

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
AGENDA OF THE REGULAR BOARD MEETING
February 28, 2018
11:30 a.m.
TO BE HELD AT:
HOUSING AUTHORITY OFFICES
2931 Mission Street, Santa Cruz, CA 95060

1. Roll Call
2. Consideration of Late Additions and Changes to the Agenda
3. Consent Agenda
 - A. Approval of Minutes of Regular Meeting held January 24, 2018
4. Oral Communications (All oral communications must be directed to an item not listed on this agenda and must be within the jurisdiction of the Board. Presentations must not exceed three minutes in length. The Board will not take action or respond immediately to any Oral Communication presented, but may choose to follow up at a later time or schedule item for a subsequent agenda. The Board may limit the total amount of time allowed for oral communication). Anyone addressing the Board of Commissioners is asked to complete a card and leave it with the Board secretary so that their names may be accurately recorded in the Minutes.
5. Unfinished Business
6. New Business
 - A. Audited Financial Statements for Fiscal Year Ending June 30, 2017
 - B. Records Retention Policy
 - C. Waste Water Levee Repair
 - D. Draft Agency Plan
 - E. City of Santa Cruz Rent Control Ballot Measure
7. Written Correspondence
8. Report of Executive Director
9. Reports from Board Members
(Board members may report on meetings attended, if any, or other items of interest.)
10. Closed Session
(The Board will recess to discuss those items listed, if any.)
11. Report on Closed Session
12. Adjournment

*The Housing Authority complies with the Americans with Disabilities Act. If you are a person with disabilities and you require special assistance in order to participate, please contact the Board secretary at 831-454-9455, ext. 201 at least 72 hours in advance of the meeting in order to make arrangements. Persons with disabilities may request a copy of the agenda in an alternative format.

Spanish language translation is available on an as needed basis. Please make arrangements 72 hours in advance by contacting the Housing Authority at 831-454-9455, ext. 280.

Agendas can be obtained from the Housing Authority of the County of Santa Cruz Administration Department.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, MINUTES OF THE REGULAR MEETING JANUARY 24, 2018 AT THE HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, 2931 MISSION STREET, SANTA CRUZ, CA 95060

AGENDA ITEM NO. 1 Roll Call

Chairperson Berg called the meeting to order at 1:03 p.m. Members present Commissioners Berg, Brunner, Eligio, Garcia, Pomerantz, Schiffrin and Schmale

Members Absent

None.

Staff Present

Jennifer Panetta, Mark Failor and Courtney Byrd of the Housing Authority

AGENDA ITEM NO. 2 Consideration of Late Additions or Changes to the Agenda

None.

AGENDA ITEM NO. 3 Consent Agenda

Chairperson Berg asked for a motion to approve the Consent Agenda.

Commissioner Garcia moved for approval of the Consent Agenda; Commissioner Schiffrin seconded the motion and it was passed by the following vote:

AYES: Commissioners Berg, Brunner, Eligio, Garcia, Pomerantz, Schiffrin and Schmale

NOES: None

ABSENT: None

ABSTAIN: None

AGENDA ITEM NO. 4 Oral Communications

None.

AGENDA ITEM NO. 5 Unfinished Business

None.

AGENDA ITEM NO. 6A Tenant Improvement Contract for 2160 and 2170 41st Avenue

Secretary Panetta and Deputy Executive Director Failor informed the Board that prior to moving into the Housing Authority's new offices, the two buildings at 2160 and 2170 41st Avenue will need to be modified to meet the needs of staff and clients. The Housing Authority staff reached out to general contractors and advertised the project as a Public Works job using State Published Wage scales. After reviewing the two bids received, CRW at \$573,244 and Testorff at \$781,664, staff recommends selecting the bid from CRW. The bid was the lowest and the Housing Authority has worked with them on projects in the past. A discussion followed.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, MINUTES OF THE REGULAR MEETING JANUARY 24, 2018 AT THE HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, 2931 MISSION STREET, SANTA CRUZ, CA 95060

Commissioner Schiffrin moved to authorize execution of a contract with CRW for \$573,344 for tenant improvements at 2160 and 2170 41st Avenue; Commissioner Garcia seconded the motion and it was passed by the following vote:

AYES: Commissioners Berg, Brunner, Eligio, Garcia, Pomerantz, Schiffrin and Schmale
NOES: None
ABSENT: None
ABSTAIN: None

Deputy Executive Director Failor exited the meeting at 1:20 p.m. with thanks from the Board.

AGENDA ITEM NO. 6B Consideration of Change in Board of Commissioner Meeting Time

Secretary Panetta informed the Board that during the December 13, 2017 meeting, a request was made by a Commissioner to reconsider the Board of Commissioners meeting time. The meeting time is established in the Agency Bylaws which state the Annual Meeting and the Regular Meetings are held on the fourth Wednesday of the month at 1:00 p.m. Commissioner Schiffrin proposed that the meeting time be changed to 11:30 a.m. Commissioner Schiffrin stated that with the upcoming move to 41st Avenue and traffic concerns, this would be more convenient for Commissioners and the Public. A discussion followed.

Commissioner Schiffrin moved to change the Agency Bylaws to state the meeting time of the Annual Meeting and the Regular Meetings begin at 11:30 a.m.; Commissioner Garcia seconded the motion and it was passed by the following vote:

AYES: Commissioners Berg, Brunner, Eligio, Garcia, Pomerantz, Schiffrin and Schmale
NOES: None
ABSENT: None
ABSTAIN: None

AGENDA ITEM NO. 6C Consideration of Waiting List Changes for 2018 Agency Plan

Secretary Panetta reminded the Board that as discussed previously, the Housing Authority of the County of Santa Cruz (HACSC) has been exploring several changes to the Housing Choice Voucher (HCV) waiting list. Such changes would be incorporated into the upcoming 2018 Agency Plan process, which is currently underway. Of the waiting list changes that were discussed, Commissioners had suggestions or concerns regarding the residency preference and the eviction prevention preference.

One Commissioner questioned how staff arrived at the 75% live/work residency preference weight and suggested that we consider increasing this, potentially to 90%. Staff informed the Board of the steps taken and research that was done to arrive at this percentage. Based on the information used, staff feels that 75% initial preference weight is very likely to achieve our policy objective. During the discussion last month regarding the eviction prevention preference, a member of the

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, MINUTES OF THE REGULAR MEETING JANUARY 24, 2018 AT THE HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, 2931 MISSION STREET, SANTA CRUZ, CA 95060

Board expressed concern about how such a preference would be verified, and how staff could avoid the manipulation of such a preference. Staff has been in communication with the Community Action Board to develop some potential verification procedures and documentation requirements.

Based on the Board's general support for all the waiting list changes described at the December Meeting, staff has integrated these changed into the draft Agency Plan documents. A copy of the draft documents will be on our website and available for Public review beginning in early February. Staff will present the drafts to the Board at the February meeting and the plan will go before the Board for a vote at the March meeting.

AGENDA ITEM NO. 7

Written Correspondence

None.

AGENDA ITEM NO. 8

Report of Executive Director

Executive Director Panetta informed the Board that the financials for December and a comparison against our approved budget (s) FY 2017-2018 is included in this month's Board Packet.

Executive Director Panetta updated the Board on the Fair Market Rent Study being performed by UCSB Economic Forecast Project.

Executive Director Panetta updated the Board on the repairs being done to the wastewater system at Buena Vista and Tierra Alta.

Executive Director Panetta, as discussed at the December meeting, informed the Board of the cost to send the Board Packets out to the Commissioners via Federal Express.

Executive Director Panetta informed the Board that the Housing Authority has launched the new Landlord Incentive Program which will act as a loss mitigation for landlords with new Section 8 contracts effective January 1, 2018.

Executive Director Panetta gave the Board a legislative update.

AGENDA ITEM NO. 9

Reports from Board Members

Commissioner Garcia informed the Board that she discovered that no member of the Board of Commissioners can rent to a Section 8 tenant.

Commissioner Garcia also suggested that we have information available to the Public regarding a workshop on the TPS designation for Salvadorians in Live Oak. Staff will research and have this available as a resource.

Commissioner Brunner shared with the Board a write up in the Good Times newspaper regarding the new Landlord Incentive Program.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, MINUTES OF THE REGULAR MEETING JANUARY 24, 2018 AT THE HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ, 2931 MISSION STREET, SANTA CRUZ, CA 95060

AGENDA ITEM NO. 10

Closed Session

None.

AGENDA ITEM NO.11

Report on Closed Session

None.

AGENDA ITEM NO. 12

Adjournment

The Board of Commissioners meeting was adjourned at 2:02 p.m.

I hereby certify that these minutes were approved by the Housing Authority of the County of Santa Cruz, on the Twenty Eighth day of February, 2018.

Chairperson of the Authority

ATTEST: _____Secretary

18:mins01

AGENDA ITEM SUMMARY

MEETING DATE: February 28, 2018

ITEM NUMBER: 6A

FROM: Executive Director

SUBJECT: Audited Financial Statements for Fiscal Year Ending June 30, 2017

RECOMMENDATION: Approve the Audited Financial Statements for Fiscal Year Ending June 30, 2017 for the Housing Authority of the County of Santa Cruz, Migrant Farm Labor Housing, and Brommer Street Transitional Housing

BACKGROUND SUMMARY:

Enclosed for your approval please find the June 30, 2017 audits for the following:

1. Housing Authority of the County of Santa Cruz
2. Migrant Farm Labor Housing
3. Brommer Street Transitional Housing

The Agency's auditor, Harn & Dolan, CPAs, has issued an unmodified (clean) opinion for each report without any audit findings or management comments. The financial statements are presented in conformance with Generally Accepted Accounting Principles (GAAP) using the enterprise (or business-type) method of recognizing revenues and expenses.

The Agency-Wide report includes Merrill Road financial data as a component unit. This is due to the fact that the Housing Authority is the limited partner and has complete control over financial decisions.

Once the Board has approved the audits, they will be submitted online to HUD and released to other agencies or interested parties.

RECOMMENDATION:

Approve the Audited Financial Statements for Fiscal Year Ending June 30, 2017 for the Housing Authority of the County of Santa Cruz, Migrant Farm Labor Housing, and Brommer Street Transitional Housing.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

AGENDA ITEM SUMMARY

MEETING DATE: February 28, 2018

ITEM NUMBER: 6B

FROM: Executive Director

SUBJECT: Records Retention Policy

RECOMMENDATION: Adopt Resolution No. 2018-01 Resolution of the Board of Commissioners of the Housing Authority of the County of Santa Cruz Approving the Adoption of the Records Retention Policy

BACKGROUND SUMMARY:

Housing Authority staff has been working with our general legal counsel on an update of the Records Retention Policy. The Records Retention Policy establishes a continuing records management program, in compliance with applicable laws and regulations, and provides for the periodic destruction of valueless non-current records. This policy also allows for the transfer or scanning of documents into electronic file format. Adherence to this policy will enhance the Housing Authority's administrative efficiency by allowing the reuse of storage space and filing equipment, easier and faster access, while preserving the records that have administrative, legal, fiscal, or historical value. As stated in our Agency Bylaws, the Board of Commissioners shall approve of changes to the Records Retention Policy.

RECOMMENATION: Adopt Resolution No. 2018-01 Resolution of the Board of Commissioners of the Housing Authority of the County of Santa Cruz Approving the Adoption of the Records Retention Policy

**BEFORE THE HOUSING AUTHORITY OF THE COUNTY
OF SANTA CRUZ, STATE OF CALIFORNIA**

RESOLUTION NO. 2018- 01

On the motion of Commissioner
Duly seconded by Commissioner

The Following Resolution is Adopted:

**RESOLUTION OF THE BOARD OF COMMISSIONERS
OF THE HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
APPROVING THE ADOPTION OF THE
RECORDS RETENTION POLICY**

WHEREAS a record retention schedule establishes minimum retention periods for the various types of Housing Authority records; and

WHEREAS a records management program is a requirement to be in compliance with applicable laws and regulations (California Government Code 60200, 60201, 60203 and Federal HUD requirements); and

WHEREAS a records management allows for the scanning of documents into electronic file format; and

WHEREAS the destruction or disposition of identified valueless non-current records that will not adversely affect any interest of the public; and

WHEREAS a records management program will enhance the Housing Authority's ("Authority") administrative efficiency by allowing the reuse of storage space and filing equipment, easier and faster access, while preserving the records that have administrative, legal, fiscal, or historical value.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The Board of Commissioners hereby adopts the Records Retention Policy, effective February 28, 2018; and
2. The Board of Commissioners hereby appoints the Executive Director, or his/her successor or his/her designee as the Authority's Plan Administrator for the Program.

PASSED AND ADOPTED by the Board of Commissioners of the Housing Authority of the County of Santa Cruz, State of California, this Twenty Eighth Day of February, 2018 by the following vote:

AYES:
NOES:
ABSENT:

Chairperson of the Authority

ATTEST:

Secretary of the Authority



Records Retention Policy

Housing Authority of the County of Santa Cruz

December 12, 2007
Revised February 27, 2012
Revised February 28, 2018

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I. PURPOSE: This policy establishes a continuing records management program, in compliance with applicable laws and regulations (California Government Code 60200, 60201, 60203 and Federal HUD requirements), and provides for the periodic destruction of valueless non-current records. This policy also allows for the transfer or scanning of documents into electronic file format. Adherence to this policy will enhance the Housing Authority's ("Authority") administrative efficiency by allowing the reuse of storage space and filing equipment, easier and faster access, while preserving the records that have administrative, legal, fiscal, or historical value.

II. POLICY:

Authorization for Destruction of Records. The Records Retention Schedule, attached hereto, in conjunction with this Records Retention Policy, is the approved schedule for the Authority in compliance with Government Code Section 60200 et seq., and after such records have been retained for the time periods and according to the process set forth herein, such records may be destroyed.

Destruction of Records After Scanning. Any record not expressly required by law to be filed and preserved in original form may be immediately destroyed after it is electronically stored in conformance with the requirements of Government Code Section 60203.

Destruction of Duplicates. Pursuant to Government Code Section 60200, any duplicate record, the original or permanent photographic copy of which is in the files of the Authority, may be destroyed after confirmation that such original or permanent copy remains on file with the Authority.

Retention of Records Not Mentioned. All records, papers and documents not mentioned in the Records Retention Schedule shall be retained until they have lost administrative, legal, fiscal, and historical value.

Retained Records. Pursuant to Government Code Section 60201, the Authority shall retain records as follows: The following documents must be retained in their original form.

- (1) Records that relate to the formation, change of organization, or reorganization of the Authority (indefinitely);
- (2) All currently active Authority ordinances (indefinitely);
- (3) Ordinances that have been repealed, are invalid, or unenforceable (five years);
- (4) Meeting minutes of the legislative body of the Authority (indefinitely);
- (5) Pending claims and litigation records (two years after the disposition);
- (6) Records that are the subject of a pending Public Records Act request (until the request is granted or two years after denial);
- (7) Records of construction projects (until notice of completion and release of stop notices, if any);
- (8) Records related to non-discharged debts (until discharge of the debts);
- (9) Records of title for Authority real property (while owned);

- (10) Records related to non-discharged contracts (until discharge of the contracts);
- (11) Unaccepted construction bids/proposals (two years);
- (12) Records that specify the amount of compensation paid to Authority employees, officers, or independent contractors (seven years after date of payment);
- (13) Any records for which the administrative, fiscal, or legal purpose has not yet been fulfilled (until purpose is fulfilled); and,
- (14) Unaccepted bid or proposals for the construction or installation of any building, structure, or other public work (two years).

Termination of Tenancy Due to Immigration Status: Pursuant to 24 C.F.R. § 5.514, the Authority shall retain for five years the following documents submitted to the Authority as part of a United States Immigration and Naturalization Service appeal or an informal hearing process regarding a denial, reduction, or termination of assistance due to the immigration status of a family member: The following documents must be retained in their original form.

- (1) The application for financial assistance;
- (2) The form completed by the family for income reexamination;
- (3) Photocopies of any original documents (front and back), including original INS documents;
- (4) The signed verification consent form;
- (5) The INS verification results;
- (6) The request for an INS appeal;
- (7) The final INS determination;
- (8) The request for an informal hearing; and
- (9) The final informal hearing decision.

III. GUIDELINES:

This policy applies to all Authority records.

Responsibilities:

The Administrative Services Department is responsible for the overall administration of this policy and will act in an advisory role for questions regarding retention and disposition.

Department Directors are responsible for monitoring compliance with this Policy for record retention and disposal within their departments.

All Board members, officials, and employees are responsible for complying with this Policy for record retention and disposal.

General guidelines:

All financial records must be retained and available for review until after the Audit Report reviewing those records has been finalized and any resulting audit findings have been cleared. Thereafter, financial records reviewed as part of the Audit Report shall be retained according to the Records Retention Schedule.

Any records pertaining to claims or demands made by or against the Authority, either as a debtor or creditor, will be retained until such claims, demands, and accounts have been settled and adjusted; or until after the expiration of the time specified in the governing statutes of limitations.

Records shall be retained long enough to protect the Authority's interests under governing statutes of limitations and to comply with requirements of Federal, State, or local laws governing the custody and preservation of official records and to meet the needs of the Authority.

A general Records Retention Schedule is attached to this Policy. The Records Retention Schedule provides general guidelines and does not list every specific type of Authority record.

Records not listed in the Records Retention Schedule or applicable statutes shall be retained based on the administrative legal, fiscal, and/or historical value of the record. These values are defined and assessed as follows:

Administrative Value: A record has administrative value if it is used by the Authority to carry out its duties. Administrative value is based on how often and for how long the record is used by Authority personnel and whether a program would be adversely affected upon disposal of the record. The Authority shall retain records as long as they have administrative value.

Legal Value: A record has legal value if it documents or protects the rights and obligations of members of the public or of the Authority. The Authority shall retain records having legal value until the legal rights or obligations cease.

Fiscal Value: A record has fiscal value if it actively pertains to the receipt, transfer, payment, adjustment, or encumbrance of funds, or if it is required for an audit. The Authority shall retain records as long as they have fiscal value.

Historical Value: A record has historical value if it documents the Authority's organization, policies, decisions, procedures, operations, or other activities, or if it contains significant information about historical people, places, or events. The Authority shall retain historical records permanently.

Record Disposal:

Daily working records that have no further value shall be permanently deleted, destroyed, shredded, or placed into provided secure shred bins if they contain confidential information. All other records shall be permanently deleted, destroyed, shredded, or placed into provided secure shred bins according to the retention periods in the Records Retention Policy. All records shall be disposed of in a manner that prevents the disclosure of personal and confidential information, such as addresses and social security numbers.

IV. DEFINITIONS:

“Record” means any record consisting of a “writing,” as that term is defined in Government Code section 6252(g), and includes any physical or electronic document, device, or item, regardless of form or characteristic, created or received by the Authority, which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the Authority.

“Records Retention Schedule” means the document describing the records of the Authority and the applicable records retention periods.

“Retention Period” is defined as a reasonable period of time *after the end of the fiscal year* in which the specific document or the accounting record originated.

V. Records Retention Schedule

Finance Records

Financial Statements (Annual)
Audit Reports
Financial Statements (interim)
General Ledger
Property and Equipment Records
Property/equipment after write-off
Bank Statements
Bank Reconciliations
Payroll checks
General checks
Cash Disbursements Journals & voucher register

Retention Period

Permanent
Permanent
5 years
Permanent
Permanent
5 years
5 years
5 years
5 years
5 years
5 years

Deposit books and slips	5 years
Cash Receipts Journal	5 years
Accounts receivable subsidiary ledger cards	5 years
Sales	3 years
HAP payment registers	5 years
Journal Vouchers	5 years
All other documents related to the financial management and activities funded under the HUD Operating Fund (24 C.F.R. § 990.325).	5 years

Purchasing Records

Accounts Payable invoices and credit memos	5 years
Vendor contracts	5 years
Purchase orders	5 years
Work orders	3 years
Procurement	5 years

Retention Period

Credit and Collections

Uncollectible accounts/ Fraud documents	3 years
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Retention Period

Payroll Records

Individual employee earnings record	6 years
Payroll registers	5 years
Payroll tax reports	5 years
Retirement and pension plan records	10 years
Time cards/time sheets	5 years

Retention Period

Personnel Records

Worker's Compensation	6 years
Individual employee personnel file, after termination	5 years
Employee contracts, after termination	6 years
Miscellaneous personnel records, (i.e., familial participation)	5 years
Recruitment Applications	4 years
COLA surveys	5 years
Compensation studies	5 years
Employee Benefits	5 years

Retention Period

Miscellaneous

Interoffice correspondence	5 years
Background checks, (i.e., criminal, sex offender)	**
Private investigations	**
Compliance advertising, (i.e., 504, S3)	5 years

** Records shall be destroyed after their purpose is over and the documents retain no administrative, fiscal, legal, or historical value, such as after the last date for appeal of a decision, or final disposition of litigation.

