539	\$17,441	\$8,326,038	-\$1,564,338	\$6,761,700
\$86,843	-\$295	\$424,134	\$1,112,873	-\$1,424	\$6,731	\$55,491,262	\$0	\$449,556	\$59,846,917	-\$8,672	\$59,838,245
\$0	\$0	\$0	\$0	\$0	\$2,429	\$0		\$0	\$683,862		\$683,862
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$76,614	\$0	\$422,984	\$1,122,258	\$0	\$0	\$54,593,900		\$410,597	\$56,626,353	-\$8,672	\$56,617,681
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$15,449	\$0		\$0	\$931,459		\$931,459
\$81,242	\$37,330	\$428,165	\$1,177,664	\$21,062	\$87,108	\$58,309,222	\$26,539	\$428,038	\$66,567,712	-\$1,573,010	\$64,994,702
\$0	\$233	\$0	\$0	\$0	\$0	\$0		\$0	\$441,951	-\$441,951	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	-\$441,951	\$441,951	\$0
\$0	\$233	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$10,229	-\$62	\$1,150	-\$9,385	-\$1,424	-\$11,147	\$897,362	\$0	\$38,959	\$1,605,243	\$0	\$1,605,243
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0
\$42,222	\$0	-\$14,717	\$248,314	\$15,324	\$219,237	-\$2,844,760	\$0	\$475,534	\$15,624,403		\$15,624,403
\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
						-\$2,101,129		\$0	-\$2,101,129		-\$2,101,129
						\$153,731		\$0	\$153,731		\$153,731
132	0	420	1200	0	72	56784		492	62834		62834
125	0	420	1106	0	67	52888		483	58807		58807
								\$0	\$5,439,437		\$5,439,437

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

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF COMPLETED CAPITAL FUND PROGRAM PROJECTS
ANNUAL CONTRIBUTIONS CONTRACT SF-1621
JUNE 30, 2016**

CA39P07250115

Funds approved	\$ 350,056
Funds expended	<u>350,056</u>
Excess of funds approved	<u><u>\$ -</u></u>
Funds advanced	\$ 350,056
Funds expended	<u>350,056</u>
Excess of funds advanced	<u><u>\$ -</u></u>

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

Harn & Dolan

Certified Public Accountants

2423 Stirrup Court

Walnut Creek, California 94596-6526

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

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

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

We have audited, 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, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Santa Cruz, California, as of and for the year ended June 30, 2016, 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 January 18, 2017. Our report includes a reference to other auditors who audited the financial statements of the Merrill Road Associates, A California Limited Partnership, which is reported as the discretely presented component unit, as described in our report on the Housing Authority of the County of Santa Cruz, California's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

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 and the other auditors 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.



January 18, 2017

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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
Santa Cruz, 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, 2016. 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, 2016.

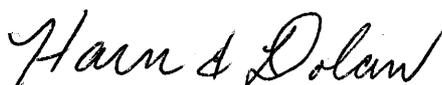
Report on Internal Control Over Compliance

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.



January 18, 2017

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

The previous audit report for the year ended June 30, 2015 contained no audit findings.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

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	\$1,850,876
Auditee qualified as low-risk auditee?	yes
Identification of major programs:	
Housing Voucher Cluster:	
Housing Choice Voucher Program	14.871
Mainstream Voucher	14.879
Type of auditors' report issued on compliance for major programs:	unmodified
Did the audit disclose any audit findings which the auditor is required to report under OMB A-133, paragraph 510(a)	no
Internal control over major programs:	
Significant deficiencies identified?	no
Significant deficiencies identified also considered to be material weaknesses?	none reported
Any known questioned costs	no
Were prior audit findings related to direct funding shown in the Summary of Prior Audit Findings	no

Section II - Financial Statement Findings

none

Section III - Federal Award Findings

none