

**PERRIS**  
**HOUSING AUTHORITY**  
**FINANCIAL STATEMENTS**  
Year Ended June 30, 2017

**Perris Housing Authority**  
**Financial Statements**  
Year Ended June 30, 2017

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Perris Housing Authority  
Perris, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Perris Housing Authority (the "Authority"), a component unit of the City of Perris, 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 misstatement, 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 from 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 judgment, including the assessment of the risks of material misstatement of the financial statement, 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Perris Housing Authority, as of June 30, 2017, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted presented *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2017, on our consideration of the City of Perris'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.

*Teaman Ramirez & Smith, Llc.*

Riverside, California  
December 29, 2017

**Perris Housing Authority**  
**Statement of Net Position**  
June 30, 2017

**ASSETS**

Current Assets:

|                             |                |
|-----------------------------|----------------|
| Cash and Cash Equivalents   | \$ 624,235     |
| Interest Receivable         | 1,387          |
| Due from Other Governments  | 569,333        |
| Loans Receivable            | 4,774,790      |
| Land, Not Being Depreciated | <u>500,902</u> |

|              |                  |
|--------------|------------------|
| Total Assets | <u>6,470,647</u> |
|--------------|------------------|

**LIABILITIES**

Current Liabilities:

|  |               |
|--|---------------|
| Accounts Payable and Accrued Liabilities       | 4,465         |
| Compensated Absences Payable - Current Portion | <u>23,481</u> |

|                           |               |
|---------------------------|---------------|
| Total Current Liabilities | <u>27,946</u> |
|---------------------------|---------------|

Noncurrent Liabilities:

|                              |               |
|------------------------------|---------------|
| Compensated Absences Payable | <u>93,925</u> |
|------------------------------|---------------|

|                              |               |
|------------------------------|---------------|
| Total Noncurrent Liabilities | <u>93,925</u> |
|------------------------------|---------------|

|                   |                |
|-------------------|----------------|
| Total Liabilities | <u>121,871</u> |
|-------------------|----------------|

**NET POSITION**

Net Investment in Capital Assets

Restricted for:

|                                 |                    |
|---------------------------------|--------------------|
| Homeless Prevention             | 5,757,867          |
| Rental Housing Projects for     |                    |
| Extremely Low Income Households | 5,757,867          |
| Low and Moderate Housing        | <u>(5,166,958)</u> |

|                    |                            |
|--------------------|----------------------------|
| Total Net Position | <u><u>\$ 6,348,776</u></u> |
|--------------------|----------------------------|

The accompanying notes are an integral part of this statement.

**Perris Housing Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
Year Ended June 30, 2017

**OPERATING REVENUES**

|                      |            |
|----------------------|------------|
| Charges for Services | \$ 310,471 |
|                      | 310,471    |

**OPERATING EXPENSES**

|                           |         |
|---------------------------|---------|
| Salaries Expense          | 648,341 |
| Contractual Services      | 28,384  |
| Community Sponsorships    | 64,940  |
| Loan Amortization Expense | 10,396  |
| Miscellaneous Expense     | 39,521  |
|                           | 791,582 |

|                         |           |
|-------------------------|-----------|
| Operating Income (Loss) | (481,111) |
|-------------------------|-----------|

**NON-OPERATING REVENUE (EXPENSES)**

|                                      |         |
|--------------------------------------|---------|
| Investment Earnings                  | 1,785   |
| Contributions from Other Governments | 569,333 |
|                                      | 571,118 |

|  |         |
|--|---------|
| Total Non-Operating Revenue (Expenses) | 571,118 |
|--|---------|

|                                     |        |
|-------------------------------------|--------|
| Income before Capital Contributions | 90,007 |
|-------------------------------------|--------|

**CAPITAL CONTRIBUTIONS**

|  |         |
|--|---------|
|  | 500,902 |
|--|---------|

|                        |         |
|------------------------|---------|
| Change in Net Position | 590,909 |
|------------------------|---------|

|                                 |           |
|---------------------------------|-----------|
| Net Position, Beginning of Year | 5,757,867 |
|---------------------------------|-----------|

|                           |              |
|---------------------------|--------------|
| Net Position, End of Year | \$ 6,348,776 |
|---------------------------|--------------|

The accompanying notes are an integral part of this statement.