Wait List

Pre-applications	7 years
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Retention Period

Correspondence, (i.e., address changes, disputes)	7 years
Reports	10 years

Client Assisted Tenancy

Executed Lease, after termination	3 years
HAP Contract, after termination	3 years
Application, after termination	3 years
Records that provide income, racial, ethnic, gender, and disability status data on program applicants and participants	Active, plus 3 years
An application from each ineligible family and the notice sent to inform the family of its ineligibility	Active, plus 3 years
HUD required reports	Active, plus 3 years
Unit inspection reports	Active, plus 3 years
Lead-based paint inspection records as required by 24 C.F.R. § 35.1475 (24 C.F.R. Part 35, Subpart B)	3 years
Accounts and other records supporting budget and financial statements for the voucher program	
records to document the basis for PHA determination that rent to owner is reasonable rent, (initially and during the term of a HAP contract)	Active, plus 3 years
Other records specified by HUD	Active, plus 3 years
Cancelled tenant files	5 years

Development, Special Programs

MCC, RMCC	30 years from date of issuance
Security Deposits	3 years after issuance, then forward to Jurisdiction
Construction records, owned property	Permanent
Construction records, after sale	6 years
Tax credit, local review	5 years
Housing Counseling, after termination	2 years

AGENDA ITEM SUMMARY

MEETING DATE: February 28, 2018

ITEM NUMBER: 6C

FROM: Executive Director

SUBJECT: Waste Water Levee Repair

RECOMMENDATION: Authorize approval of contract with Durden Construction in the amount of \$137,902

BACKGROUND SUMMARY:

In early 2017 the levee between wastewater ponds 4 and 5 at the Buena Vista Migrant Center failed. At that time we made a temporary emergency repair to the levee to stop/slow down the leak. During the months that followed, we hired several engineering firms to evaluate the onsite conditions and develop a specification to correct the failed levee. A design was developed and the project was put out to bid. We reached out to 8 engineering firms and advertised the project. We received 3 bids as listed below:

Durden Construction	\$ 99,800
Earthworks	\$124,000
A&C Construction	\$216,500

The contract was awarded to Durden Construction and a contract was executed. Once the work started and the old levee between ponds 4 and 5 was demolished, the Geotechnical Engineer discovered that a section of the levee was built with poor quality soil and the soil failed to meet current engineering standards for this job, thus the “core” of the levee needed to be redesigned. It was also discovered that some of the dirt that was going to be used to rebuild the levee core contained too much moisture, thus the contractor was unable to meet compaction requirements as set forth by the Geotechnical Engineer. This wet soil had to be “turned” to allow the soil to dry so that compaction could be obtained. The cost to do this extra work was unanticipated as was the poor quality soil that made up a portion of the “core”. The Geotechnical Engineer had to redesign the levee “core” so that the “good” dirt could be used. The extra costs associated with Durden Construction are noted below:

Durden Construction Change order	\$ 38,102.00
Durden Construction Revised Contract Amount:	\$137,902.00

RECOMMENDATION:

Authorize approval of contract with Durden Construction in the amount of \$137,902.

AGENDA ITEM SUMMARY

MEETING DATE: February 28, 2018

ITEM NUMBER: 6D

FROM: Executive Director

SUBJECT: Draft Agency Plan

RECOMMENDATION: Discussion

BACKGROUND SUMMARY:

HUD requires that most housing authorities prepare annual Agency Plans. Therefore, an Agency Plan has been prepared for the Housing Authority of the County of Santa Cruz. The purpose of the Agency Plan is to provide a resource by which public housing residents (LIPH), participants in the tenant based assistance program (Housing Choice Voucher holders), and other members of the public may locate basic PHA policies, rules and requirements concerning the PHA's operations, programs and services.

In December 2017 revisions to the Agency Plan were drafted by staff. On January 11, 2018, the Resident Advisory Board (RAB) convened to review and discuss the Plan, specifically with regard to proposed revisions. The RAB engaged in a productive discussion of the draft revisions, and offered no specific comments or concerns regarding the contents of the plan or plan revisions. Members of the RAB have been invited to the public hearing which will take place at the March meeting.

A copy of the Agency Plan and associated documents is available to the public in the offices of the Housing Authority of the County of Santa Cruz, and the draft documents are posted on the Housing Authority of the County of Santa Cruz website. Beginning on February 10, 2018 and running weekly through March 22, 2017, a notice informing the public of the opportunity to review the Agency Plan, soliciting comments, and stating the time, date and place of the public hearing to consider the plan, is being published in English and Spanish in the Santa Cruz Sentinel, the Watsonville Pajaronian, and the Hollister Freelance.

The Agency Plan, with the associated Low Income Public Housing (LIPH) Admissions and Continued Occupancy Plan (ACOP) and Section 8 Housing Choice Voucher Administrative Plan (Admin Plan), is attached hereto. The plans will not be considered complete until after the Board of Commissioners receives any and all public comment on the Plans, the Board makes any modifications they deem appropriate and the Chairperson is authorized to execute resolutions authorizing Execution of PHA Certifications of Compliance with PHA Plan and Related Regulations for Standard and Streamlined PHA Plans. These resolutions and certifications will be recommended at the March meeting.

Also attached for your review is a summary of the discussion from the Resident Advisory Board meeting and a table providing an overview of each draft modification to the Agency Plan and related documents including the proposed wording, and an explanation of the change.

AGENDA ITEM SUMMARY

MEETING DATE: February 28, 2018

ITEM NUMBER: 6E

FROM: Executive Director

SUBJECT: City of Santa Cruz Rent Control Ballot Measure

RECOMMENDATION: Discussion

BACKGROUND SUMMARY:

Last month, a group of advocates called the Movement for Housing Justice filed a notice of intent to circulate a proposed ballot initiative titled the Santa Cruz Rent Control and Tenant Protection Act. This group is currently collecting signatures in the hopes of putting the rent control and just cause eviction initiative on the November ballot.

Additionally, the City of Santa Cruz has recently adopted temporary restrictions on rent increases and evictions to prevent landlords from raising rents and evicting tenants preemptively while the ballot measure is being considered by the community.

Several jurisdictions in the State of California have similar rent control and just cause eviction ordinances, including the cities of Alameda, Berkeley, San Francisco, Santa Monica, West Hollywood, Los Angeles, Mountainview and San Jose. In seven out of these eight cities (West Hollywood being the sole exception) units subsidized through the Housing Choice Voucher program are exempt from rent control. Typically, government subsidized units are exempt from rent control because there are generally adequate measures already in place to limit rent increases. For example, all Section 8 rents are subject to a “rent reasonableness” test, to ensure they do not exceed rents for comparable unassisted units.

As currently drafted, the ballot initiative submitted by Movement for Housing Justice does not exclude Section 8 units, although the temporary limitations recently adopted by the City do exclude Section 8 units. The ballot initiative, in its current form, could have the unintended consequence of reducing the number of landlords that will accept a Section 8 voucher. Conversely, Section 8 tenants could potentially stand to benefit more from the initiative if they are excluded from it.

Staff has recently requested information from our general council asking if, and through what process, the language in the ballot initiative could potentially be changed to exclude Section 8 tenants. If directed by the Board, staff could approach the City and the Movement for Housing Justice to explore this potential.

RECOMMENDATION: Discussion

AGENDA ITEM SUMMARY

MEETING DATE: February 28, 2018

ITEM NUMBER: 8

FROM: Executive Director

SUBJECT: Executive Director's Report – February 28, 2018

RECOMMENDATION: Discussion

BACKGROUND SUMMARY:

Please call or e-mail me with questions you might have on any of the Agenda Items for the February 28, 2018 meeting. I would be happy to give you additional background or answer any of your questions in advance of the meeting. My direct line is 454-5931 and my email address is jennyp@hacosantacruz.org

Financial Reports: Your packets today include our monthly unaudited financial reports which show revenue and expenses through January 2018 and a comparison against our approved budget(s) for FY 2017-18.

FMR Study: On February 20, 2018 HUD published revised FMRs for eight metropolitan statistical areas, including Santa Cruz County. The revised FMRs for Santa Cruz County exceeded the values established through the survey, resulting in a 7.5% increase in our FMRs (as compared to the 5% decrease we would have experienced without the FMR study. The new FMRs will become effective on March 22, 2018. FMRs are utilized in the development of inflation factor adjustments. Staff estimates that our revised FMRs will increase our inflation factor from approximately 2.7% to approximately 4.3%. We are currently in the process of determining new Payment Standards based on these FMRs.

Affordable Housing Ballot Initiative: Community leaders are in the process of drafting an Affordable Housing Bond for the November ballot. The bond is expected to be approximately \$250 million dollars. The majority of the bond funding would be directed to an affordable rental housing development fund, with some funding set aside for homeless programs and resources, as well as first time homeownership programs. Approximately half of the fund would be allocated directly to the jurisdictions, with the remaining half available through a competitive process in a countywide fund. The Affordable Housing Ballot Initiative group will continue to keep the Housing Authority informed as the ballot process continues, and at some point will be asking our Board to endorse the ballot measure.

New Low-Cost Internet Program: Charter has joined Comcast Xfinity and AT&T in offering high-speed internet service programs for \$10 – \$15 a month for low income families. With this new offering from Charter, low cost internet options are now available countywide. The Housing Authority has posted information about the programs on our website, and we will mail information about the programs to participants during the annual re-examination process.

Youth Homelessness Demonstration Program (YHDP): HUD has awarded the County of Santa Cruz one of ten Youth Homeless Demonstration Programs in the entire country. The program required an intensive community planning process to determine the best way to use the 2.2 million dollars. The Housing Authority contributed to the 10-month community planning process to develop the plan to prevent and end youth homelessness in our county. The process resulted in submission of the Santa Cruz County Youth Homeless Demonstration Program Coordinated Community Plan in December. The YHDP committee released a request for proposals, titled Invitation for Innovative Proposals (IFIP). The Housing Authority is considering applying for funding for the permanent supportive housing component and partnering with Encompass Community Services for supportive services necessary for homeless youth with disabilities and/or parenting youth to secure and retain housing. The Housing Authority is planning to submit a letter of intent by the end of March, and will provide additional information to the Board before submitting an official grant application by the end of April.

Anna Caballero Open House: The Housing Authority utilizes a building in Hollister owed by the Police Department for Hollister appointments and briefings. This building is also utilized by Anna Caballero's office. We have been informed that State Assembly Member Anna Caballero will be hosting an "open house" in this satellite office, and they have extended invitations to Hollister Police Department as well as Housing Authority staff and commissioners. The open house will be on March 8th from 4:30 to 6:00pm at the Briggs Building at 365 4th Street in Hollister, CA 95023.

CAHA Conference: Earlier this month, I attended the annual conference of the California Association of Housing Authorities (CAHA) in Southern California. The conference included many informative and relevant topics including FMR studies, rent control, various best practices, analysis of new regulations, and legislative updates.

Legislative Update: After a brief government shutdown lasting just a few hours, Congress approved a budget deal on February 9, 2018. This budget deal includes an increase to non-defense spending caps, but there is no guarantee that will translate to additional funding for HUD programs. The budget deal is still a continuing resolution, and Congress has until March 23rd to translate this budget deal into an actual omnibus bill. At this time, we are still estimating a HAP proration of 96%, but this may end up being conservative. Just one day after approving this budget deal, the Administration released its proposed FY 2019 budget. This budget proposes 6.8 billion dollars in cuts (a 14.4% reduction) to HUD. Housing Advocacy groups have indicated that both the House and the Senate are already working on their 2019 draft budget proposals, even as the 2018 budget is nearing completion.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BUDGET COMPARISON REPORTS**

February 28, 2018

Attached you will find the year to date reports as of January 31, 2018, which takes us 7 months, or 58.3%, into our fiscal year. The total of all revenue, excluding HAP reimbursements, is 55% of total budgeted, while HAP is 54% of the amount budgeted. Total expenses, excluding HAP payments, are 50% of the amount budgeted.

The agency as a whole experienced a net gain of \$457,764.

The profits and losses by program group are as follows:

Section 8 Programs	\$142,412	Vouchers, Mod Rehab & Mob Rehab SRO
Federal Housing Programs	235,394	LIPH and USDA
Federal Grants	(32,431)	Shelter + Care, FSS, Transitional Hsg
State Grants	6,602	Migrant Center & MCCs
Local Programs	2,386	Eligibilities, Security Deposits, Tech Asst
Administrative Services	<u>103,401</u>	Includes 41st Ave. & Mission St. rents
	\$457,764	

The individual programs which show a year to date loss are:

FSS	(\$38,710)	(Calendar year 2017 grant funds fully expended)
City of Santa Cruz	(\$364)	(Administrative salary expenses exceed contract funds)
County Home Grant	(\$4,125)	(Administrative salary expenses exceed contract funds)

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - All Funds

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018 Year to Date	2017-2018 Annual Budget	Budget Utilized	Budget Remaining
Revenues:				
HAPS / Program	35,235,021	63,701,104	55%	45%
Administrative Fees	2,637,134	4,764,236	55%	45%
Grants / Contracts	1,260,324	2,621,675	48%	52%
Rental Income	1,563,294	2,604,412	60%	40%
Operating Transfers In	224,795	647,962	35%	65%
Other Income	154,654	242,835	64%	36%
Total Revenues:	41,075,221	74,582,224	55%	45%
Expenses:				
Housing Assistance Pmts	35,235,021	63,691,104	55%	45%
Salaries	2,000,595	3,742,613	53%	47%
Employee Benefits	783,027	1,570,319	50%	50%
Capital Purchases	307,890	1,507,375	20%	80%
Maintenance	978,273	1,376,586	71%	29%
General Administrative	654,536	1,194,115	55%	45%
Tenant Services	267,006	756,870	35%	65%
Operating Transfers Out	261,500	440,963	59%	41%
Debt Service	129,609	220,491	59%	41%
Total Expenses:	40,617,457	74,500,436	55%	45%
Net Income (Loss):	457,764	81,788		

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - Section 8

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018	2017-2018		
	Year	Annual	Budget	Budget
	to Date	Budget	Utilized	Remaining
Revenues:				
HAPS / Program	34,943,545	63,255,736	55%	45%
Administrative Fees	2,599,177	4,700,046	55%	45%
Grants / Contracts	-	136	0%	100%
Rental Income	-	-	0%	0%
Operating Transfers In	-	-	0%	0%
Other Income	8,479	19,487	44%	56%
Total Revenues:	37,551,201	67,975,405	55%	45%
Expenses:				
Housing Assistance Pmts	34,943,545	63,255,736	55%	45%
Salaries	1,489,406	2,778,279	54%	46%
Employee Benefits	580,738	1,184,032	49%	51%
Capital Purchases	-	-	0%	0%
Maintenance	18,931	33,816	56%	44%
General Administrative	376,169	607,155	62%	38%
Tenant Services	-	-	0%	0%
Operating Transfers Out	-	-	0%	0%
Debt Service	-	-	0%	0%
Total Expenses:	37,408,789	67,859,018	55%	45%
Net Income (Loss):	142,412	116,387		

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - Federal Housing

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018 Year to Date	2017-2018 Annual Budget	Budget Utilized	Budget Remaining
Revenues:				
HAPS / Program	-	-	0%	0%
Administrative Fees	-	-	0%	0%
Grants / Contracts	361,184	512,951	70%	30%
Rental Income	1,239,512	2,031,210	61%	39%
Operating Transfers In	224,795	580,062	39%	61%
Other Income	117,963	173,260	68%	32%
Total Revenues:	1,943,454	3,297,483	59%	41%
Expenses:				
Housing Assistance Pmts	-	-	0%	0%
Salaries	367,720	692,039	53%	47%
Employee Benefits	139,475	268,328	52%	48%
Capital Purchases	269,087	872,225	31%	69%
Maintenance	672,271	980,749	69%	31%
General Administrative	211,242	398,420	53%	47%
Tenant Services	39	250	16%	84%
Operating Transfers Out	35,225	55,950	63%	37%
Debt Service	13,001	20,591	63%	37%
Total Expenses:	1,708,060	3,288,553	52%	48%
Net Income (Loss):	235,394	8,930		

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - Federal Grants

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018	2017-2018		
	Year	Annual	Budget	Budget
	to Date	Budget	Utilized	Remaining
Revenues:				
HAPS / Program	291,476	445,368	65%	35%
Administrative Fees	-	-	0%	0%
Grants / Contracts	309,730	585,073	53%	47%
Rental Income	12,114	20,737	58%	42%
Operating Transfers In	-	17,900	0%	100%
Other Income	1,015	1,845	55%	45%
Total Revenues:	614,334	1,070,923	57%	43%
Expenses:				
Housing Assistance Pmts	291,476	435,368	67%	33%
Salaries	71,078	131,134	54%	46%
Employee Benefits	36,115	64,806	56%	44%
Capital Purchases	-	17,900	0%	100%
Maintenance	13,512	29,142	46%	54%
General Administrative	2,477	9,838	25%	75%
Tenant Services	5,832	33,334	17%	83%
Operating Transfers Out	226,274	385,013	59%	41%
Debt Service	-	-	0%	0%
Total Expenses:	646,766	1,106,535	58%	42%
Net Income (Loss):	(32,431)	(35,612)		

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - State Grants

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018 Year to Date	2017-2018 Annual Budget	Budget Utilized	Budget Remaining
Revenues:				
HAPS / Program	-	-	0%	0%
Administrative Fees	875	1,250	70%	30%
Grants / Contracts	293,141	726,906	40%	60%
Rental Income	-	-	0%	0%
Operating Transfers In	-	-	0%	0%
Other Income	7,168	15,120	47%	53%
Total Revenues:	301,184	743,276	41%	59%
Expenses:				
Housing Assistance Pmts	-	-	0%	0%
Salaries	36,258	70,660	51%	49%
Employee Benefits	14,647	30,820	48%	52%
Capital Purchases	6,767	335,250	2%	98%
Maintenance	201,377	193,381	104%	-4%
General Administrative	35,534	97,107	37%	63%
Tenant Services	-	-	0%	0%
Operating Transfers Out	-	-	0%	0%
Debt Service	-	-	0%	0%
Total Expenses:	294,583	727,219	41%	59%
Net Income (Loss):	6,602	16,057		

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - Local Programs

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018 Year to Date	2017-2018 Annual Budget	Budget Utilized	Budget Remaining
Revenues:				
HAPS / Program	-	-	0%	0%
Administrative Fees	3,983	9,080	44%	56%
Grants / Contracts	296,269	796,609	37%	63%
Rental Income	-	-	0%	0%
Operating Transfers In	-	-	0%	0%
Other Income	207	550	38%	62%
Total Revenues:	300,458	806,239	37%	63%
Expenses:				
Housing Assistance Pmts	-	-	0%	0%
Salaries	23,622	48,158	49%	51%
Employee Benefits	7,892	15,340	51%	49%
Capital Purchases	-	-	0%	0%
Maintenance	184	325	57%	43%
General Administrative	5,239	7,266	72%	28%
Tenant Services	261,135	723,286	36%	64%
Operating Transfers Out	-	-	0%	0%
Debt Service	-	-	0%	0%
Total Expenses:	298,072	794,375	38%	62%
Net Income (Loss):	2,386	11,864		

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ

Budget Comparison - Administrative Services

January 2018

Fiscal Year Ending June 30, 2018

	2017-2018 Year to Date	2017-2018 Annual Budget	Budget Utilized	Budget Remaining
Revenues:				
HAPS / Program	-	-	0%	0%
Administrative Fees	33,099	53,860	61%	39%
Grants / Contracts	-	-	0%	0%
Rental Income	311,668	552,465	56%	44%
Operating Transfers In	-	50,000	0%	100%
Other Income	19,822	32,573	61%	39%
Total Revenues:	364,588	688,898	53%	47%
Expenses:				
Housing Assistance Pmts	-	-	0%	0%
Salaries	12,510	22,343	56%	44%
Employee Benefits	4,159	6,993	59%	41%
Capital Purchases	32,036	282,000	11%	89%
Maintenance	71,998	139,173	52%	48%
General Administrative	23,875	74,328	32%	68%
Tenant Services	-	-	0%	0%
Operating Transfers Out	-	-	0%	0%
Debt Service	116,609	199,900	58%	42%
Total Expenses:	261,187	724,737	36%	64%
Net Income (Loss):	103,401	(35,839)		

HOUSING

New Section 8 incentive aims to woo landlords

To address affordability crisis, Housing Authority offers \$2,500 reimbursement



DAN COYRO — SANTA CRUZ SENTINEL

Blanca Mendoza of the Housing Authority of Santa Cruz County works with landlords regarding Section 8, the federal program assisting seniors, low-income and people with disabilities in securing housing.

By Jondi Gumz

jgumz@santacruzsentinel.com
[@jondigumz on Twitter](https://twitter.com/jondigumz)

SANTA CRUZ » Hundreds of low-income families in Santa Cruz County have a federally-funded Section 8 voucher to help them pay rent. The problem is many listings say: "No Section 8."

A family with a Section 8 voucher pays 30 percent of their income toward rent with the Housing Authority of the County of Santa Cruz paying the landlord the rest; about 1,800 landlords in the county accept Section 8 vouchers.

The county is experiencing a housing affordability crisis, with wages stagnating for many while rents keep rising. Last year, weekly wages in Santa Cruz County averaged \$950 compared to \$2,392 over the hill in Santa Clara County, according to the Bureau of Labor Statistics.

In December, median monthly rent was \$2,361 for a two-bedroom rental in Santa

Cruz County, up from \$1,934 three years ago.

Meanwhile, about 4,500 families in Santa Cruz County benefit from Section 8 vouchers, many who would have been priced out of the rental market, but another 2,400 families remain on the waiting list, according to the housing authority.

To address the crisis, the housing authority is offering an incentive to landlords to accept Section 8 tenants.

Landlords will be eligible for reimbursement up to \$2,500 in cases of unpaid rent, damages or legal fees for terminating a lease for violations in the tenant's first year.

"There has really never been a better time for landlords to accept families with Section 8 vouchers," said Jenny Panetta, executive director of the Housing Authority of the County of Santa Cruz. "We've always assured landlords that tenants with rental vouchers are good tenants... In some ways, they're even better. Section 8 tenants

now come with a certain degree of protection for landlords."

Families get six months to find a landlord to accept a Section 8 voucher, but Panetta said they can get an extension, often to nine months.

\$100,000 Available

Reimbursement claims for landlords will be subject to availability of funds.

The housing authority has \$100,000 available, with funding provided by the County of Santa Cruz, and the cities of Capitola, Santa Cruz, Scotts Valley and Watsonville.

Landlords countywide are eligible.

Panetta said the incentive program was developed with the All In Landlord Partnership, a collaborative of public agencies and nonprofits working to help tenants with rental assistance get connected to landlords.

"The program model is a fairly new concept, and we're

among a handful of California communities with similar programs," she added. "The landlords we've spoken to about the program have been enthusiastic, but we're eager to get the word out... We hope this will encourage landlords to give the Section 8 program another look."

Lease specialist

Another change at the housing authority is the hiring of a leasing specialist, Blanca Mendoza, as a single point of contact for landlords, helping them with everything related to renting to Section 8 tenants, easing the lease-up process and providing customer service.

"We're committed to making the Section 8 Program work for landlords," Panetta said. "We know that if it doesn't work for landlords, it doesn't work for anyone."

For landlord information, visit hacosantacruz.org/landlords/.

To reach the leasing specialist, call 831-454-5917.

Council to weigh 10-unit project on Clares Street

HOUSING

Adjacent property owners seek density bonus, offer two units

By Jondi Gumz

jgumz@santacruzsentinel.com @jondigumz on Twitter

CAPITOLA>> A development partnership is seeking a state density bonus for a proposed 10-unit residential project at 4199 Clares St. and 4205 Clares St.

The state allows higher density in exchange for developers providing affordable housing or a qualifying community benefit.

The developer proposes five rental units and five owned units and is asking for concessions on lot dimensions and for setbacks in exchange for two affordable units, one on each parcel.

The Planning Commission on Dec. 7 unanimously supported the request, which goes to the Capitola City Council at 7 p.m. Thursday at City Hall, 420 Capitola Ave.

This project will be discussed after the Jewel Box traffic study.

The proposed development calls for demolishing an unhabitable

single-family home in the front of 4199 Clares St. and building a single-family home and a duplex town home, and remodeling a duplex in the rear.

At 4205 Clares St., a new duplex would be built in the rear, with minor upgrades at the triplex in the front.

Arborist Nigel Belton recommends removing 28 of 36 trees on the property, suggesting two mature Canary Island palms could be relocated to another site, such as 2005 Wharf Road, where a new library is to be built this year.

Dan and Nancy Hazen are longtime owners of 4205 Clares St.

The property next door at 4199 Clares St. was sold in 2015 for \$925,000 to Clares Street Partners LLC, represented by Santa Cruz attorney Brad Brereton.

The two owners are working together, creating a shared driveway between the properties.

Santa Cruz architect William Kempf has designed the new construction and the layout on the properties.

One unit in the duplex town home at 4199 Clares St. will be designated as affordable for 55 years, with the buyer at the median household income level.

One rental unit in the triplex at 4205 Clares St., will be rented for 55 years to a low-income tenant, which is required to qualify for the state bonus. That condition will be met by renting to

according to Jenny Panetta, who heads the Housing Authority of the County of Santa Cruz.

That agency is looking for more landlords to accept Section 8 vouchers, which provides rental assistance for low-income tenants who cannot afford to pay market rents.

Hundreds of families in the county with a voucher are searching for a rental, Panetta said.

tenant with a Section 8 voucher, About 1,800
landlords in Santa Cruz County lease 4,500 units
to families with Section 8 vouchers,

Thursday, 01/25/2018 Pag.A02

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February 1, 2018

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

We have audited the financial statements of the business-type activities, 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 (the Authority) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit.

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

As stated in our engagement letter dated February 9, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over the financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

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

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

Planned Scope and Timing of the Audit

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

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

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

Significant Audit Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2017. However, as explained in Note 1.O., the Authority will be required to implement GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* during the next fiscal year. Management anticipates that the negative financial impact of the implementation of this Statement will range from \$300,000 to \$350,000. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Depreciation on capital assets: Management's estimate of the useful lives of its capital assets is based on historical information about similar assets, the length of time the assets are expected

to meet service and technology demands, and the Authority's maintenance policy for the assets. These estimates have remained consistent for several years. We evaluated the key factors and assumption used to develop the depreciation estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

- Pension liability, deferred outflows of resources and deferred inflows of resources: Management's estimates were derived from actuarial valuations obtained from experts. We agreed the amounts recorded in the books of accounts and the other information contained in the pension footnote (Note 12) to the amounts reported in the "GASB 68 Accounting Valuation Reports" obtained from PERS, as of the measurement date of June 30, 2016.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of related parties in Note 18 to the financial statements. This disclosure describes the Authority's relationship, including financial, with its related parties.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. An uncorrected misstatement existed understating HUD revenue and overstating the liability due to HUD by approximately \$99,000, as of June 30, 2017. This misstatement was the result of a change to the admin fee proration by HUD subsequent to fiscal year end. Management has determined that the effects of this misstatement are immaterial both individually and in the aggregate, to the financial statements as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 1, 2018.

Management Consultation with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the MD&A, which is required supplemental information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very Truly Yours,

A handwritten signature in cursive script, appearing to read "Harn & Dolan".

Harn & Dolan, CPA's

**HOUSING AUTHORITY
OF THE COUNTY OF SANTA CRUZ
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
(Including Auditors' Report Thereon)**

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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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, 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 and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, 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, 2017, 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 the information on pages 51 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the County of Santa Cruz, California's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The accompanying Financial Data Schedules (CA072) shown on pages 56-63 are presented for purposes of additional analysis as required by *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development and are not a required part of the basic financial statements. Finally, the accompanying Statement of Completed Capital Fund Program Project is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, the Financial Data Schedules, and the Statement of Completed Capital Fund Program Project are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, the Financial Data Schedules, and the Statement of Completed Capital Fund Program Project are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2018 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.

Harm & Dolan

February 1, 2018

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2016, 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 2017, Congress reduced proration factors for Administration Fees for the Housing Choice Voucher (HCV) Program and the Operating Subsidy for the Public Housing Program, which are two of the Authority's major funds.

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$19,408,777 (net position). Of this amount, \$7,134,869 (unrestricted net position) may be used to meet the Authority's ongoing obligations. The Authority's total net position increased by \$1,914,021, while the unrestricted net position increased by \$1,676,751.

Total grant revenues increased by \$2,888,490 (4.53%) from the prior fiscal year, due primarily to increased HAP, of \$2,389,124.

The overall expenses of the Authority programs increased by \$2,785,470 (4.30%) over the prior year. Most of this increase was attributable to HAP and Tenant services.

The Authority owned office building on 41st Avenue in Capitola had two commercial tenants during the current fiscal year with leases terminating in December 2017. This property has produced positive cash flow which contributes to the Authority's unrestricted 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 21-50

This report also contains other Required Supplementary Information (RSI) other than the MD&A which can be found beginning on page 51 and Supplemental Information beginning on page 54.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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 \$539,345 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 \$1,812,995 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-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.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

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
Section 8 Moderate Rehabilitation Program - SRO
Mainstream 5 Voucher Program
Resident Opportunity and Supportive Services
*HOME Investment Partnerships Program

Shelter Plus Care Housing Program
USDA Farm Labor Housing Programs
Supportive Housing Program
Other State and Local Programs
*Community Development Block Grant (CDBG)

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

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

Financial Analysis of the Authority's Funds

Total Net Position increased by \$1,914,021 Authority-wide, most notably in three program areas. The Public Housing Program increased its Net Position by \$552,816 due to revenue exceeding costs of operations and minimal capital expenditures and the Housing Choice Voucher Program by \$852,996 due to revenue exceeding expenses. The Business Activities program's Net Position increased by \$319,705 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**

	2017	2016	Increase/(Decrease)	
			Amount	%
Current assets	\$ 11,906,976	\$ 10,489,959	\$ 1,417,017	13.51%
Restricted assets	2,548,909	2,059,188	489,721	23.78%
Capital assets	10,851,727	11,295,754	(444,027)	3.93%
Other assets	886,763	875,442	11,321	1.29%
Total Assets	<u>26,194,375</u>	<u>24,720,343</u>	<u>1,474,032</u>	5.96%
Total Deferred Outflows	<u>3,301,808</u>	<u>2,341,145</u>	<u>960,763</u>	41.04%
Current liabilities	1,163,535	1,198,423	(34,888)	2.91%
Payable from restricted cash	427,220	403,341	23,879	5.92%
Long-term liabilities	7,558,681	6,343,401	1,215,280	19.16%
Total Liabilities	<u>9,149,436</u>	<u>7,945,165</u>	<u>1,204,271</u>	15.16%
Total Deferred Inflows	<u>937,970</u>	<u>1,621,567</u>	<u>(683,597)</u>	42.16%
Net investment in capital assets	10,144,013	10,390,708	(246,695)	2.37%
Restricted	2,129,895	1,645,930	483,965	29.40%
Unrestricted	7,134,869	5,458,118	1,676,751	30.72 %
Total Net Position	<u>\$ 19,408,777</u>	<u>\$ 17,494,756</u>	<u>\$ 1,914,021</u>	10.94%

Major Factors Affecting the Statement of Net Position

Unrestricted Net Position increased by \$1,676,751 (30.72%) primarily due to the Public Housing and Housing Choice Voucher Programs. Total Deferred Outflows increased by \$960,763 (41.04%) and Total Deferred Inflows decreased by \$683,597 (42.16%) based on the pension plan actuarial report and employer allocations as reported by CalPERS. Increases in Total Liabilities of \$1,204,271 (15.16%) is primarily attributable to increases in the Net Pension Liability. Current assets increased by \$1,417,017 (13.51%) in large part from increases in cash and investments from Public Housing and Housing Choice Voucher Programs.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

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

**TABLE 2
CHANGE IN UNRESTRICTED NET POSITION**

			<u>Increase/(Decrease)</u>	
	<u>2017</u>	<u>2016</u>	<u>Amount</u>	<u>%</u>
Unrestricted Net Position - July 1	\$ 5,458,118	\$ 3,333,020	\$ 2,125,098	63.76%
Net gain (loss)	1,914,021	1,703,608	210,413	12.35%
Adjustments:				
Depreciation (1)	472,835	858,229	(385,394)	44.91%
Excess HAP (accumulated) used (1) (2)	(337,971)	70,472	(408,443)	579.58%
Principle paid on debt	(203,632)	(193,595)	(10,037)	5.18%
Deposits into restricted funds	(155,450)	(153,061)	(2,389)	1.56%
Interest on restricted funds (1)	(4,209)	(3,618)	(591)	16.33%
Other restricted revenue (1)	(45,838)	(38,330)	(7,508)	19.59%
Capital asset additions not funded by capital grants	(28,808)	(119,492)	90,684	75.89%
Change in restricted migrant funds	39,593	(5,415)	45,008	831.17%
Use of restricted funds for modernization	19,910	-	19,910	-
Change in interest payable on long-term debt (1)	<u>6,300</u>	<u>6,300</u>	<u>-</u>	0.00%
Unrestricted Net Position - June 30	<u>\$ 7,134,869</u>	<u>\$ 5,458,118</u>	<u>\$ 1,676,751</u>	30.72%

- (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, 2017
(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**

	2017	2016	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Revenues:				
Rents	\$ 2,219,474	\$ 2,167,409	52,065	2.40 %
Grants	66,661,316	63,772,826	2,888,490	4.53 %
Interest	40,606	33,718	6,888	20.43 %
Other revenues	528,014	479,574	48,440	10.10 %
Total revenues	<u>69,449,410</u>	<u>66,453,527</u>	<u>2,995,883</u>	4.51 %
Expenses:				
Administration	4,453,431	4,074,779	378,652	9.29 %
Tenant services	993,274	369,004	624,270	169.18 %
Utilities	638,500	520,720	117,780	22.62 %
Maintenance	904,435	895,422	9,013	1.01 %
Extra ordinary maintenance	250,821	679,543	(428,722)	63.09 %
General	782,720	691,935	90,785	13.12 %
Housing assistance payments	59,006,804	56,617,680	2,389,124	4.22 %
Depreciation	472,835	858,229	(385,394)	44.91 %
Debt service – interest	32,569	42,607	(10,038)	23.56 %
Total expenses	<u>67,535,389</u>	<u>64,749,919</u>	<u>2,785,470</u>	4.30 %
Net increase (decrease) to net position	1,914,021	1,703,608		
Beginning net position	17,494,756	15,791,148		
Ending net position	<u>\$ 19,408,777</u>	<u>\$ 17,494,756</u>		

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

Total revenues increased by \$2,995,883 (4.51%) over the prior fiscal year. Grant revenue increased by \$2,888,490 primarily due to increased HAP expense. The total expenses of all the Authority programs increased by \$2,785,470 (4.30%) over the prior year which is attributable mainly to increased HAP and Tenant services. The decrease in Extraordinary Maintenance expense was due to concluding the dwelling improvement work for the Buena Vista Migrant Center rehabilitation grant received during the previous fiscal year. Depreciation expense decreased as a result of certain dwelling improvements reaching the end of their depreciable life.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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	<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>
Operating income (loss)	(399,699)	(60,825,304)	326,287	(3,605,795)	(64,504,511)
Non-operating revenue (expenses):					
Grants	940,296	61,676,260	-	4,044,760	66,661,316
Unrestricted interest	12,219	2,040	7,482	3,282	25,023
Restricted interest	-	-	-	4,209	4,209
Interest earned on notes rec	-	-	11,374	-	11,374
Extra ordinary maintenance	-	-	-	(250,821)	(250,821)
Debt-service interest	<u>-</u>	<u>-</u>	<u>(25,438)</u>	<u>(7,131)</u>	<u>(32,569)</u>
Net income (loss) before transfers and special items	552,816	852,996	319,705	188,504	1,914,021
Transfers in	-	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>552,816</u>	<u>852,996</u>	<u>319,705</u>	<u>188,504</u>	<u>1,914,021</u>
Net position, end of year	<u><u>\$ 11,577,966</u></u>	<u><u>\$(1,094,402)</u></u>	<u><u>\$ 5,730,859</u></u>	<u><u>\$ 3,194,354</u></u>	<u><u>\$ 19,408,777</u></u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

DEBT ADMINISTRATION AND CAPITAL ASSETS

Debt Outstanding

As of year-end, the Authority had \$625,517 in debt (bonds, notes, etc.) outstanding compared to \$829,149 last year, a \$203,632 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>2017</u>	<u>2016</u>
Office Building Mortgage	\$ 347,072	\$ 521,534
USDA Farm Worker Housing	68,445	97,615
State of California HCD Loan	210,000	210,000
Total	<u>\$ 625,517</u>	<u>\$ 829,149</u>

Capital Assets

As of year-end, the Authority had \$10,851,727 invested in a variety of capital assets as reflected in table 6, which represents a net decrease of \$444,027 from the end of last year, which is the result of \$472,835 of depreciation expense, offset by \$28,808 in additions. The \$28,808 of capital additions consists of renovations at various Public Housing sites and levee improvements at the wastewater treatment facility at Tierra Alta Apartments. 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>2017</u>	<u>2016</u>
Land and land rights	\$ 7,090,601	\$ 7,090,601
Buildings	32,066,324	32,037,515
Equipment	844,329	860,513
Accumulated depreciation	(29,149,527)	(28,692,875)
Total	<u>\$ 10,851,727</u>	<u>\$ 11,295,754</u>

**TABLE 7
CHANGE IN CAPITAL ASSETS**

Beginning Balance 7/1/2016	\$ 11,295,754
Additions	28,808
Depreciation	(472,835)
Ending Balance 6/30/2017	<u>\$ 10,851,727</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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
- Increasing pension liabilities and annual required pension contributions
- Local supply of available housing and the willingness of landlords to participate in the Housing Choice Voucher Program

OTHER POTENTIALLY SIGNIFICANT MATTERS

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

- (1) The two lease agreements at the Authority owned office building at 2160 41st Avenue in Capitola have terms ending in December 2017. Upon termination of the leases, renovation work will begin in an effort to relocate the Authority's office from its current location on Mission Street in Santa Cruz to the building at 41st Avenue in Capitola. The Authority intends to lease the building owned on Mission Street once the relocation to Capitola is complete in mid-2018.
- (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 2016-2017 fiscal year were roughly 80.7% of the per unit fees calculated compared to 82.7% in 2015-16, and the difference is recorded as an allowance for doubtful account on the balance sheet.
- (3) 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.O. on page 27 for more details.

FINANCIAL CONTACT

The individual to be contacted regarding this report is:

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(831) 454-9455

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government Business-type Activities	Component Unit Merrill Road Associates
ASSETS		
Current assets:		
Cash and investments (Note 2 and 18)	\$ 11,265,148	\$ 56,965
Due from other agencies	467,131	-
Due from related parties (Note 18)	18,000	-
Tenant accounts receivable	18,377	1,781
Allowance for doubtful accounts	(2,757)	(527)
Accounts receivable - other	141,631	-
Allowance for doubtful accounts	(141,631)	-
Interest receivable	4,118	-
Prepaid expenses	136,959	674
Total current assets	<u>11,906,976</u>	<u>58,893</u>
Restricted assets:		
Restricted cash (Note 3 and 18)	<u>2,548,909</u>	<u>332,702</u>
Capital assets (Note 6 and 18):		
Land	7,090,601	1,039,931
Buildings	32,066,324	2,752,708
Equipment	844,329	26,200
Accumulated depreciation	<u>(29,149,527)</u>	<u>(1,460,846)</u>
Total capital assets	<u>10,851,727</u>	<u>2,357,993</u>
Other noncurrent assets:		
Long-term notes receivable (Note 5)	19,504	-
Long-term notes receivable - Merrill Road Associates (Note 5)	704,272	-
Interest on long-term notes - Merrill Road Associates (Note 5)	<u>162,987</u>	<u>-</u>
Total other noncurrent assets	<u>886,763</u>	<u>-</u>
Total assets	<u>26,194,375</u>	<u>2,749,588</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plans (Note 12)	<u>3,301,808</u>	<u>-</u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION
JUNE 30, 2017
(Continued)

	Primary Government Business-type Activities	Component Unit Merrill Road Associates
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 284,958	\$ 3,855
Due to related parties - Authority	-	18,000
Due to other agencies	163,641	-
Accrued salaries	156,597	756
Payable from restricted assets:		
Tenant security deposits	205,449	15,356
Due to other agencies	329	-
Current portion of long-term debt (Note 7)	214,185	-
Current portion of compensated absences (Note 10)	81,057	271
Unearned revenue (Note 8)	<u>263,097</u>	<u>826</u>
Total current liabilities	<u>1,369,313</u>	<u>39,064</u>
Noncurrent liabilities:		
Long-term debt (Note 7 and 18)	411,332	1,495,167
Long-term debt - Authority (Note 18)	-	704,272
Compensated absences (Note 10)	345,702	4,341
Payable from restricted assets:		
Family Self Sufficient escrow	221,442	-
Interest on long-term debt (Note 7 and 18)	82,197	742,027
Interest on long-term debt - Authority (Note 18)	-	162,987
Net pension liability (Note 12)	<u>6,719,450</u>	<u>-</u>
Total noncurrent liabilities	<u>7,780,123</u>	<u>3,108,794</u>
Total liabilities	<u>9,149,436</u>	<u>3,147,858</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan (Note 12)	<u>937,970</u>	<u>-</u>
NET POSITION		
Net position (Note 11 and 18):		
Net investment in capital assets	10,144,013	120,799
Restricted	2,129,895	317,346
Unrestricted	<u>7,134,869</u>	<u>(836,415)</u>
Total net position	<u>\$ 19,408,777</u>	<u>\$ (398,270)</u>

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Function/Programs	Expenses	Program revenue			Net (Expenses) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants	Capital Grants	Primary Govt Business-type Activities	Component Unit Merrill Road Associates
Business-Type Activities:						
Housing Choice Voucher	\$ 60,748,755	\$ 105,309	\$ 61,676,260	\$ -	\$ 1,032,814	
Public Housing	1,952,270	1,586,394	575,903	-	210,027	
Public Housing Capital Fund	-	-	364,393	-	364,393	
Mainstream Voucher	1,214,056	693	1,294,769	-	81,406	
USDA Rural Rental Assistance	543,774	626,963	66,811	-	150,000	
Shelter Plus Care	470,214	-	470,462	-	248	
Section 8 Moderate Rehabilitation	441,700	-	480,578	-	38,878	
Family Self Sufficiency Program	168,847	-	123,593	-	(45,254)	
Section 8 Moderate Rehabilitation - SRO	90,299	-	100,848	-	10,549	
Supportive Housing	80,607	19,434	50,501	-	(10,672)	
HOME Investment Partnerships Act	47,682	-	42,809	-	(4,873)	
Community Development Block Grant	14,000	-	10,947	-	(3,053)	
State of California - Migrant Housing	615,839	14,428	622,099	-	20,688	
Other State and Local	774,419	12,656	781,343	-	19,580	
Business Activities	<u>372,927</u>	<u>385,820</u>	<u>-</u>	<u>-</u>	<u>12,893</u>	
Total Primary Government	<u>\$ 67,535,389</u>	<u>\$ 2,751,697</u>	<u>\$ 66,661,316</u>	<u>\$ -</u>	<u>1,877,624</u>	
Component Unit:						
Merrill Road Associates (18 months activity)	<u>\$ 364,645</u>	<u>\$ 231,487</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ (133,158)</u>
General revenue and special items:						
Unrestricted interest					25,023	-
Interest on long-term notes receivable					<u>11,374</u>	<u>-</u>
Total general revenue and special item					<u>36,397</u>	<u>-</u>
Change in net position					1,914,021	(133,158)
Net position - beginning of the year					<u>17,494,756</u>	<u>(265,112)</u>
Net position - end of the year					<u>\$ 19,408,777</u>	<u>\$ (398,270)</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, 2017

	Business-type Activities				
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	Total
ASSETS					
Current assets:					
Cash and investments (Note 2)	\$ 6,565,347	\$ 1,327,322	\$ 1,695,348	\$ 1,677,131	\$ 11,265,148
Due from other agencies	-	-	-	467,131	467,131
Due from other funds (Note 4)	-	-	539,345	-	539,345
Due from related parties (Note 18)	-	-	18,000	-	18,000
Tenant accounts receivable	15,494	-	2,830	53	18,377
Allowance for doubtful accounts	(2,757)	-	-	-	(2,757)
Accounts receivable - other	-	140,925	-	706	141,631
Allowance for doubtful accounts	-	(140,925)	-	(706)	(141,631)
Interest receivable	1,847	-	1,812	459	4,118
Prepaid expenses	14,974	15,681	95,129	11,175	136,959
Total current assets	6,594,905	1,343,003	2,352,464	2,155,949	12,446,321
Restricted assets:					
Restricted cash (Note 3)	178,488	701,785	25,407	1,643,229	2,548,909
Capital assets (Note 6):					
Land	4,104,506	-	2,573,019	413,076	7,090,601
Buildings	20,536,587	-	5,392,046	6,137,691	32,066,324
Equipment	118,910	-	725,419	-	844,329
Accumulated depreciation	(18,965,321)	-	(4,303,408)	(5,880,798)	(29,149,527)
Total capital assets	5,794,682	-	4,387,076	669,969	10,851,727
Other noncurrent assets:					
Long-term notes receivable (Note 5)	-	-	723,776	-	723,776
Interest on long-term notes (Note 5)	-	-	162,987	-	162,987
Total other noncurrent assets	-	-	886,763	-	886,763
Total assets	12,568,075	2,044,788	7,651,710	4,469,147	26,733,720
DEFERRED OUTFLOWS					
Pension plans (Note 12)	210,698	1,083,844	1,855,981	151,285	3,301,808

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017
(Continued)

	Business-type Activities				
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	Total
<u>LIABILITIES</u>					
Current liabilities:					
Accounts payable	\$ 59,792	\$ 72,650	\$ 20,678	\$ 131,838	\$ 284,958
Due to other funds (Note 4)	-	-	225,501	313,844	539,345
Due to other agencies	122,066	-	-	41,575	163,641
Accrued salaries	10,319	50,121	85,254	10,903	156,597
Payable from restricted cash:					
Tenant security deposits	120,960	-	25,407	59,082	205,449
Due to other agencies	-	329	-	-	329
Current portion of long-term debt (Note 7)	-	-	184,763	29,422	214,185
Current portion compensated absences	3,680	74,574	-	2,803	81,057
Unearned revenue (Note 8)	19,937	119,796	-	123,364	263,097
Total current liabilities	<u>336,754</u>	<u>317,470</u>	<u>541,603</u>	<u>712,831</u>	<u>1,908,658</u>
Noncurrent liabilities:					
Long-term debt (Note 7)	-	-	162,309	249,023	411,332
Compensated absences (Note 10)	74,528	226,926	113	44,135	345,702
Payable from restricted cash:					
Family self sufficient escrow	57,527	163,915	-	-	221,442
Interest on long-term debt (Note 7)	-	-	-	82,197	82,197
Net pension liability (Note 12)	637,019	3,027,293	2,742,935	312,203	6,719,450
Total noncurrent liabilities	<u>769,074</u>	<u>3,418,134</u>	<u>2,905,357</u>	<u>687,558</u>	<u>7,780,123</u>
Total liabilities	<u>1,105,828</u>	<u>3,735,604</u>	<u>3,446,960</u>	<u>1,400,389</u>	<u>9,688,781</u>
<u>DEFERRED INFLOWS</u>					
Pension plans (Note 12)	<u>94,979</u>	<u>487,430</u>	<u>329,872</u>	<u>25,689</u>	<u>937,970</u>
<u>NET POSITION</u> (Note 11)					
Net investment in capital assets	5,794,682	-	4,040,004	309,327	10,144,013
Restricted	-	537,540	-	1,592,355	2,129,895
Unrestricted	<u>5,783,284</u>	<u>(1,631,942)</u>	<u>1,690,855</u>	<u>1,292,672</u>	<u>7,134,869</u>
Total net position	<u>\$ 11,577,966</u>	<u>\$ (1,094,402)</u>	<u>\$ 5,730,859</u>	<u>\$ 3,194,354</u>	<u>\$ 19,408,777</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, 2017

	Business-type Activities				
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	Total
Operating revenue:					
Rents and other tenant revenue	\$ 1,575,064	\$ -	\$ 11,004	\$ 642,170	\$ 2,228,238
Other	<u>11,330</u>	<u>105,309</u>	<u>2,187,811</u>	<u>27,795</u>	<u>2,332,245</u>
Total operating revenue	<u>1,586,394</u>	<u>105,309</u>	<u>2,198,815</u>	<u>669,965</u>	<u>4,560,483</u>
Operating expenses:					
Administrative	674,739	3,582,223	1,671,811	411,855	6,340,628
Tenant services	-	-	-	993,274	993,274
Utilities	258,627	-	57,655	326,330	642,612
Maintenance	533,355	27,713	95,374	272,405	928,847
General	248,381	425,366	(98,510)	100,105	675,342
Housing assistance payments	-	56,895,311	-	2,120,257	59,015,568
Depreciation (Note 6)	<u>270,991</u>	<u>-</u>	<u>146,198</u>	<u>55,646</u>	<u>472,835</u>
Total operating expenses	<u>1,986,093</u>	<u>60,930,613</u>	<u>1,872,528</u>	<u>4,279,872</u>	<u>69,069,106</u>
Operating income (loss)	(399,699)	(60,825,304)	326,287	(3,609,907)	(64,508,623)
Nonoperating revenue (expenses):					
Grants	940,296	61,676,260	-	4,044,760	66,661,316
Interest - unrestricted	12,219	2,040	7,482	3,282	25,023
Interest - restricted	-	-	-	4,209	4,209
Interest - notes (Note 5)	-	-	11,374	-	11,374
Extra ordinary maintenance	-	-	-	(246,709)	(246,709)
Debt service - interest (Note 7)	<u>-</u>	<u>-</u>	<u>(25,438)</u>	<u>(7,131)</u>	<u>(32,569)</u>
Net income (loss) before transfers and special items	552,816	852,996	319,705	188,504	1,914,021
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	552,816	852,996	319,705	188,504	1,914,021
Net position-beginning of the 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>
Net position - end of year	<u>\$ 11,577,966</u>	<u>\$ (1,094,402)</u>	<u>\$ 5,730,859</u>	<u>\$ 3,194,354</u>	<u>\$ 19,408,777</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, 2017

	Business-type Activities				
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	Total
Cash flows from operating activities:					
Tenant receipts	\$ 1,608,249	\$ -	\$ 2,240	\$ 645,167	\$ 2,255,656
Other receipts	4,015	73,736	359,555	27,795	465,101
Migrant rent collected in deficit of disbursements to HCD	-	-	-	(32,298)	(32,298)
Payroll and benefit expenditures	(724,115)	(3,506,291)	(115,394)	(646,447)	(4,992,247)
Administrative expenditures	(117,894)	(416,431)	(39,764)	(52,632)	(626,721)
Tenant services expenditures	-	-	-	(821,689)	(821,689)
Utilities expenditures	(258,627)	-	(57,655)	(326,330)	(642,612)
Maintenance expenditures	(448,066)	(27,713)	(122,616)	(190,126)	(788,521)
General expenditures	(148,587)	(51,771)	(9,143)	(36,454)	(245,955)
Housing assistance payments	-	(56,849,813)	-	(2,120,257)	(58,970,070)
Net cash provided (used) by operating activities	<u>(85,025)</u>	<u>(60,778,283)</u>	<u>17,223</u>	<u>(3,553,271)</u>	<u>(64,399,356)</u>
Cash flows from noncapital financing activities:					
Operating grants received	940,296	61,854,292	-	4,088,598	66,883,186
Related party transactions	-	-	12,000	-	12,000
Repayment of notes issued	-	-	3,904	-	3,904
Extra-ordinary maintenance expenditures	-	-	-	(246,709)	(246,709)
Interfund transactions	<u>(33,823)</u>	<u>(181,858)</u>	<u>295,946</u>	<u>(80,265)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>906,473</u>	<u>61,672,434</u>	<u>311,850</u>	<u>3,761,624</u>	<u>66,652,381</u>
Cash flows from capital financing activities:					
Acquisition of capital assets	(22,728)	-	-	(6,080)	(28,808)
Principal paid on debt	-	-	(174,462)	(29,170)	(203,632)
Interest paid on debt	-	-	(25,438)	(831)	(26,269)
Net cash used by capital financing activities	<u>(22,728)</u>	<u>-</u>	<u>(199,900)</u>	<u>(36,081)</u>	<u>(258,709)</u>
Cash flows from investing activities:					
Interest receipts	11,456	2,040	6,733	3,093	23,322
Interest on restricted cash	-	329	-	4,210	4,539
Interest returned to granting agency	-	-	-	-	-
Net cash provided by investing activities	<u>11,456</u>	<u>2,369</u>	<u>6,733</u>	<u>7,303</u>	<u>27,861</u>
Net increase (decrease) to cash	810,176	896,520	135,906	179,575	2,022,177
Cash at beginning of year	<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>
Cash at end of year	<u>\$ 6,743,835</u>	<u>\$ 2,029,107</u>	<u>\$ 1,720,755</u>	<u>\$ 3,320,360</u>	<u>\$ 13,814,057</u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

	Business-type Activities				
	Public Housing	Housing Choice Vouchers	Business Activities	Non-major Enterprise Funds	Total
Cash and investments	\$ 6,565,347	\$ 1,327,322	\$ 1,695,348	\$ 1,677,131	\$11,265,148
Restricted cash	178,488	701,785	25,407	1,643,229	2,548,909
Total	<u>\$ 6,743,835</u>	<u>\$ 2,029,107</u>	<u>\$ 1,720,755</u>	<u>\$ 3,320,360</u>	<u>\$13,814,057</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (399,699)	\$ (60,825,304)	\$ 326,287	\$ (3,609,907)	\$ (64,508,623)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	270,991	-	146,197	55,647	472,835
Interfund transactions	33,823	181,858	(287,956)	72,275	-
Related party transactions	-	-	(18,000)	-	(18,000)
Migrant rent collected in deficit of payments made to HCD	-	-	-	(32,298)	(32,298)
(Increase) Decrease in:					
Tenants accounts receivable	(3,754)	-	(1,205)	733	(4,226)
Prepaid expenses	(387)	(297)	58	(294)	(920)
Deferred outflows	(134,827)	(699,299)	(9,063)	(117,474)	(960,663)
Increase (Decrease) in:					
Accounts payable	10,530	7,931	(51,570)	1,344	(31,765)
Due to other agencies	3,041	-	-	-	3,041
Tenant security deposits	675	-	-	(91)	584
Accrued salaries	(15,403)	(85,706)	31,403	(20,592)	(90,298)
Unearned revenues	11,145	-	(4,819)	2,354	8,680
FSS escrows	17,804	5,162	-	-	22,966
Compensated absences	21,670	121,999	(120,788)	8,456	31,337
Net pension liability	195,308	1,012,986	13,129	170,168	1,391,591
Deferred inflows	(95,942)	(497,613)	(6,450)	(83,592)	(683,597)
Net cash provided (used) by operating activities	<u>\$ (85,025)</u>	<u>\$ (60,778,283)</u>	<u>\$ 17,223</u>	<u>\$ (3,553,271)</u>	<u>\$ (64,399,356)</u>

Noncash Transactions:

- Interest revenue of \$11,374 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, 2017

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Organization

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

B. Financial Reporting Entity

The Authority's basic financial statements include the accounts of all the Authority's operations. The criteria used in determining the scope of the financial reporting entity is based on provisions of Governmental Accounting Standards No. 61, *The Financial Reporting Entity*. The financial statements of the Authority include the financial activity of the Authority 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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

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 Investment withdrew as the Limited Partner. Upon their withdrawal, the Authority was admitted as the new, and sole, Limited Partner. The Partnership has hired and executed a management agreement with the Authority to manage the property. The Authority loaned the Partnership funds and land to develop the project. The permanent loan totaled \$451,509, bears no interest and requires annual payments only to the extent that the project generates surplus cash. The loan comes due in 2035. The principal balance on the land loan is \$252,763. This loan bears 3% simple interest and requires annual payments only to the extent that the project generates surplus cash. The land loan is due in 2022.

Since 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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority considers all of its funds to be proprietary. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Authority or if total assets, liabilities, revenues, or expenses of the individual fund are at least 10 percent of the Authority-wide total.

The 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 AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

Housing Choice Voucher Program Fund - The Authority has contracted with HUD to provide rental subsidy for low and moderate income families pursuant to the United 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.

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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

E. Cash and Investments

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, cash in checking accounts, interest-bearing deposits, and highly liquid investments (LAIF). Investments are stated at fair value, with the unrealized gain or loss reported as interest revenue.

F. Capital Assets

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

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

G. Deferred Outflows/Inflows of Resources

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

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 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 \$539,345, 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. \$ 1,519,480

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. 229,029

The Migrant Enterprise Funds paid administrative fees to the Business Activities Enterprise Fund. 55,722

The majority of the rent for the Authority owned Spruce Street unit is housing assistance payments received from the Housing Choice Voucher Program. 8,764
Total interfund revenue/expenses \$ 1,812,995

Interfund transfers:

An interfund transfer of \$5,345 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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

J. Estimates

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

K. Encumbrances

Encumbrance accounting is not employed by the Authority.

L. Income Taxes

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

M. Grant Restrictions

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

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

N. Pension Plan

The Authority participates in a cost-sharing multi-employer defined benefit retirement plan that is administered by CalPERS. Contributions to CalPERS are made on a current basis as required by the plan and are charged to expenditures. The Authority used actuarial reports supplied by CalPERS for the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to the plan. The valuation date of the latest actuarial report was June 30, 2016.

O. 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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

During the current fiscal year, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. These new accounting pronouncements did not have a material effect on the Authority's financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement is effective for fiscal years beginning after June 15, 2017. GASB Statement No. 75 replaces GASB Statement No. 45. This Statement will have similar requirements for OPEB as the GASB Statement No. 68 had for pension plans. Beginning next fiscal year, the Authority 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, 2017 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 11,265,148
Restricted cash	<u>2,548,909</u>
Total cash and investments	<u><u>\$ 13,814,057</u></u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 350
Demand deposits	<u>13,813,707</u>
Total cash and investments	<u><u>\$ 13,814,057</u></u>

Investments Authorized by the Authority's Investment Policy

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

The approved types of investments are:

- Direct obligations - Treasury Bills, Notes, and Bonds
- Obligations of Federal Government Agencies - GNMA, Small Business Administration Debentures, Tennessee Valley Authority Power bonds and notes, Maritime Administration bonds, notes, and obligations

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 2 (continued)

- 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 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).

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 2 (continued)

The Housing Authority of the County of Santa Cruz executed a “General Depository Agreement” with Santa Cruz County Bank on October 30, 2013. This agreement states that “any portion of the PHA funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD. Such securities shall be pledged and set aside in accordance with applicable law or Federal regulation.”

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

Demand deposits with banks fully insured - FDIC	\$ 250,000
Demand deposits with Santa Cruz County Bank, in excess of the amount insured, but covered by the depository agreement	11,777,566
Deposits with LAIF, at market	<u>1,786,141</u>
Total deposits	<u><u>\$ 13,813,707</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, 2017, an account was maintained in the name of the Housing Authority of the County of Santa Cruz for \$1,788,039. The total cost value of investment in LAIF was \$1,788,039. The total fair value of investments in LAIF was \$1,786,141. The fair value total includes an unrealized loss of \$1,898. The loss was based on a fair value adjustment factor of 0.998940671 that was calculated by the State of California Treasurer’s Office.

LAIF is a part of the State of California Pooled Money Investment Account (PMIA). At June 30, 2017, the fair value of the State of California Pooled Money Investment Account (PMIA), including accrued interest, was \$77,616,683,602. The PMIA portfolio had securities in the form of structured notes totaling \$825 million and asset-backed securities totaling \$1,419,481,000. 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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 2 (continued)

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	\$ 537,540
USDA project replacement	1,445,080
Brommer Street replacement	89,810
Buena Vista Migrant operating reserves	38,193
Mortgage Credit Certificate program deposit	11,066

Offset by payable from restricted assets:

Tenant security deposits	205,449
Interest due to HUD	329
FSS program participants' escrow funds	<u>221,442</u>

Total restricted cash	<u><u>\$ 2,548,909</u></u>
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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.

With the exception of the cash held for tenant security deposits, the above balances are maintained in a separate savings account for each fund. These savings accounts earn interest ranging from 0.05% to 0.35% per annum. The interest earned on the FSS escrow funds is payable to the participants and is not shown in the financial statements as revenue. The cash held for tenant security deposits is co-mingled with the Authority's other cash.

Note 4 - INTERFUND BALANCES

The programs below owe the Business Activities fund the following as of June 30, 2017:

Shelter Plus Care	\$ 42,374
Family Self Sufficiency	88,690
HOME	5,629
CDBG	625
Other State/Local	176,526
Business Activities	<u>225,501</u>
Total owed to Business Activities	<u><u>\$ 539,345</u></u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 5 - NOTES RECEIVABLE

The following is a summary of the Authority's changes in notes receivable for the fiscal year ended June 30, 2017:

	Balance <u>7/1/2016</u>	Loans <u>Made</u>	Payments <u>Received</u>	Balance <u>6/30/2017</u>	S/T <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>3,904</u>	-	<u>(3,904)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 727,680</u>	<u>\$ -</u>	<u>\$ (3,904)</u>	<u>\$ 723,776</u>	<u>\$ -</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 \$621, was generated in the prior year and is distributable to the Authority for payment on the land loan. No 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 \$162,987. Of this amount, \$11,374 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.

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 discontinued the revolving loan program for its employees. This program allowed employees to borrow funds to purchase computers for home use. These interest free loans were to be paid back through payroll deductions over a period of not more than two years.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 6 - CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2017 is as follows:

	Balance 7/1/2016	Additions	Deletions/ Transfers	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 7,090,601	\$ -	\$ -	\$ 7,090,601
Construction-in-progress	-	-	-	-
Total capital assets, not being depreciated	<u>7,090,601</u>	<u>-</u>	<u>-</u>	<u>7,090,601</u>
Capital assets depreciated:				
Buildings	32,037,516	28,808	-	32,066,324
Equipment	<u>860,512</u>	<u>-</u>	<u>(16,183)</u>	<u>844,329</u>
Total capital assets being depreciated	<u>32,898,028</u>	<u>28,808</u>	<u>(16,183)</u>	<u>32,910,653</u>
Total capital assets	<u>39,988,629</u>	<u>28,808</u>	<u>(16,183)</u>	<u>40,001,254</u>
Accumulated depreciation:				
Buildings	(27,852,890)	(463,898)	-	(28,316,788)
Equipment	<u>(839,985)</u>	<u>(8,937)</u>	<u>16,183</u>	<u>(832,739)</u>
Total accumulated depreciation	<u>(28,692,875)</u>	<u>(472,835)</u>	<u>16,183</u>	<u>(29,149,527)</u>
Total capital assets depn, net	<u>4,205,153</u>	<u>(444,027)</u>	<u>-</u>	<u>3,761,126</u>
Total capital assets, net	<u>\$ 11,295,754</u>	<u>\$ (444,027)</u>	<u>\$ -</u>	<u>\$ 10,851,727</u>

The changes by project are as follows:

	Balance 7/1/2016	Additions	Deletions/ Transfers	Balance 6/30/2017
Capital assets:				
Public Housing	\$ 24,737,275	\$ 22,728	\$ -	\$ 24,760,003
USDA	5,741,132	6,080	-	5,747,212
Supportive Housing	803,554	-	-	803,554
Business	<u>8,706,668</u>	<u>-</u>	<u>(16,183)</u>	<u>8,690,485</u>
	<u>\$ 39,988,629</u>	<u>\$ 28,808</u>	<u>\$ (16,183)</u>	<u>\$ 40,001,254</u>
Depreciation:				
Public Housing	\$ (18,694,330)	\$ (270,991)	\$ -	(18,965,321)
USDA	(5,418,611)	(40,198)	-	(5,458,809)
Supportive Housing	(406,540)	(15,449)	-	(421,989)
Business	<u>(4,173,394)</u>	<u>(146,197)</u>	<u>16,183</u>	<u>(4,303,408)</u>
	<u>\$ (28,692,875)</u>	<u>\$ (472,835)</u>	<u>\$ 16,183</u>	<u>\$ (29,149,527)</u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 7 - LONG-TERM DEBT

Following is a summary of the Authority's changes in long-term debt for the year ended June 30, 2017:

	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017	Short-term Portion
Office building mortgage	\$ 521,534	\$ -	\$ (174,462)	\$ 347,072	\$ 184,763
U.S. Department of Agriculture	97,615	-	(29,170)	68,445	29,422
State of California HCD loans	210,000	-	-	210,000	-
	<u>\$ 829,149</u>	<u>\$ -</u>	<u>\$ (203,632)</u>	<u>\$ 625,517</u>	<u>\$ 214,185</u>

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

Year Ending June 30	Mortgage		USDA Notes		HCD Loans		Total
	Principle	Interest	Principle	Interest	Principle	Interest	
2018	\$ 184,763	\$ 15,137	\$ 29,422	\$ 692	\$ -	\$ -	\$ 230,014
2019	162,309	4,276	10,566	489	-	-	177,640
2020	-	-	10,258	383	-	-	10,641
2021	-	-	10,361	280	-	-	10,641
2022	-	-	7,838	177	-	-	8,015
2057	-	-	-	-	210,000	346,500	556,500
	<u>\$ 347,072</u>	<u>\$ 19,413</u>	<u>\$ 68,445</u>	<u>\$ 2,021</u>	<u>\$ 210,000</u>	<u>\$ 346,500</u>	<u>\$ 993,451</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 \$831 was incurred, paid, and shown as nonoperating expense for the fiscal year ended June 30, 2017.

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 \$25,438 was incurred, paid, and included as nonoperating expenses for the year ended June 30, 2017.

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 \$82,197 has been accrued and reported as a long-term liability as of June 30, 2017. Of this amount, \$6,300 was incurred and expensed during the current fiscal year.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 8 - UNEARNED REVENUE

Unearned revenue consists of:

Prepaid rent - Public Housing	\$ 19,937	
USDA	6,417	
Migrant center	<u>1,879</u>	\$ 28,233
HUD administrative fee revenue		129,550
Funds held for the City of Capitola		105,179
Funds held for the City of Santa Cruz		<u>135</u>
		<u><u>\$ 263,097</u></u>

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 \$3,041,147 is being held by these companies/agencies on behalf of the Authority's employees. These funds are not recorded as assets of the Authority since they are held in trust for the exclusive benefit of participants and their beneficiaries and are not subject to claims of the Authority's general creditors.

Note 10 - COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation leave, which will be paid to employees upon separation from the Authority's service or used in future periods. The Authority permits employees to accumulate earned but unused sick leave. This leave will either be used in future periods or paid to employees upon separation from the Authority in the amount of 50%, after five years of service; 75%, after ten years of service; and 100%, after fifteen years of service, of the value of the unused sick leave. Accrued vacation and vested sick leave have been valued by the Authority; allocated to all the programs, including Merrill Road Associates; and recorded as "Compensated Absences". As of June 30, 2017, accrued vacation and vested sick leave were valued at \$431,370. Of this amount, \$426,759 was allocated to the Authority, with \$345,702 considered by management to be a long-term liability.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

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)	\$ 10,851,727
Long-term debt (see Note 7)	(625,517)
Accrued interest on long-term debt (See Note 7)	<u>(82,197)</u>
Net investment in capital assets	<u><u>\$ 10,144,013</u></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:

USDA replacement reserve	\$ 1,443,964
Excess Housing Choice Voucher HAP funding	537,540
Brommer Street replacement reserve	89,810
Buena Vista Migrant operating reserves	47,581
Funds held on deposit for MCC guarantees	<u>11,000</u>
	<u><u>\$ 2,129,895</u></u>

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

Balance as of June 30, 2016	\$ 153,731
Excess funding accumulated	337,971
FSS forfeitures and fraud recovery	<u>45,838</u>
Balance as of June 30, 2017	<u><u>\$ 537,540</u></u>

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 11 (continued)

C. Deficit Unrestricted Net Position

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

	Unrestricted June 30, 2017	Unrestricted June 30, 2016	Difference
Housing Choice Voucher	\$ (1,631,942)	\$ (2,101,129)	\$ 469,187
Shelter Plus Care	(13,459)	(13,567)	108
HOME	135	(62)	197
Family Self Sufficiency	(43,780)	1,475	(45,255)

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 a few individual 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.

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, 2016 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 and July 29, 2012. Tier 3, 2% at 60 covers all employees hired between July 29, 2012 and January 1, 2013. Tier 4, 2% at 62 covers all employees hired after January 1, 2013. The fourth tier is the result of State legislation AB 340, the Public Employees' Pension Reform Act (PEPRA). The number of employees across all four tiers as of the June 30, 2016 valuation date was 52 active, 9 transferred, 33 separated, and 34 retired.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 12 (continued)

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:				
2016/2017	13.504%	9.558%	7.159%	6.555%
2017/2018	13.545%	9.599%	7.200%	6.533%
2018/2019	14.369%	10.152%	7.634%	6.842%
2019/2020 (projected)	15.0%	10.6%	8.0%	6.8%
2020/2021 (projected)	16.2%	11.6%	8.8%	7.1%

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>
2016/2017	\$ 238,431	\$ 5,032	\$ 0	\$ 9
2017/2018	289,046	7,778	53	22
2018/2019	367,888	12,646	3,389	1,090
2019/2020 (projected)	476,000	19,000	3,700	1,200
2020/2021 (projected)	557,000	25,000	4,000	1,400

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

Note 12 (continued)

The amounts contributed to the pension plan agreed the amounts required for the fiscal year ended June 30, 2017, as follows:

	<u>Employer Contribution</u>	<u>Employee Contribution</u>	<u>Total</u>
Tier 1	\$ 498,519	\$ 154,081	\$ 652,600
Tier 2	82,217	56,528	138,745
Tier 3	9,267	9,061	18,328
Tier 4	<u>30,370</u>	<u>28,949</u>	<u>59,319</u>
Total required contributions made	620,373	248,619	868,992
Miscellaneous employee contributions	-	1,661	1,661
Total payments made to PERS	<u>\$ 620,373</u>	<u>\$ 250,280</u>	<u>\$ 870,653</u>

Funding Trend

Fiscal year:	<u>Employer Contribution</u>	<u>Employee Contribution</u>	<u>Total</u>
June 30, 2016	\$ 965,608	\$ 252,627	\$ 1,218,235
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

For the above ten years ended June 30, 2016, 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

The total pension liabilities/(assets) were determined by actuarial valuations as of June 30, 2015, by fund, which were rolled forward to June 30, 2016, using the following assumptions:

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
Post retirement benefits increase	Contract COLA up to 2.75% until PPPA floor on purchasing power applies, 2.75% thereafter

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 12 (continued)

The actuarial assumptions and methods used to set the 2014, 2015 and 2016 actuarially determined contributions were as follows:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percentage of payroll and direct rate smoothing
Remaining amortization periods	Differs by employer rate plan, but no more than 30 years
Asset valuation method	Market value
Salary increases	Varies based on entry age and service
Inflation	2.75%
Investment rate of return	7.50%

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.

Changes of Assumption - There were no changes of assumptions.

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, the amortization and smoothing periods recently adopted by the Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on 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. 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-

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

Note 12 (continued)

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.

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:

Asset Class:	Assumed Asset Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global equity	51.0%	5.25%	5.71%
Global debt securities	20.0%	0.99%	2.43%
Inflation assets	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55)%	(1.05)%

Future changes to the discount rate - On December 21, 2016, the CalPERS Board of Administration lowered the discount rate to 7% using a three year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for fiscal year 2018-19 were calculated using a discount rate of 7.375%. The projected employer contributions for 2019-20 and 2020-21 were calculated assuming that the discount rate will be lowered to 7.25% and 7.0%, respectively. The GASB 68 Accounting Valuation Report prepared for the Miscellaneous Risk Pool Cost-Sharing Multiple-Employer Defined Benefit Pension Plan, Measurement Date of June 30, 2017, was prepared using a discount rate of 7.15%.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 12 (continued)

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, 2015	\$ 13,639,503,084	\$ 10,896,036,068	\$ 2,743,467,016
Service Cost	342,270,235	-	342,270,235
Interest on total pension liability	1,032,800,538	-	1,032,800,538
Changes in benefit terms	1,070,612	-	1,070,612
Changes of assumptions	-	-	-
Difference between expected and actual experience	(3,805,440)	-	(3,805,440)
Net plan to plan resource movement	-	23,835,877	(23,835,877)
Contribution - Employer	-	406,781,720	(406,781,720)
Contribution - Employee	-	160,736,159	(160,736,159)
Net investment income	-	57,319,044	(57,319,044)
Benefit payments, including refunds	(614,485,499)	(614,485,499)	-
Administrative expenses	-	(6,747,082)	6,747,082
Net changes during June 30, 2016	757,850,446	27,440,219	730,410,227
Balance as of June 30, 2016	\$ 14,397,353,530	\$ 10,923,476,287	\$ 3,473,877,243

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%
Balance as of June 30, 2016	\$ 28,826,381	\$ 22,106,931	\$ 6,719,450
Percentage of the pool	0.200220%	0.202380%	0.193428%

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, 2016 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 6.65%	Current Discount rate 7.65%	1% increase 8.65%
Risk pool's net pension liability	\$ 5,412,209,553	\$ 3,473,877,243	\$ 1,871,941,803
Authority's proportionate share	\$ 10,600,379	\$ 6,719,450	\$ 3,512,055

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

Note 12 (continued)

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, 2016. The deferred outflows also include contributions made to CalPERS subsequent to the measurement date of June 30, 2016, but prior to the Authority's fiscal year end of June 30, 2017.

	Deferred Outflows of resources	Deferred Inflows of resources
Miscellaneous risk pool:		
Changes in assumptions	\$ -	\$ 114,662,816
Difference between expected and actual experiences	12,119,599	2,776,943
Net difference between projected and actual earnings on investments	<u>596,781,896</u>	<u>-</u>
	608,901,495	117,439,759
Authority's allocation basis	<u>0.284710%</u>	<u>0.284710%</u>
Authority's proportionate share	1,733,603	334,363
Authority specific adjustments:		
Changes in employer's proportions	12,970	603,607
Net difference between prorated employer contributions and actual employer contributions	934,862	-
Authority contributions made between June 30, 2016 and June 30, 2017	<u>620,373</u>	<u>-</u>
	<u>\$ 3,301,808</u>	<u>\$ 937,970</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:

Measurement period:	Deferred outflow (Inflow) of resources
2018	\$ 268,977
2019	257,434
2020	776,968
2021	440,086

The amounts reported as deferred outflows of resources related to pensions, contributions made after the measurement date of June 30, 2016, should have the effect of reducing net pension liability during the next actuarial measurement period.

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(Continued)

Note 12 (continued)

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, 2016:

	Risk Pool Amount	Authority's Share
Service Cost	\$ 342,270,235	\$ 625,976
Interest on total pension liability	1,032,800,538	2,067,873
Change in benefit terms	1,070,612	-
Recognized change in assumptions	(63,701,565)	(181,365)
Recognized differences between expected and actual experience	5,704,614	16,242
Net plan to plan resource movement	(23,835,877)	-
Employee contributions	(160,736,159)	(252,626)
Projected earnings on pension plan investments	(830,186,814)	(2,363,625)
Recognized differences between projected and actual earning on plan investments	86,669,644	246,757
Recognized change in employer's proportion	-	(309,543)
Recognized difference between the employer's contribution and the employer's proportionate share of contribution	-	500,130
Administrative expense	6,747,082	19,210
Miscellaneous	-	(1,325)
Total pension expense	<u>\$ 396,802,310</u>	<u>\$ 367,704</u>

See also page 51 and 52 for the Required Supplementary Information 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 recorded in the Authority's Statement of Net Assets as an increase (or decrease) in OPEB obligation. The Authority's current OPEB obligation 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

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(Continued)

Note 13 (continued)

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, 2017, 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, 2017.

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 \$125 per month in 2016 and \$128 per month in 2017, 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, 2016, 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
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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 13 (continued)

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

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Actuarial Present Value of Projected Benefits (APVPB)	\$ 763,612	\$ 784,548	\$ 784,548
Actuarial Accrued Liability (AAL)	\$ 595,005	\$ 726,854	\$ 773,690
Annual Required Contribution (ARC)			
Normal Costs	\$ 22,327	\$ 15,530	\$ 16,035
Amortization of unfunded AAL	19,178	25,641	26,420
Interest to June 30	3,159	-	-
Total ARC (annual OPEB costs)	<u>\$ 44,664</u>	<u>\$ 41,171</u>	<u>\$ 42,455</u>
OBEP payments made on behalf of participants	\$ 18,313	\$ 19,266	\$ 19,862
Deposit made to CalPERS trust (CERBT)	26,351	21,905	22,593
ARC funded during the year ended June 30, 2017	<u>\$ 44,664</u>	<u>\$ 41,171</u>	<u>\$ 42,455</u>
CERBT balance as of July 1	\$ 328,872	\$ 354,346	\$ 379,639
Deposits made	26,351	-	-
Deposits in transit	-	21,905	22,592
Investment earnings (net of admin expenses)	(887)	3,388	39,400
CERBT balance as of June 30	<u>\$ 354,346</u>	<u>\$ 379,639</u>	<u>\$ 441,631</u>
Actuarial Accrued Liability (AAL)			
unfunded at the end of the period	<u>\$ 240,659</u>	<u>\$ 347,215</u>	<u>\$ 332,059</u>
Covered payroll, per the actuarial report	<u>\$ not avail</u>	<u>\$ not avail</u>	<u>\$ not avail</u>
Covered payroll, per PERS reporting		<u>\$ 3,328,404</u>	<u>\$ 3,326,175</u>
Normal costs as a percent of payroll	0.65%	0.47%	0.48%
ARC as a percent of payroll	1.29%	1.24%	1.28%
Unfunded AAL as a percent of payroll	6.95%	10.43%	10.00%
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 \$42,455 was included in the current year operations. The trust balance of \$441,631 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, 2018 to be \$43,773. See page 52 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.

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, 2017, was \$332,059.

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(Continued)

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	\$ 173,093
Public Housing	33,823
USDA	9,788
Mainstream Voucher	2,690
Section 8 Moderate Rehabilitation	813
Supportive Housing	664
CDBG	613
HOME	275
Section 8 Moderate Rehabilitation - SRO	213
Shelter Plus Care	140
Other State and Local	1,357
Business	<u>5,560</u>
Total Authority wide revenue/expense	<u><u>\$ 229,029</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 \$8,764 for the fiscal year ended June 30, 2017. 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 leased office space owned in the City of Capitola to two tenants. These commercial leases will terminate on December 31, 2017, when the Authority intends to reoccupy the building. The combined monthly lease payments were approximately \$15,200. Rent for the year of \$188,079 was reported as revenue of the Business Enterprise Fund. This building is valued on the books of accounts as of June 30, 2017 as follows:

	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Land	\$ 537,500	\$ -	\$ 537,500
Building	1,406,827	(1,363,297)	43,530
Equipment	<u>14,000</u>	<u>(14,000)</u>	<u>-</u>
Total	<u>\$ 1,958,327</u>	<u>\$ (1,377,297)</u>	<u>\$ 581,030</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 39.38% of common area operating costs. Rent for the year of \$138,972 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

A. Grants

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.

B. Litigation

The Authority is involved in various matters of litigation. It is the Authority's opinion that these matters of litigation will not have a material effect, if any, on the financial position of the Authority.

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.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 18 (continued)

The purpose of MRA is to acquire, construct, own, hold for investment, operate, manage, lease or sell partnership property for low and very low income persons. MRA currently owns and operates a fifteen unit apartment complex in Aptos, California. The project qualified for federal low income tax credits under section 42 of the Internal Revenue Code, for which the compliance period ended in 2011. The project continues to operate under restrictions and compliance requirements of the California Department of Housing and Community Development (HCD) through the Rental Housing Construction Program (RHCP).

The Authority shares common board members with MRHC which is the general partner of MRA. Also the Authority was the developer of the project, the initial limited partner and currently administers the project for MRA. Accordingly, prior to September 30, 2011, the Authority could exercise significant influence over MRA.

On September 30, 2011, Edison Capital Investments withdrew as the Limited Partner of MRA and the Authority was admitted as the new Limited Partner. Based on this action and considering all of the prior activity between the two organizations, the Authority considers MRA to be a 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. Through December 31, 2015, the fiscal year end of this discretely presented component unit was December 31. HCD allowed the Partnership to change its fiscal year end to June 30, to align with the Authority's fiscal year end. The Partnership recognized this change beginning June 30, 2017. The Partnership's activity for the period ended June 30, 2017 includes eighteen months of revenue and expenses. The 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 and for the eighteen months ended June 30, 2017 by Harn & Dolan, CPA's. The opinions were not modified. This audit report may be obtained by contacting the Authority at the address on page 12. 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.

MRHC pays the Authority a management fee of \$12,000 per year, to the extent of the Partnership's surplus cash. MRHC owes the Authority \$18,000, payable from the Partnership's surplus cash, as of June 30, 2017. MRA reimburses the Authority for various costs paid by the Authority on its behalf. As of June 30, 2017, MRA owes the Authority \$0 for this activity. Also, as noted in Note 5 to the basic financial statements, MRA owes the Authority \$867,259 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 \$296,716 as of June 30, 2017; as well as security deposit funds held on behalf of tenants in the amount of \$15,356. Property and equipment are recorded at cost of acquisition or construction. Depreciation is computed using a straight-line method over the useful lives of the assets. Management has estimated the useful

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 18 (continued)

lives of the assets to be 40 years for the original cost of the buildings, 7 to 10 years for certain modernization on the buildings and 12 years for the furniture and equipment, with no salvage value. Depreciation expense for the eighteen months ended June 30, 2017 was \$109,845.

MRA owes the Authority \$867,259 (\$704,222 principal and \$162,987 interest) (See also Note 4). In addition, 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 an interest rate of 3% per annum. Interest payable on this loan, as of June 30, 2017, is \$742,027. Interest of \$53,783 was charged to operations for the eighteen months ended June 30, 2017. No payments have been made on these loans.

MRA's net position consists of \$120,799 Net Investment in Capital Assets, consisting of property and equipment of \$2,357,993, less debt and interest of \$1,495,167 and \$742,027, respectively; \$317,346 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 \$836,415.

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, 2016. 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 \$72,300 for property, general liability, automobile, errors and omissions, and fidelity for the policy term of the year ended December 31, 2017. The loss limits for the various types of insurance were "stated value" for property with a \$2,500 deductible per occurrence (\$300,000 mold claim sub limit); \$2,000,000 for general liability (\$2,000,000 aggregate) with no deductible per occurrence; \$2,000,000 for errors and omissions with a 10% co-pay deductible; \$1,000,000 for automobile with actual cash value for comprehensive and collision coverage and a \$250 and \$500 deductible, respectively; \$100,000 for fidelity with a \$1,000 deductible. The Authority is also insured through 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 \$16,500 for this coverage.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2017

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

Measurement Date	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Funded Ratio	Covered Payroll	NPL/Payroll Ratio
PERF C Public Agency Cost Sharing Plan:						
6/30/14	30,829,966,631	24,607,502,515	6,222,464,116	79.82%		
6/30/15	31,771,217,402	24,907,305,871	6,863,911,531	78.40%		
6/30/16	33,358,627,624	24,705,532,291	8,653,095,333	74.06%		
Miscellaneous Risk Pool in total:						
6/30/13	\$ 12,374,543,647	\$ 9,097,875,216	\$ 3,276,668,431	73.5%		
6/30/14	13,110,948,452	10,639,461,174	2,471,487,278	81.1%		
6/30/15	13,639,503,084	10,896,036,068	2,743,467,016	79.9%		
6/30/16	14,397,353,530	10,923,476,287	3,473,877,243	75.9%		
Authority's Proportionate Share:						
6/30/13	\$ 24,885,431	\$ 16,887,565	\$ 7,997,866	67.9%	\$ 3,495,580	228.8%
6/30/14	26,368,790	19,694,701	6,674,089	74.7%	3,430,738	194.5%
6/30/15	27,456,183	22,128,324	5,327,860	80.6%	3,460,606	154.0%
6/30/16	28,826,381	22,106,931	6,719,450	76.7%	3,328,404	201.9%
Per Annual Valuation Reports prepared by CalPERS by tier:						
Tier 1 - 3% at 60						
6/30/11	\$ 20,465,168	\$ 13,883,154	\$ 6,582,014	67.8%	\$ 2,615,988	251.6 %
6/30/12	21,319,967	13,890,263	7,429,704	65.2%	2,579,936	288.0 %
6/30/13	22,649,451	15,990,204	6,659,247	70.6%	2,295,944	290.0 %
6/30/14	25,045,335	18,910,426	6,134,909	75.5%	2,228,314	275.3 %
6/30/15	26,125,956	20,719,758	5,406,198	79.3%	2,204,198	245.2 %
6/30/16	27,862,978	20,945,079	6,917,899	75.2%	1,977,613	349.8 %
Tier 2 - 2% at 55						
6/30/11	\$ 482,801	\$ 395,074	\$ 87,727	81.8%	\$ 1,083,414	8.1%
6/30/12	695,771	536,974	158,797	77.2%	1,021,607	15.5%
6/30/13	965,991	785,057	180,934	81.3%	1,069,583	16.9%
6/30/14	1,351,043	1,227,438	123,605	90.9%	1,089,558	11.3%
6/30/15	1,599,761	1,428,426	171,335	89.3%	1,095,581	15.6%
6/30/16	1,726,951	1,424,885	302,066	82.5%	871,263	34.7%
Tier 3 - 2% at 60						
6/30/13	\$ 21,741	\$ 18,332	\$ 3,409	84.3%	\$ 130,053	2.6%
6/30/14	48,218	47,711	507	99.0%	125,765	0.4%
6/30/15	78,326	75,163	3,163	96.0%	139,443	2.3%
6/30/16	115,977	103,634	12,343	89.4%	148,532	8.3%
Tier 4 - 2% at 62 (PEPRA)						
6/30/14	\$ 120	\$ 125	\$ (5)	104.5%	\$ 43,448	0.0%
6/30/15	6,062	5,563	499	91.8%	85,056	0.6%
6/30/16	20,755	18,501	2,254	89.1%	253,033	0.9%

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

The Annual Valuation Reports are prepared by CalPERS to determine contribution rates and not to provide information to comply with GASB 68. The information is included above to provide additional annual information until the 10 year trend can be built.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2017
(Continued)

Schedule of Employer Contributions for CalPERS

<u>Fiscal Year Ended</u>	<u>Actuarially Determined Contributions</u>	<u>Contribution in relation to ADC</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions to Payroll Ratio</u>
6/30/14	\$ 804,089	\$ 804,089	\$ -	\$ 3,430,738	23.44%
6/30/15	838,251	2,523,285	(1,685,034)	3,460,606	72.91%
6/30/16	965,609	965,609	-	3,328,404	29.01%
6/30/17	620,373	620,373	-	3,326,175	18.65%

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

The actuarial methods and assumptions used to determine the actuarially determined contributions (ADC) were as follows:

ADC for fiscal year	June 30, 2017
Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal Cost Method
Asset valuation method	Market valuation of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investments and administrative expenses
Retirement age	Probabilities are based on the 2010 CalPERS experience study of the period 1997-2007
Mortality	Probabilities of mortality are based on the 2010 CalPERS experience study of the period 1997-2007

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 %
6/30/17	773,690	441,631	332,059	57.1%	3,326,175	9.98 %

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

SUPPLEMENTAL INFORMATION

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<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	\$ 50,501
Shelter Plus Care Program	14.238	470,462
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	90,512
Public and Indian Housing Program	14.850	575,903
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	442,513
Housing Choice Voucher Cluster:		
Housing Choice Voucher Program	14.871	60,887,139
Mainstream Voucher Program	14.879	1,216,746
Public Housing Capital Fund Program	14.872	364,393
Family Self Sufficiency Program	14.896	123,593
Passed thru the County of Santa Cruz:		
HOME Investment Partnership Act Grant #15-HOME-10632	14.239	20,370
Passed thru the City of Santa Cruz:		
HOME Investment Partnership Act Grant HOME #M-16-MC060236	14.239	22,439
Community Development Block Grant Grant CDBG #B-16-MC-06-0024	14.218	8,447
Passed thru the City of Capitola:		
Community Development Block Grant Grant #14-CDBG-9877	14.228	<u>19,575</u>
Subtotal HUD		<u>64,292,593</u>
<u>United States Department of Agriculture (USDA)</u>		
Direct Programs:		
Rural Rental Assistance Payments Program	10.427	<u>66,811</u>
Total federal awards expended		<u>\$ 64,359,404</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, 2017

1. The schedule of expenditures of federal awards includes the federal award 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* (Uniform Guidance). The Authority has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Authority it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.
2. 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 (HAP)	\$ 57,189,809	\$ 56,851,838	\$ 56,851,838
HAP paid on behalf of another HA	-	43,474	-
Administrative Costs /FSS /Homeownership	<u>4,486,451</u>	<u>4,035,301</u>	<u>4,035,301</u>
	<u>\$ 61,676,260</u>	<u>\$ 60,930,613</u>	<u>\$ 60,887,139</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, 2017

	Public Housing (including Capital Fund)	PIH Family Self- Sufficiency Program	State/Local	Business Activities	Merrill Road Associates (DPCU)	Rural Rental Assistance Payments	Section 8 Moderate Rehabilitation Single Room Occupancy
CFDA Number	14.850/14.872	14.896				10.427	14.249
111 Cash - Unrestricted	\$6,565,347	\$0	\$388,203	\$1,695,348	\$56,965	\$271,975	\$64,140
112 Cash - Restricted - Modernization and Development	\$0	\$0		\$0	\$223,548	\$1,445,081	\$0
113 Cash - Other Restricted	\$57,527	\$0	\$49,259	\$0	\$93,798	\$0	\$0
114 Cash - Tenant Security Deposits	\$120,960	\$0	\$10,300	\$25,407	\$15,356	\$46,932	\$0
100 Total Cash	\$6,743,834	\$0	\$447,762	\$1,720,755	\$389,667	\$1,763,988	\$64,140
121 Accounts Receivable - PHA Projects		\$0	\$0	\$0		\$0	\$0
122 Accounts Receivable - HUD Other Projects	\$0	\$20,812	\$0	\$0		\$0	\$2,054
124 Accounts Receivable - Other Government		\$0	\$360,373	\$0		\$5,825	\$0
125 Accounts Receivable - Miscellaneous	\$0	\$0	\$0	\$18,000		\$0	\$226
126 Accounts Receivable - Tenants	\$15,494	\$0	\$12	\$2,829	\$1,781	\$39	\$0
126.1 Allowance for Doubtful Accounts - Tenants	-\$2,757	\$0	\$0	\$0	-\$528	\$0	\$0
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0		\$0	-\$226
127 Notes, Loans, & Mortgages Receivable - Current	\$0	\$0	\$0	\$0		\$0	\$0
128 Fraud Recovery	\$0	\$0	\$0	\$0		\$0	\$0
128.1 Allowance for Doubtful Accounts - Fraud	\$0	\$0	\$0	\$0		\$0	\$0
129 Accrued Interest Receivable	\$1,848	\$0	\$0	\$1,812		\$0	\$0
120 Total Receivables, Net of Allowances for Doubtful Accts	\$14,585	\$20,812	\$360,385	\$22,641	\$1,253	\$5,864	\$2,054
131 Investments - Unrestricted		\$0	\$0	\$0		\$0	\$0
132 Investments - Restricted		\$0	\$0	\$0		\$0	\$0
142 Prepaid Expenses and Other Assets	\$14,974	\$0	\$5,787	\$95,128	\$674	\$4,417	\$39
144 Inter Program Due From	\$0	\$0	\$0	\$539,345		\$0	\$0
150 Total Current Assets	\$6,773,393	\$20,812	\$813,934	\$2,377,869	\$391,594	\$1,774,269	\$66,233
161 Land	\$4,104,506	\$0	\$0	\$2,573,019	\$1,039,931	\$124,076	\$0
162 Buildings	\$20,536,587	\$0	\$0	\$5,392,047	\$2,752,708	\$5,623,136	\$0
163 Furniture, Equipment & Machinery - Dwellings	\$0	\$0	\$0	\$0	\$26,200	\$0	\$0
164 Furniture, Equipment & Machinery - Administration	\$118,910	\$0	\$0	\$725,419		\$0	\$0
165 Leasehold Improvements	\$0	\$0	\$0	\$0		\$0	\$0
166 Accumulated Depreciation	-\$18,965,321	\$0	\$0	-\$4,303,408	-\$1,460,846	-\$5,458,809	\$0
167 Construction in Progress	\$0	\$0	\$0	\$0		\$0	\$0
160 Total Capital Assets, Net of Accumulated Depreciation	\$5,794,682	\$0	\$0	\$4,387,077	\$2,357,993	\$288,403	\$0
171 Notes, Loans and Mortgages Receivable - Non-Current	\$0	\$0	\$0	\$723,776		\$0	\$0
174 Other Assets	\$0	\$0	\$0	\$162,987		\$0	\$0
176 Investments in Joint Ventures	\$0	\$0	\$0	\$0		\$0	\$0
180 Total Non-Current Assets	\$5,794,682	\$0	\$0	\$5,273,840	\$2,357,993	\$288,403	\$0
200 Deferred Outflow of Resources	\$210,698	\$45,194	\$31,642	\$1,855,981	\$0	\$58,726	\$1,320
290 Total Assets and Deferred Outflow of Resources	\$12,778,773	\$66,006	\$845,576	\$9,507,690	\$2,749,587	\$2,121,398	\$67,553

HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State's Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14.239	14.238	14.879	14.218	14.235	14.871	14.228	14.856			
\$0	\$0	\$370,416	\$0	\$26,158	\$1,327,322		\$556,238	\$11,322,112		\$11,322,112
\$0	\$0	\$0	\$0	\$89,809			\$0	\$1,758,438		\$1,758,438
\$0	\$0	\$0	\$0	\$0	\$701,785		\$0	\$902,369		\$902,369
\$0	\$0	\$0	\$0	\$1,850			\$0	\$220,805		\$220,805
\$0	\$0	\$370,416	\$0	\$117,817	\$2,029,107	\$0	\$556,238	\$14,203,724	\$0	\$14,203,724
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$43,043	\$0	\$0	\$8,576			\$10,193	\$84,678		\$84,678
\$5,775	\$0	\$0	\$10,479	\$0			\$0	\$382,452		\$382,452
	\$0	\$385	\$0	\$0	\$97,955		\$0	\$116,566		\$116,566
\$0	\$0	\$0	\$0	\$2			\$0	\$20,157		\$20,157
\$0	\$0	\$0	\$0	\$0			\$0	-\$3,285		-\$3,285
\$0	\$0	-\$385	\$0	\$0	-\$97,955		\$0	-\$98,566		-\$98,566
\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$94	\$0	\$0	\$42,970		\$0	\$43,064		\$43,064
\$0	\$0	-\$94	\$0	\$0	-\$42,970		\$0	-\$43,064		-\$43,064
\$0	\$0	\$0	\$0	\$0			\$458	\$4,118		\$4,118
\$5,775	\$43,043	\$0	\$10,479	\$8,578	\$0	\$0	\$10,651	\$506,120	\$0	\$506,120
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$355	\$0	\$434	\$15,681		\$142	\$137,631		\$137,631
	\$0	\$0	\$0	\$0	\$0		\$0	\$539,345	-\$539,345	\$0
\$5,775	\$43,043	\$370,771	\$10,479	\$126,829	\$2,044,788	\$0	\$567,031	\$15,386,820	-\$539,345	\$14,847,475
\$0	\$0	\$0	\$0	\$289,000			\$0	\$8,130,532		\$8,130,532
\$0	\$0	\$0	\$0	\$514,554			\$0	\$34,819,032		\$34,819,032
\$0	\$0	\$0	\$0	\$0			\$0	\$26,200		\$26,200
\$0	\$0	\$0	\$0	\$0			\$0	\$844,329		\$844,329
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	-\$421,989			\$0	-\$30,610,373		-\$30,610,373
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$381,565	\$0	\$0	\$0	\$13,209,720	\$0	\$13,209,720
	\$0	\$0	\$0	\$0			\$0	\$723,776		\$723,776
	\$0	\$0	\$0	\$0			\$0	\$162,987		\$162,987
	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$381,565	\$0	\$0	\$0	\$14,096,483	\$0	\$14,096,483
\$1,273	\$3,100	\$16,589	\$2,227	\$3,969	\$1,083,844		\$5,069	\$3,319,632	\$0	\$3,319,632
\$7,048	\$46,143	\$387,360	\$12,706	\$512,363	\$3,128,632	\$0	\$572,100	\$32,802,935	-\$539,345	\$32,263,590

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, 2017
(Continued)

	Public Housing (including Capital Fund)	PIH Family Self- Sufficiency Program	State/Local	Business Activities	Merrill Road Associates (DPCU)	Rural Rental Assistance Payments	Section 8 Moderate Rehabilitation Single Room Occupancy
CFDA Number	14.850/14.872	14.896				10.427	14.249
311 Bank Overdraft	\$0	\$0	\$0	\$0		\$0	\$0
312 Accounts Payable <= 90 Days	\$59,792	\$0	\$88,685	\$20,679	\$3,054	\$35,803	\$0
313 Accounts Payable >90 Days Past Due	\$0	\$0	\$0	\$0		\$0	\$0
321 Accrued Wage/Payroll Taxes Payable	\$10,319	\$3,410	\$2,837	\$85,254	\$756	\$3,029	\$61
322 Accrued Compensated Absences - Current Portion	\$3,680	\$0	\$0	\$0	\$271	\$1,067	\$96
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	\$122,066	\$0	\$41,575	\$0		\$0	\$0
341 Tenant Security Deposits	\$120,960	\$0	\$10,300	\$25,407	\$15,356	\$46,932	\$0
342 Unearned Revenue	\$19,937	\$0	\$107,193	\$0	\$826	\$6,417	\$0
343 Current Portion of Long-term Debt - Capital Projects	\$0	\$0	\$0	\$184,762		\$29,422	\$0
344 Current Portion of Long-term Debt - Operating Borrowings		\$0	\$0	\$0		\$0	\$0
345 Other Current Liabilities		\$0	\$0	\$0	\$18,000	\$0	\$0
346 Accrued Liabilities - Other		\$0	\$0	\$0	\$800	\$0	\$0
347 Inter Program - Due To		\$88,690	\$176,526	\$225,501		\$0	\$0
348 Loan Liability - Current	\$0	\$0	\$0	\$0		\$0	\$0
310 Total Current Liabilities	\$336,754	\$92,100	\$427,116	\$541,603	\$39,063	\$122,670	\$157
351 Long-term Debt, Net of Current - Capital Projects	\$0	\$0	\$0	\$162,310	\$2,199,439	\$39,023	\$0
352 Long-term Debt, Net of Current - Operating Borrowings	\$0	\$0	\$0	\$0		\$0	\$0
353 Non-current Liabilities - Other	\$57,527	\$0	\$0	\$0	\$905,014	\$0	\$0
354 Accrued Compensated Absences - Non Current	\$74,528	\$8,938	\$6,785	\$112	\$4,341	\$21,545	\$281
355 Loan Liability - Non Current	\$0	\$0	\$0	\$0		\$0	\$0
356 FASB 5 Liabilities		\$0	\$0	\$0		\$0	\$0
357 Accrued Pension and OPEB Liabilities	\$637,019	\$8,748	\$42,022	\$2,742,935	\$0	\$171,224	\$3,661
350 Total Non-Current Liabilities	\$769,074	\$17,686	\$48,807	\$2,905,357	\$3,108,794	\$231,792	\$3,942
300 Total Liabilities	\$1,105,828	\$109,786	\$475,923	\$3,446,960	\$3,147,857	\$354,462	\$4,099
400 Deferred Inflow of Resources	\$94,979		\$3,455	\$329,872		\$23,876	\$580
508.4 Net Investment in Capital Assets	\$5,794,682	\$0	\$0	\$4,040,004	\$120,799	\$219,956	\$0
511.4 Restricted Net Position		\$0	\$58,581	\$0	\$317,346	\$1,443,964	\$0
512.4 Unrestricted Net Position	\$5,783,284	-\$43,780	\$307,617	\$1,690,854	-\$836,415	\$79,140	\$62,874
513 Total Equity - Net Assets / Position	\$11,577,966	-\$43,780	\$366,198	\$5,730,858	-\$398,270	\$1,743,060	\$62,874
600 Total Liabilities, Deferred Inflows of Resources and Equity	\$12,778,773	\$66,006	\$845,576	\$9,507,690	\$2,749,587	\$2,121,398	\$67,553

HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State's Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14.239	14.238	14.879	14.218	14.235	14.871	14.228	14.856			
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$2	\$776	\$0	\$6,570	\$72,650		\$2	\$288,013		\$288,013
\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$157	\$11	\$780	\$183	\$200	\$50,120		\$235	\$157,352		\$157,352
\$0	\$0	\$1,204	\$0	\$71	\$74,574		\$364	\$81,327		\$81,327
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$330		\$0	\$330		\$330
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0			\$0	\$163,641		\$163,641
\$0	\$0	\$0	\$0	\$1,850			\$0	\$220,805		\$220,805
\$0	\$0	\$9,753	\$0	\$0	\$119,796		\$0	\$263,922		\$263,922
\$0	\$0	\$0	\$0	\$0			\$0	\$214,184		\$214,184
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0			\$0	\$18,000		\$18,000
\$0	\$0	\$0	\$0	\$0			\$0	\$800		\$800
\$5,629	\$42,374	\$0	\$625	\$0			\$0	\$539,345	-\$539,345	\$0
	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$5,786	\$42,387	\$12,513	\$808	\$8,691	\$317,470	\$0	\$601	\$1,947,719	-\$539,345	\$1,408,374
\$0	\$0	\$0	\$0	\$210,000			\$0	\$2,610,772		\$2,610,772
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$82,197	\$163,915		\$0	\$1,208,653		\$1,208,653
\$72	\$81	\$3,542	\$349	\$1,472	\$226,926		\$1,070	\$350,042		\$350,042
	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
\$1,054	\$12,675	\$46,038	\$1,122	\$11,582	\$3,027,293		\$14,077	\$6,719,450		\$6,719,450
\$1,126	\$12,756	\$49,580	\$1,471	\$305,251	\$3,418,134	\$0	\$15,147	\$10,888,917	\$0	\$10,888,917
\$6,912	\$55,143	\$62,093	\$2,279	\$313,942	\$3,735,604	\$0	\$15,748	\$12,836,636	-\$539,345	\$12,297,291
\$0	\$4,458	\$7,149	\$187	\$1,641	\$487,430		\$2,167	\$955,794	\$0	\$955,794
\$0	\$0	\$0	\$0	\$89,368	\$0		\$0	\$10,264,809		\$10,264,809
\$0	\$0	\$0	\$0	\$89,809	\$537,540		\$0	\$2,447,240		\$2,447,240
\$136	-\$13,458	\$318,118	\$10,240	\$17,603	-\$1,631,942	\$0	\$554,185	\$6,298,456		\$6,298,456
\$136	-\$13,458	\$318,118	\$10,240	\$196,780	-\$1,094,402	\$0	\$554,185	\$19,010,505	\$0	\$19,010,505
\$7,048	\$46,143	\$387,360	\$12,706	\$512,363	\$3,128,632	\$0	\$572,100	\$32,802,935	-\$539,345	\$32,263,590

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, 2017

	Public Housing (including Capital Fund)	PIH Family Self- Sufficiency Program	State/Local	Business Activities	Merrill Road Associates (DPCU)	Rural Rental Assistance Payments	Section 8 Moderate Rehab Single Room Occupancy
CFDA Number	14.850/14.872	14.896				10.427	14.249
70300 Net Tenant Rental Revenue	\$1,451,941	\$0	\$0	\$11,004	\$229,298	\$593,009	\$0
70400 Tenant Revenue - Other	\$123,123	\$0	\$0	\$0	\$1,097	\$29,859	\$0
70500 Total Tenant Revenue	\$1,575,064	\$0	\$0	\$11,004	\$230,395	\$622,868	\$0
70600 HUD PHA Operating Grants	\$940,296	\$123,593	\$0	\$0		\$0	\$100,848
70610 Capital Grants	\$0	\$0	\$0	\$0		\$0	\$0
70800 Other Government Grants	\$0	\$0	\$1,383,868	\$0		\$66,811	\$0
71100 Investment Income - Unrestricted	\$12,219	\$0	\$569	\$7,482	\$149	\$492	\$87
71200 Mortgage Interest Income	\$0	\$0	\$0	\$11,374		\$0	\$0
71400 Fraud Recovery	\$0	\$0	\$0	\$0		\$0	\$0
71500 Other Revenue	\$11,330	\$0	\$27,094	\$2,187,811	\$30	\$7	\$0
72000 Investment Income - Restricted	\$0	\$0	-\$11	\$0	\$810	\$4,088	\$0
70000 Total Revenue	\$2,538,909	\$123,593	\$1,411,520	\$2,217,671	\$231,384	\$694,266	\$100,935
91100 Administrative Salaries	\$383,673	\$0	\$31,202	\$897,548	\$29,050	\$111,001	\$2,736
91200 Auditing Fees	\$4,239	\$0	\$1,800	\$15	\$5,500	\$1,218	\$27
91300 Management Fee	\$0	\$0	\$55,722	\$0	\$13,538	\$0	\$0
91400 Advertising and Marketing	\$823	\$0	\$386	\$6,353	\$38	\$1,710	\$0
91500 Employee Benefit contributions - Administrative	\$139,348	\$0	\$12,471	\$280,450	\$17,598	\$40,587	\$927
91600 Office Expenses	\$33,823	\$0	\$1,357	\$5,560		\$9,788	\$213
91700 Legal Expense	\$43,588	\$0	\$186	\$9,730	\$5,789	\$2,204	\$9
91800 Travel	\$879	\$0	\$31	\$6,142		\$254	\$6
91810 Allocated Overhead	\$62,828	\$0	\$2,265	\$10,351		\$18,175	\$395
91900 Other	\$5,537	\$0	\$4,325	\$455,662	\$480	\$8,567	\$32
91000 Total Operating - Administrative	\$674,738	\$0	\$109,745	\$1,671,811	\$71,993	\$193,504	\$4,345
92100 Tenant Services - Salaries		\$121,227	\$0	\$0		\$0	\$0
92300 Employee Benefit Contributions - Tenant Services		\$49,185	\$0	\$0		\$0	\$0
92400 Tenant Services - Other		\$1,173	\$725,759	\$0		\$0	\$0
92500 Total Tenant Services	\$0	\$171,585	\$725,759	\$0	\$0	\$0	\$0
93100 Water	\$102,061	\$0	\$1,990	\$6,414	\$7,481	\$11,055	\$0
93200 Electricity	\$40,285	\$0	\$36,547	\$42,257	\$2,198	\$17,353	\$0
93300 Gas	\$7,676	\$0	\$29,681	\$2,830	\$34	\$2,952	\$0
93600 Sewer	\$102,715	\$0	\$123,401	\$5,276	\$13,964	\$96,656	\$0
93800 Other Utilities Expense	\$5,889	\$0	\$0	\$878	\$2,731	\$0	\$0
93000 Total Utilities	\$258,626	\$0	\$191,619	\$57,655	\$26,408	\$128,016	\$0
94100 Ordinary Maintenance and Operations - Labor	\$58,917	\$0	\$39,804	\$127	\$7,690	\$17,074	\$0
94200 Ordinary Maintenance & Operations - Materials	\$49,990	\$0	\$4,701	\$1,198	\$6,972	\$5,416	\$0
94300 Ordinary Maintenance and Operations Contracts	\$408,607	\$0	\$59,944	\$94,261	\$36,050	\$107,069	\$31
94500 Employee Benefit Contributions - Ordinary Maint	\$15,841	\$0	\$18,746	-\$211	\$3,007	\$4,577	\$0
94000 Total Maintenance	\$533,355	\$0	\$123,195	\$95,375	\$53,719	\$134,136	\$31

HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State's Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14,239	14,238	14,879	14,218	14,235	14,871	14,228	14,856			
\$0	\$0	\$0	\$0	\$17,694			\$0	\$2,302,946	-\$8,764	\$2,294,182
\$0	\$0	\$0	\$0	\$1,608			\$0	\$155,687		\$155,687
\$0	\$0	\$0	\$0	\$19,302	\$0	\$0	\$0	\$2,458,633	-\$8,764	\$2,449,869
\$0	\$470,462	\$1,294,769	\$0	\$50,501	\$61,676,260		\$480,578	\$65,137,307		\$65,137,307
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$42,809	\$0	\$0	\$10,947	\$0		\$19,575	\$0	\$1,524,010		\$1,524,010
\$0	\$0	\$473	\$5	\$26	\$2,040		\$1,628	\$25,170		\$25,170
\$0	\$0	\$0	\$0	\$0			\$0	\$11,374		\$11,374
\$0	\$0	\$693	\$0	\$0	\$28,530		\$0	\$29,223		\$29,223
\$0	\$0	\$0	\$0	\$0	\$76,779		\$0	\$2,303,051	-\$1,804,231	\$498,820
\$0	\$0	\$0	\$0	\$133	\$0		\$0	\$5,020		\$5,020
\$42,809	\$470,462	\$1,295,935	\$10,952	\$69,962	\$61,783,609	\$19,575	\$482,206	\$71,493,788	-\$1,812,995	\$69,680,793
\$3,312	\$1,762	\$34,532	\$7,828	\$7,522	\$2,222,208		\$10,435	\$3,742,809	-\$877,964	\$2,864,845
\$1	\$21	\$309	\$82	\$83	\$21,851		\$103	\$35,249		\$35,249
\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$69,260	-\$55,722	\$13,538
\$0	\$0	\$0	\$0	\$32	\$932		\$0	\$10,274		\$10,274
\$999	\$682	\$11,857	\$2,070	\$2,719	\$762,559		\$3,562	\$1,275,829	-\$276,154	\$999,675
\$275	\$140	\$2,690	\$613	\$664	\$173,094		\$813	\$229,030	-\$229,030	\$0
\$5	\$6	\$111	\$28	\$28	\$9,408		\$34	\$71,126	-\$9,487	\$61,639
\$10	\$4	\$70	\$15	\$17	\$4,508		\$21	\$11,957	-\$5,979	\$5,978
\$665	\$252	\$4,983	\$1,196	\$1,233	\$320,686		\$1,506	\$424,535	-\$424,535	\$0
\$17	\$302	\$295	\$24	\$203	\$66,977		\$128	\$542,549	-\$8,326	\$534,223
\$5,284	\$3,169	\$54,847	\$11,856	\$12,501	\$3,582,223	\$0	\$16,602	\$6,412,618	-\$1,887,197	\$4,525,421
\$0	\$0	\$0	\$0	\$0			\$0	\$121,227		\$121,227
\$0	\$0	\$0	\$0	\$0			\$0	\$49,185		\$49,185
\$41,839	\$9,825	\$0	\$1,357	\$23,334		\$19,575	\$0	\$822,862		\$822,862
\$41,839	\$9,825	\$0	\$1,357	\$23,334	\$0	\$19,575	\$0	\$993,274	\$0	\$993,274
\$0	\$0	\$0	\$0	\$2,060			\$0	\$131,061		\$131,061
\$0	\$0	\$0	\$0	\$788			\$0	\$139,428		\$139,428
\$0	\$0	\$0	\$0	\$90			\$0	\$43,263		\$43,263
\$0	\$0	\$0	\$0	\$3,756			\$0	\$345,768		\$345,768
\$0	\$0	\$0	\$0	\$0			\$0	\$9,498		\$9,498
\$0	\$0	\$0	\$0	\$6,694	\$0	\$0	\$0	\$669,018	\$0	\$669,018
\$0	\$0	\$0	\$0	\$1,166			\$0	\$124,778		\$124,778
\$0	\$0	\$0		\$2,512			\$0	\$70,789		\$70,789
\$31	\$108	\$400	\$66	\$10,327	\$27,713		\$121	\$744,728	-\$24,412	\$720,316
\$0	\$0	\$0	\$0	\$314			\$0	\$42,274		\$42,274
\$31	\$108	\$400	\$66	\$14,319	\$27,713	\$0	\$121	\$982,569	-\$24,412	\$958,157

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, 2017
(Continued)

	Public Housing (including Capital Fund)	PIH Family Self- Sufficiency Program	State/Local	Business Activities	Merrill Road Associates (DPCU)	Rural Rental Assistance Payments	Section 8 Moderate Rehab Single Room Occupancy
CFDA Number	14.850/14.872	14.896				10.427	14.249
96110 Property Insurance	\$24,045	\$0	\$8,078	\$5,085	\$6,150	\$7,054	\$0
96120 Liability Insurance	\$5,517	\$0	\$2,546	\$53		\$1,674	\$74
96130 Workmen's Compensation	\$35,958	\$0	\$10,370	\$13,854	\$3,214	\$12,392	\$32
96140 All Other Insurance	\$0	\$0	\$821	\$0		\$13,023	\$0
96100 Total insurance Premiums	\$65,520	\$0	\$21,815	\$18,992	\$9,364	\$34,143	\$106
96200 Other General Expenses	\$1,766	\$0	\$0	\$3,900	\$19,670	\$0	\$0
96210 Compensated Absences	\$61,182	-\$2,737	\$13,954	-\$121,402	\$5,143	\$17,700	\$426
96300 Payments in Lieu of Taxes	\$122,066	\$0	\$0	\$0		\$0	\$0
96400 Bad debt - Tenant Rents	-\$2,151	\$0	\$0	\$0	\$3,244	\$0	\$0
96000 Total Other General Expenses	\$182,863	-\$2,737	\$13,954	-\$117,502	\$28,057	\$17,700	\$426
96710 Interest of Mortgage (or Bonds) Payable		\$0	\$0	\$25,438		\$831	\$0
96720 Interest on Notes Payable (Short and Long Term)	\$0	\$0	\$0	\$0	\$65,157	\$0	\$0
96700 Total Interest Expense and Amortization Cost	\$0	\$0	\$0	\$25,438	\$65,157	\$831	\$0
96900 Total Operating Expenses	\$1,715,102	\$168,848	\$1,186,087	\$1,751,769	\$254,698	\$508,330	\$4,908
97000 Excess of Operating Rev over Operating Exp	\$823,807	-\$45,255	\$225,433	\$465,902	-\$23,314	\$185,936	\$96,027
97100 Extraordinary Maintenance		\$0	\$241,676	\$0		\$5,033	\$0
97300 Housing Assistance Payments		\$0	\$0	\$0		\$0	\$85,604
97350 HAP Portability-In		\$0	\$0	\$0		\$0	\$0
97400 Depreciation Expense	\$270,991	\$0	\$0	\$146,198	\$109,845	\$40,199	\$0
97500 Fraud Losses		\$0	\$0	\$0		\$0	\$0
97800 Dwelling Units Rent Expense		\$0	\$0	\$0		\$0	\$0
90000 Total Expenses	\$1,986,093	\$168,848	\$1,427,763	\$1,897,967	\$364,543	\$553,562	\$90,512
10010 Operating Transfer In	\$364,393	\$0	\$0	\$69,488		\$0	\$0
10020 Operating transfer Out	-\$364,393	\$0	-\$5,345	-\$69,488		\$0	\$0
10100 Total Other financing Sources (Uses)	\$0	\$0	-\$5,345	\$0	\$0	\$0	\$0
10000 Excess of Total Rev Over (Under) Total Expenses	\$552,816	-\$45,255	-\$21,588	\$319,704	-\$133,159	\$140,704	\$10,423
11020 Required Annual Debt Principal Payments	\$0	\$0	\$0	\$174,462	\$0	\$29,170	\$0
11030 Beginning Equity	\$11,025,150	\$1,475	\$387,786	\$5,411,154	-\$265,111	\$1,602,356	\$52,451
11040 Prior Period Adjustments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11170 Administrative Fee Equity							
11180 Housing Assistance Payments Equity							
11190 Unit Months Available	2727	0	0	12	180	816	132
11210 Number of Unit Months Leased	2718	0	0	12	177	816	131
11270 Excess Cash	\$6,221,213						

HOME Investment Partnerships Program	Shelter Plus Care	Mainstream Vouchers	Community Development Block Grants	Supportive Housing Program	Housing Choice Vouchers	Community Development Block Grants/State's Program	Section 8 Moderate Rehab	Subtotal	Eliminations	Total
14,239	14,238	14,879	14,218	14,235	14,871	14,228	14,856			
\$0	\$0	\$0	\$0	\$691			\$0	\$51,103		\$51,103
\$0	\$0	\$677	\$0	\$165	\$31,065		\$274	\$42,045		\$42,045
\$39	\$22	\$454	\$97	\$617	\$29,048		\$134	\$106,231	-\$13,445	\$92,786
\$0	\$0	\$0	\$0	\$0			\$0	\$13,844		\$13,844
\$39	\$22	\$1,131	\$97	\$1,473	\$60,113	\$0	\$408	\$213,223	-\$13,445	\$199,778
\$0	\$0	\$1,083	\$0	\$0	\$20,409		\$0	\$46,828		\$46,828
\$763	\$234	\$5,386	\$1,236	\$1,202	\$344,844		\$1,624	\$329,555	\$120,823	\$450,378
\$0	\$0	\$0	\$0	\$0			\$0	\$122,066		\$122,066
\$0	\$0	\$0	\$0	\$0			\$0	\$1,093		\$1,093
\$763	\$234	\$6,469	\$1,236	\$1,202	\$365,253	\$0	\$1,624	\$499,542	\$120,823	\$620,365
\$0	\$0	\$0	\$0	\$6,300			\$0	\$32,569		\$32,569
\$0	\$0	\$0	\$0	\$0			\$0	\$65,157		\$65,157
\$0	\$0	\$0	\$0	\$6,300	\$0	\$0	\$0	\$97,726	\$0	\$97,726
\$47,956	\$13,358	\$62,847	\$14,612	\$65,823	\$4,035,302	\$19,575	\$18,755	\$9,867,970	-\$1,804,231	\$8,063,739
-\$5,147	\$457,104	\$1,233,088	-\$3,660	\$4,139	\$57,748,307	\$0	\$463,451	\$61,625,818	-\$8,764	\$61,617,054
\$0	\$0	\$0	\$0	\$0			\$0	\$246,709		\$246,709
\$0	\$456,995	\$1,153,899	\$0	\$0	\$56,851,837		\$423,759	\$58,972,094	-\$8,764	\$58,963,330
\$0	\$0	\$0	\$0	\$0	\$43,474		\$0	\$43,474		\$43,474
\$0	\$0	\$0	\$0	\$15,449			\$0	\$582,682		\$582,682
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$0	\$0	\$0	\$0	\$0			\$0	\$0		\$0
\$47,956	\$470,353	\$1,216,746	\$14,612	\$81,272	\$60,930,613	\$19,575	\$442,514	\$69,712,929	-\$1,812,995	\$67,899,934
\$5,345	\$0	\$0	\$0	\$0			\$0	\$439,226	-\$439,226	\$0
\$0	\$0	\$0	\$0				\$0	-\$439,226	\$439,226	\$0
\$5,345	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$198	\$109	\$79,189	-\$3,660	-\$11,310	\$852,996	\$0	\$39,692	\$1,780,859	\$0	\$1,780,859
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$203,632		\$203,632
-\$62	-\$13,567	\$238,929	\$13,900	\$208,090	-\$1,947,398	\$0	\$514,493	\$17,229,646		\$17,229,646
\$0	\$0	\$0	\$0	\$0	\$0		\$0	\$0		\$0
					-\$1,631,942		\$0	-\$1,631,942		-\$1,631,942
					\$537,540		\$0	\$537,540		\$537,540
0	496	1200	0	72	56954		492	63081		63081
0	496	1059	0	71	52068		484	58032		58032
							\$0	\$6,221,213		\$6,221,213

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

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATEMENT OF COMPLETED CAPITAL FUND PROGRAM PROJECTS
ANNUAL CONTRIBUTIONS CONTRACT SF-1621
JUNE 30, 2017**

CA39P07250116

Funds approved	\$ 364,393
Funds expended	<u>364,393</u>
Excess of funds approved	<u>\$ -</u>
Funds advanced	\$ 364,393
Funds expended	<u>364,393</u>
Excess of funds advanced	<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, 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 and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority of the County of Santa Cruz, California's basic financial statements and have issued our report thereon dated February 1, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script, reading "Harm & Dolan".

February 1, 2018

Harn & Dolan
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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, 2017. 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, 2017.

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.



February 1, 2018

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

The previous audit report for the year ended June 30, 2016 contained no audit findings.

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

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	\$1,930,782
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
Any audit findings disclosed that are required to be reported in accordance With Uniform Guidance part 200.516?	no
Internal control over major programs:	
Significant deficiencies identified?	no
Significant deficiencies identified also considered to be material weaknesses?	none reported
Any known questioned costs	no
Were prior audit findings related to direct funding shown in the Summary of Prior Audit Findings	no

Section II - Financial Statement Findings

none

Section III - Federal Award Findings

none

**HOUSING AUTHORITY OF THE
COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM
ENTERPRISE FUND
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
(Including Auditors' Report Thereon)**

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM
ENTERPRISE FUND
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Migrant Farm Labor Housing Program Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Migrant Farm Labor Housing Program Enterprise Fund of the Housing Authority of the County of Santa Cruz, California as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements present only the Migrant Farm Labor Housing Program Enterprise Fund and do not purport to, and do not present fairly the financial position of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2017, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Migrant Farm Labor Housing Program Enterprise Fund of the Housing Authority of the County of Santa Cruz, California. The accompanying Analysis of Tenant Receipts and Statement of Rehabilitation Costs Incurred are presented for the purpose of additional analysis and are not a required part of the financial statements of the Migrant Farm Labor Housing Program Enterprise Fund of the Housing Authority of the County of Santa Cruz, California.

The Analysis of Tenant Receipts and Statement of Rehabilitation Costs Incurred are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2018, on our consideration of the Housing Authority of the County of Santa Cruz, California's

internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Harn & Dolan

February 1, 2018

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS

Current assets:

Unrestricted cash (Note 2)	\$ 23,155
Tenant account receivable	12
Due from HCD - Contract #15-OMS-10554	164,046
Prepaid expenses	<u>5,787</u>
Total current assets	193,000

Restricted assets:

Restricted cash (Note 3)	<u>48,493</u>
Total assets	<u>241,493</u>

DEFERRED OUTFLOWS

Pension plans (Note 1D)	<u>23,498</u>
-------------------------	---------------

LIABILITIES

Current liabilities:

Accounts payable - vendors	69,635
Due to HCD - program receipts	41,575
Due to other funds	61,457
Accrued liabilities - salaries	2,161
Compensated absences - current portion	-
Tenant prepaid rent	<u>1,879</u>
Total current liabilities	176,707

Payable from restricted cash:

Tenant security deposits	10,300
--------------------------	--------

Noncurrent liabilities

Compensated absences - noncurrent portion	5,979
Net pension liability	<u>21,240</u>
Total liabilities	<u>214,226</u>

DEFERRED INFLOWS

Pension plans (Note 1D)	<u>(1,782)</u>
-------------------------	----------------

NET POSITION

Net Position (Note 4):

Restricted for operations	47,581
Unrestricted	<u>4,966</u>
Total net position	<u>\$ 52,547</u>

The accompanying independent auditors' report and notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenue:

Dwelling rent	\$ <u> -</u>
Total operating revenue	<u> -</u>

Operating expenses:

Center personnel	90,471
Operations	261,659
Maintenance	22,662
Administration	<u>57,222</u>
Total operating expenses	<u>432,014</u>

Operating loss	(432,014)
----------------	-----------

Nonoperating revenue (expenses):

Grants from HCD	622,099
Other income - restricted	14,439
Interest - restricted	(11)
Rehabilitation expenditures	<u>(239,547)</u>

Change in net position	(35,034)
------------------------	----------

Net position, beginning of year	<u>87,581</u>
---------------------------------	---------------

Net position, end of year	<u>\$ 52,547</u>
---------------------------	------------------

The accompanying independent auditors' report and notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

Cash flows from operating activities:	
Dwelling rental receipts - to be returned to HCD	\$ 242,301
Other receipts - to be returned to HCD	26,586
Receipts returned to HCD	(301,185)
Center personnel expenditures	(98,521)
Operating expenditures	(233,157)
Maintenance expenditures	(22,662)
Administration expenditures	<u>(1,500)</u>
Net cash used by operating activities	<u>(388,138)</u>
Cash flows from noncapital financing activities:	
Operating grants received	663,131
Other restricted receipts	14,439
Interfund transactions	(29,873)
Interest received on restricted accounts	16
Interest returned to HCD	(27)
Rehabilitation expenditures	<u>(294,337)</u>
Net cash provided by noncapital financing activities	<u>353,349</u>
Net decrease to cash	(34,789)
Cash at the beginning of the year	<u>106,437</u>
Cash at the end of the year	<u>\$ 71,648</u>
Cash	\$ 23,155
Restricted cash	<u>48,493</u>
Total	<u>\$ 71,648</u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (432,014)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Interfund transactions	55,722
Changes in assets and liabilities	
Tenants accounts receivable (increase)	(4)
Prepaid expenses (increase)	(129)
Accounts payable - vendors (increase due to operations)	28,631
Due to HCD - program receipts (decrease)	(33,466)
Accrued liabilities - salaries (decrease)	(4,016)
Compensated absences (increase)	536
Tenant prepaid rent (increase)	1,172
Net pension liability (increase)	25,172
Deferred outflows/inflows (net change)	<u>(29,742)</u>
Net cash used by operating activities	<u>\$ (388,138)</u>

The accompanying independent auditors' report and notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements include only the accounts and transactions of the Housing Authority of the County of Santa Cruz's (the Authority) Migrant Farm Labor Housing Program Enterprise Fund. The financial statements are not intended to present financial position of the Authority and results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. The Authority uses the Migrant Farm Labor Housing Program Enterprise Fund to account for grants it receives from the California Department of Housing and Community Development (HCD). The grants provide funds to operate and rehabilitate a farm labor housing center in Watsonville, California. Generally, the housing center is occupied for six months of each year. These grants require that only individuals and families that meet various income, age, and employment standards be aided.

B. Accounting Method

The Authority administers the Migrant Farm Labor Housing Program in an Enterprise Fund. This fund is 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.

In accordance with grant agreements with HCD, generally all rents and other charges collected from tenants are payable to HCD. Accordingly, most tenant collections are recorded immediately as a payable to HCD. Interest earned on HCD grants is recorded immediately as a payable to HCD. Rents and other tenant charges and interest earned on HCD funds are not included in revenue.

C. Fixed Assets

The housing units of the Buena Vista Migrant Center are located on land owned by the County of Santa Cruz in Watsonville, California. The buildings, improvements and equipment of the program were purchased with program funds and remain the property of HCD.

D. Deferred Outflows/Inflows of Resources

In addition to asset and liabilities, the Statement of Financial Position will include a separate section for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements represent a consumption/acquisition of net position that applies to a future period and so will not be recognized as an outflow/inflow of resources (expense/revenue) until then.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

(Continued)

Note 1 (continued)

The Authority's deferred outflows consist of payments made on behalf of employees to the defined benefit pension plan after the measurement date of the actuarial report. The deferred inflows consist of items associated with, and referred to, in the actuarial report of the defined benefit pension plan.

E. Net Position

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

F. Cost Allocation

The Authority manages various State and Federal housing programs. The portion of administrative costs charged to the Migrant Farm Labor Housing Program Enterprise Fund is based on direct salaries charged to all of the programs administered by the Authority.

G. Interfund Transactions

The Migrant Farm Labor Housing Enterprise Fund had outstanding interfund debt owed to the Authority's Business Enterprise Fund of \$61,457, as of June 30, 2017. The Buena Vista Migrant Center was charged \$55,722 in management fees. These fees were reported as expenses of the Migrant Center and as revenue of the Authority's Business Enterprise Fund.

H. Pension plans

All eligible Authority employees participate in the California Public Employees Retirement System (PERS), an agent multi-employer public employee defined benefit pension plan. Please refer to the Basic Financial Statements for the Authority as a whole for more detail. This report can be obtained by contacting the Authority at 2931 Mission Street, Santa Cruz, California 95060, (831) 454-5908.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

(Continued)

Note 2 - CASH AND INVESTMENTS

The majority of the cash and investments are held in a commercial checking account and business savings accounts with Santa Cruz County Bank in the name of the Housing Authority of the County of Santa Cruz. The Housing Authority of the County of Santa Cruz executed a "General Depository Agreement" with Santa Cruz County Bank on October 30, 2013. 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." Further, California Government Code requires California banks and savings and loan associations to secure the Authority's deposits not covered by federal deposit insurance by pledging mortgages or government securities as collateral. The market value of mortgages must equal at least 150% of the face value of deposits. The market value of government securities must equal at least 110% of the face value of deposits. Such collateral must be held in the pledging bank's trust department in a separate depository in an account for the Authority.

Note 3 - RESTRICTED CASH

The restricted cash consists of the following:

Tenant security deposits	\$ 10,300
Amounts restricted for future operations at the Buena Vista Center	<u>38,193</u>
Total	<u>\$ 48,493</u>

The funds held for future operations at the Buena Vista Center are in two business savings accounts earning 0.05% interest. The other restricted cash is commingled with other Authority cash in a commercial checking account as discussed in the prior note.

Note 4 - NET POSITION

Restricted Net Position

Reserves of net position show amounts that are not appropriate for expenditure or are legally restricted for specific uses. This includes PG&E care credits which lower the amount of utility costs at the center as well as funds received from HCD which must be used for operations in the coming fiscal year as per HCD regulations. The restricted net position for operations is as follows:

Buena Vista Center care credit receipts	\$ 8,161
Buena Vista Center operating reserves	<u>39,420</u>
	<u>\$ 47,581</u>

SUPPLEMENTAL DATA

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM
ENTERPRISE FUND
ANALYSIS OF TENANT RECEIPTS
JUNE 30, 2017**

July 1, 2016 through June 30, 2017

<u>Program Receipts</u>		<u>Program Receipts Disbursed to HCD</u>	
	<u>Buena Vista</u>		<u>Buena Vista</u>
Rents	\$ 241,133	09/30/2016	\$ 75,041
Other	26,586	10/28/2016	122,872
Total	<u>\$ 267,719</u>	11/09/2016	39,141
		12/06/2016	28,792
		06/14/2017	<u>35,366</u>
		Total	<u>\$ 301,212</u>

Buena Vista #15-OMS-10554:

Amount due HCD - July 1, 2016	\$ 75,041
Program receipts	267,719
Interest earned in a prior period	27
Amounts remitted to HCD	<u>(301,212)</u>
Amount due HCD - June 30, 2017	<u>\$ 41,575</u>

The accompanying independent auditors' report and notes are an integral part of this schedule.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM
ENTERPRISE FUND
STATEMENT OF REHABILITATION COSTS INCURRED
JUNE 30, 2017**

	Prior to June 30, 2016	For the Year Ended June 30, 2017	Total as of June 30, 2017
#15-OMS-10636			
Funds advanced	\$ 573,983	\$ 203,705	\$ 777,688
Funds matched by the Authority	-	20,869	20,869
Funds expended	<u>(574,017)</u>	<u>(224,540)</u>	<u>(798,557)</u>
Excess of funds (expended) advanced	\$ <u>(34)</u>	\$ <u>34</u>	\$ <u>-</u>

The accompanying independent auditors' report and notes are an integral part of this schedule.

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 Migrant Farm Labor Housing Program Enterprise Fund of the Housing Authority of the County of Santa Cruz, California's financial statements as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the County of Santa Cruz, California's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the County of Santa Cruz, 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 combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

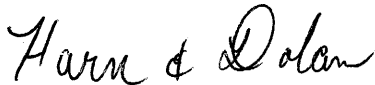
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Harn & Dolan".

February 1, 2018

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
MIGRANT FARM LABOR HOUSING PROGRAM
ENTERPRISE FUND
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

The previous audit report for the year ended June 30, 2016, contained no audit findings.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017
(Including Auditors' Report Thereon)**

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, HCD contract number 99-FMTW-009, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency (HCD/CalHFA)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Brommer Street Transitional Housing Enterprise Fund and do not purport to, and do not present fairly the financial position of the Housing Authority of the County of Santa Cruz, California, as of June 30, 2017 and 2016, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State of America. Our opinion was not modified with respect to this matter.

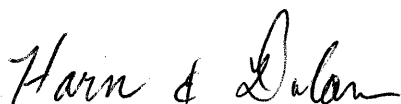
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, California, taken as a whole. The accompanying supplemental information on pages 16-18, as required by HCD, is presented for the purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting

In accordance with *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency (HCD/CalHFA)*, we have also issued a report dated February 1, 2018, on our consideration of the Housing Authority of the County of Santa Cruz, California's internal control over financial reporting as it relates to the Brommer Street Transitional Housing Enterprise Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development and the California Housing Finance Agency (HCD/CalHFA)*, in considering the Authority's internal control over financial reporting and compliance.



February 1, 2018

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

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash (Note 2)	\$ 26,158	\$ 12,948
Due from HUD	8,576	15,989
Tenant accounts receivable	2	-
Prepaid expenses	<u>434</u>	<u>423</u>
Total current assets	<u>35,170</u>	<u>29,360</u>
Restricted assets:		
Restricted cash (Note 2)	<u>91,659</u>	<u>89,335</u>
Capital assets (Note 3):		
Land	289,000	289,000
Site improvements and buildings (net of accumulated depreciation of \$421,989 and \$406,540)	<u>92,565</u>	<u>108,014</u>
Total capital assets	<u>381,565</u>	<u>397,014</u>
Total assets	<u>508,394</u>	<u>515,709</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan (Note 1.N.)	<u>3,969</u>	<u>1,348</u>

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

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 6,570	\$ 7,600
Accrued salaries and related costs	200	499
Current portion of compensated absences	71	229
Prepaid rent	<u>-</u>	<u>506</u>
Total current liabilities	6,841	8,834
Payable from restricted assets:		
Tenant security deposits	1,850	2,058
Noncurrent liabilities:		
Long-term portion of compensated absences	1,472	886
Net pension liability (Note 1.N.)	11,582	7,786
Long-term debt (Note 4)	210,000	210,000
Deferred interest on long-term debt (Note 4)	<u>82,197</u>	<u>75,897</u>
Total liabilities	<u>313,942</u>	<u>305,461</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan (Note 1.N.)	<u>1,641</u>	<u>3,506</u>
<u>NET POSITION</u>		
Net investment in capital assets (Note 5.A.)	89,368	111,117
Restricted (Note 5.B.)	89,809	87,277
Unrestricted	<u>17,603</u>	<u>9,696</u>
Total net position	<u>\$ 196,780</u>	<u>\$ 208,090</u>

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

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

	<u>2017</u>	<u>2016</u>
Operating revenue:		
Rent	\$ 17,694	\$ 13,733
Other	<u>1,608</u>	<u>6,913</u>
Total operating revenue	<u>19,302</u>	<u>20,646</u>
Operating expenses:		
Administrative	10,983	10,029
Tenant services	23,334	23,334
Utilities	6,694	7,287
Maintenance	14,005	18,556
Taxes and insurance	4,506	3,839
Depreciation (Note 3)	<u>15,449</u>	<u>15,449</u>
Total operating expenses	<u>74,971</u>	<u>78,494</u>
Operating income (loss)	(55,669)	(57,848)
Nonoperating revenue (expenses):		
Grants	50,501	55,286
Interest on operating accounts	26	15
Interest on restricted funds	132	129
Other non-operating expenses		
Non-capitalized dwelling improvements	-	(2,429)
Interest expense (Note 4)	<u>(6,300)</u>	<u>(6,300)</u>
Net income (loss) before transfers	(11,310)	(11,147)
Transfers	<u>-</u>	<u>-</u>
Change in net position	(11,310)	(11,147)
Net position - beginning of year	<u>208,090</u>	<u>219,237</u>
Net position - end of year	<u>\$ 196,780</u>	<u>\$ 208,090</u>

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

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Tenant receipts	\$ 16,978	\$ 13,723
Other receipts	1,608	6,798
Payroll and benefit expenditures	(12,282)	(12,942)
Administrative expenditures	(3,461)	(3,104)
Tenant services expenditures	(23,334)	(23,334)
Utility expenditures	(6,694)	(7,287)
Maintenance expenditures	(13,869)	(16,582)
Insurance expenditures	<u>(1,484)</u>	<u>(1,374)</u>
Net cash used by operating activities	<u>(42,538)</u>	<u>(44,102)</u>
Cash flows from noncapital financing activities:		
Operating grants received	57,914	52,446
Extra-ordinary maintenance expenditures	<u>-</u>	<u>(2,429)</u>
Net cash provided by noncapital financing activities	<u>57,914</u>	<u>50,017</u>
Cash flows from financing activities:		
Principal paid on debt	-	-
Interest paid on debt	<u>-</u>	<u>-</u>
Net cash used by capital financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on operating cash	26	15
Interest on restricted cash	<u>132</u>	<u>129</u>
Net cash provided by investing activities	<u>158</u>	<u>144</u>
Net change in cash	15,534	6,059
Cash at beginning of year	<u>102,283</u>	<u>96,224</u>
Cash at end of year	<u><u>\$ 117,817</u></u>	<u><u>\$ 102,283</u></u>
Cash	\$ 26,158	\$ 12,948
Restricted cash	<u>91,659</u>	<u>89,335</u>
Cash at end of year	<u><u>\$ 117,817</u></u>	<u><u>\$ 102,283</u></u>

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

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (55,669)	\$ (57,848)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	15,449	15,449
(Increase) decrease in:		
Tenant accounts receivable	(2)	-
Prepaid expenses	(11)	8
Increase (decrease) in:		
Accounts payable - vendors	(1,030)	301
Accrued payroll	(299)	20
Compensated absences	428	(9)
Tenant security deposits	(208)	412
Prepaid rent	(506)	(537)
Net pension liability	3,796	(2,994)
Net deferred outflows/inflows	<u>(4,486)</u>	<u>1,096</u>
Net cash used by operating activities	<u>\$ (42,538)</u>	<u>\$ (44,102)</u>

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Information

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

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

B. Basis of Presentation

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

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

C. Measurement Focus/Basis of Accounting

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

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

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

D. Estimates

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

E. Cash and Cash Equivalents

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

F. Interfund Activity

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

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

G. Capital Assets

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

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

H. Deferred Outflows/Inflows of Resources

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

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

I. Net Position

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

J. Operating Revenue and Expenses

Proprietary funds distinguish *operating* revenue and *operating* expenses from *nonoperating* items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For this program, these revenues are typically rental charges. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Operating expenses include payroll, benefits, utilities, maintenance costs, and depreciation. All revenue and expenses not meeting these definitions are reported as nonoperating.

K. Income Taxes

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

L. Encumbrances

Encumbrance accounting is not employed by the Authority.

M. Regulatory Agreement

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

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 1 (continued)

N. PENSION PLAN

The Authority participates in a cost-sharing multi-employer defined benefit retirement plan that is administered by CalPERS. Contributions to CalPERS are made on a current basis as required by the plan and are charged to expenditures. The Authority used actuarial reports supplied by CalPERS for the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to the plan. The valuation date of the latest actuarial report was June 30, 2016. For further information, please refer to the Authority-wide audit report for the fiscal year ended June 30, 2017, which can be obtained by contacting the Finance Director of the Housing Authority of the County of Santa Cruz at 2931 Mission Street, Santa Cruz, California 95060.

Note 2 - CASH AND RESTRICTED CASH

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

Restricted cash consists of the following:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Security deposits	\$ 1,850	\$ 2,058
Replacement reserves (see also Note 5.B.)	<u>89,809</u>	<u>87,277</u>
	<u>\$ 91,659</u>	<u>\$ 89,335</u>

HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

(Continued)

Note 3 - CAPITAL ASSETS

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

The following is a summary of the Brommer Street Transitional Housing project's changes in capital assets and changes in depreciation for the fiscal year ended June 30, 2017:

	Historical Cost			Accumulated Depreciation			Net
	Balance 6/30/16	Changes	Balance 6/30/17	Balance 6/30/16	Changes	Balance 6/30/17	
Land	\$ 289,000	\$ -	\$ 289,000	\$ -	\$ -	\$ -	\$ 289,000
Site improv.	42,555	-	42,555	(39,829)	(2,726)	(42,555)	-
Buildings	471,999	-	471,999	(366,711)	(12,723)	(379,434)	92,565
Total	<u>\$ 803,554</u>	<u>\$ -</u>	<u>\$ 803,554</u>	<u>\$ (406,540)</u>	<u>\$ (15,449)</u>	<u>\$ (421,989)</u>	<u>\$ 381,565</u>

Note 4 - LONG-TERM DEBT

The following is a summary of the changes in long-term debt, and interest on the debt, for the fiscal year ended June 30, 2017:

	Balance 6/30/16	Additions	Payments	Balance 6/30/17	Short-term Portion
HCD - principal	\$ 210,000	\$ -	\$ -	\$ 210,000	\$ -
HCD - Interest	\$ 75,897	\$ 6,300	\$ -	\$ 82,197	\$ -

On October 31, 2001, the Authority entered into an agreement with the State of California, Department of Housing and Community Development (HCD) to borrow \$210,000 for the purpose of modernization on property owned by the Authority known as Brommer Street Transitional Housing. The note earns simple interest at a rate of 3% per annum, is due November 30, 2056, and requires annual payments only to the extent that the project has net cash flows as determined by the Regulatory Agreement. The Authority incurred \$6,300 in interest expense on this loan during each of the fiscal years ended June 30, 2017 and 2016. No payments have been made on this loan over the past two years. No principal payments on this note are expected over the next five years.

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

(Continued)

Note 5 - NET POSITION

A. Net Investment in Capital Assets

Net investment in capital assets, consists of the following:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Capital assets, net of depreciation (See also Note 3)	\$ 381,565	\$ 397,014
Long term debt (See also Note 4)	(210,000)	(210,000)
Interest payable on long-term debt (See also Note 4)	<u>(82,197)</u>	<u>(75,897)</u>
Net investment in capital assets	<u>\$ 89,368</u>	<u>\$ 111,117</u>

B. Restricted Net Position

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The project's restricted net position consists of replacement reserves required to be maintained by the regulatory agreement.

The activity for the past two years was as follows:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Beginning balance - July 1,	\$ 87,277	\$ 84,748
Increases to reserves:		
• Regular annual contribution	2,400	2,400
• Interest earned on account	132	129
Decreases to reserves:		
	<u>-</u>	<u>-</u>
Ending balance - June 30,	<u>\$ 89,809</u>	<u>\$ 87,277</u>

As of June 30, 2017 and 2016, funds were on deposit with Santa Cruz County Bank earning 0.15% interest per annum. Restricted net position is fully funded. These reserves can not be used without the prior written approval of HCD.

SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
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SUPPLEMENTARY INFORMATION REQUIRED BY HCD**

Schedule of Operating Revenue for the year ended

		<u>6/30/2017</u>	<u>6/30/2016</u>
5120	Rent Revenue	\$ 17,694	\$ 13,733
5390	HUD grant revenue	50,501	55,286
5410	Interest on project operations	26	15
5440	Interest on replacement reserves	132	129
5910	Laundry and vending	593	891
5920	Tenant charges - damages & cleaning fees	1,015	5,907
5990	Miscellaneous - recovery of collection loss	-	115
5000T	Total Revenue	<u>\$ 69,961</u>	<u>\$ 76,076</u>

Schedule of Operating Expenses for the year ended

		<u>6/30/2017</u>	<u>6/30/2016</u>
6210	Advertising and marketing	\$ 32	\$ 12
6310	Office salaries	2,311	2,080
6311	Office expense	22	22
6312	Office rent	664	629
6330	Manager salaries	6,413	5,813
6340	Legal expense	27	368
6350	Audit expense	83	78
6390	Miscellaneous administration	1,431	1,027
6263T	Total Administrative Expenses	<u>10,983</u>	<u>10,029</u>
6450	Electricity	788	873
6451	Water	2,060	2,659
6452	Gas	90	96
6453	Sewer	3,756	3,659
6400T	Total Utility Expenses	<u>6,694</u>	<u>7,287</u>
6510	Payroll	1,166	1,673
6515	Supplies - general	2,512	2,041
6520	Contracts	6,742	11,914
6525	Garbage removal	3,585	2,928
6500T	Total Operating and Maintenance Expenses	<u>14,005</u>	<u>18,556</u>
6720	Property and liability insurance	856	853
6722	Worker's compensation	617	528
6723	Health insurance and other benefits	3,033	2,458
6700T	Total Taxes and Insurance Expenses	<u>4,506</u>	<u>3,839</u>
6990	Other service expenses	23,334	23,334
6000T	Total Operating Expenses	<u>\$ 59,522</u>	<u>\$ 63,045</u>

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
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SUPPLEMENTARY INFORMATION REQUIRED BY HCD
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

Reconciliation of Previous Schedules to Changes in Net Position

5000T	Total revenue	\$ 69,961
6000T	Total cost of operations	<u>(59,522)</u>
5060	Operating income before depreciation	10,439
6600	Depreciation	(15,449)
6830	Interest on notes payable (long-term)	<u>(6,300)</u>
3250	Change in net position (page 5)	<u>\$ (11,310)</u>

Surplus Cash Computation and the Distribution of Surplus Cash

5000T	Total revenue	\$ 69,961
6000T	Total cost of operations	<u>(59,522)</u>
5060	Operating income before depreciation	10,439
	Adjustments:	
5440	Interest earned on restricted deposits	<u>(132)</u>
	Adjusted operating income	10,307
	Other activity:	
	Replacement reserve deposits	(2,400)
	Replacement reserve withdrawn and expensed	<u>-</u>
	Operating cash flow/surplus cash	<u>\$ 7,907</u>

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

8% gross rental income (\$19,302)	\$ 1,544
or \$50 per unit per month (6 units)	\$ 3,600

Surplus cash - borrower distribution	\$ 1,544
Surplus cash - repayment of interest on HCD loan	<u>6,363</u>
Distribution of surplus cash for the year ended June 30, 2017	<u>\$ 7,907</u>

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JUNE 30, 2017
(Continued)**

Cash on Hand and in Banks

See Note 2

Property and Equipment

See Note 3

Debt Service

See Note 4

Replacement Reserve Account

See Note 5.B.

Taxes

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

Tenant Security Deposits

Tenant security deposits were fully funded as of June 30, 2017. The account does not earn interest. See also Note 2.

Accounts Payable and Accrued Expenses

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

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States of America, the financial statements of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, as of and for the year ended June 30, 2017, and the related notes to the financial statements, that comprise this Fund's financial statements, and have issued our report thereon dated February 1, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

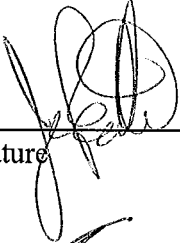

A handwritten signature in black ink, appearing to read "Harn & Dolan", with a stylized flourish at the end.

February 1, 2018

**HOUSING AUTHORITY OF THE COUNTY OF SANTA CRUZ
BROMMER STREET TRANSITIONAL HOUSING ENTERPRISE FUND
CONTRACT NO. 99-FMTW-009
JUNE 30, 2017**

AUTHORITY'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements, notes, and supplemental information of the Brommer Street Transitional Housing Enterprise Fund of the Housing Authority of the County of Santa Cruz, as of and for the years ended June 30, 2017 and 2016, and to the best of our knowledge and belief, these financial statements, notes, and supplementary information are complete and accurate.

 _____ Signature	Executive Director _____ Title	2/20/18 _____ Date
 _____ Signature	Finance Director _____ Title	2/20/18 _____ Date