**Perris Housing Authority**  
**Statement of Cash Flows**  
Year Ended June 30, 2017

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |                |
|--|----------------|
| Cash Received from Customers                         | \$ 1,004,182   |
| Cash Payments for Employee Services                  | (678,802)      |
| Cash Payments to Suppliers for Goods and Services    | (137,114)      |
|  | <u>188,266</u> |
| Net Cash Provided by (Used for) Operating Activities | <u>188,266</u> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|   |                |
|---|----------------|
| Advances from Other Governments                                 | 552,542        |
| Advances to Other Governments                                   | (116,971)      |
|   | <u>435,571</u> |
| Net Cash Provided by (Used for) Noncapital Financing Activities | <u>435,571</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|  |            |
|--|------------|
| Investment Earnings                                  | <u>398</u> |
| Net Cash Provided by (Used for) Investing Activities | <u>398</u> |

**Net Increase (Decrease) in Cash and Cash Equivalents**

|   |                   |
|---|-------------------|
| Cash and Cash Equivalents - Beginning of Year | <u>0</u>          |
| Cash and Cash Equivalents - End of Year       | <u>\$ 624,235</u> |

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

|   |                   |
|---|-------------------|
| Operating Income (Loss)   | \$ (481,111)      |
| Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities: |                   |
| Changes in Assets and Liabilities:  |                   |
| Loans Receivables (Increase) Decrease   | 704,107           |
| Accounts Payable and Accrued Liabilities Increase (Decrease)                                | (32,662)          |
| Compensated Absences Payable Increase (Decrease)  | (2,068)           |
|   | <u>188,266</u>    |
| Net Cash Provided by (Used for) Operating Activities  | <u>\$ 188,266</u> |

The accompanying notes are an integral part of this statement.

**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Reporting Entity**

The Perris Housing Authority (Authority), a component unit of the City of Perris, was formed on March 29, 2011 and operates as a public authority whose primary goal is to provide decent, safe and sanitary housing in a suitable living environment for families that cannot afford private housing that comply with housing quality standards.

The Authority's office and records are located at City Hall, 101 North "D" Street, Perris, California, telephone number (951) 943-6100.

The Authority is a component unit of the City of Perris and, accordingly, the financial statements of the Authority are included in the financial statements of the City of Perris. The Authority is an integral part of the reporting entity of the City of Perris. The funds of the Authority have been blended within the financial statements of the City because the City Council of the City of Perris is the governing board of the Authority and exercises control over the operations of the Authority. Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris.

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

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through fees and capital acquisition proceeds. The Authority's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business services.

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.

**C) Cash and Cash Equivalents**

In accordance with GASB Statement 9, for purposes of the Statement of Cash Flows, all cash and investments with original maturities of 90 days or less are considered cash or cash equivalents.



**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D) Investments**

As a governmental entity other than an external investment pool in accordance with GASB 31, the Authority's investments are stated at fair value except for interest-earning investment contracts.

**E) Uncollectible Accounts Receivable**

The Authority uses the allowance method for uncollectible accounts receivable but deemed no allowance is necessary.

**F) Capital Assets**

Capital assets, which include land, buildings, building improvements, machinery, vehicles, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Capital assets purchased in excess of \$5,000, and buildings and building improvements purchased in excess of \$20,000 are capitalized if they have an expected useful life of 2 years or more. Infrastructure is capitalized if cost is in excess of \$50,000 and it has an expected useful life of 2 years or more. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized.

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Donated capital assets are valued at their acquisition value rather than the estimated fair market value at the date of donation.

Capital assets used in operations are depreciated over the estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet.

The range of lives used for depreciation purposes for each capital asset call is as follows:

|                              |               |
|------------------------------|---------------|
| Buildings                    | 30 - 45 years |
| Building Improvements        | 7 - 30 years  |
| Machinery                    | 6 - 15 years  |
| Vehicles                     | 5 - 15 years  |
| Infrastructure               | 20 - 40 years |
| Structures and Improvements  | 35 - 40 years |
| Reservoirs and Manholes      | 50 - 60 years |
| Boosters                     | 25 years      |
| Other Equipment and Services | 35 - 60 years |

**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**G) Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority does not report any deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Authority does not report any deferred inflows.

**H) Net Position**

GASB No. 63 requires that the difference between assets, liabilities and deferred outflows/inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

**I) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, deferred outflows/inflows of resources, liabilities, revenues, and expenses/expenditures, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**2) CASH AND INVESTMENTS**

Cash and Investments are classified in the accompanying financial statements as follows:

|                            |            |
|----------------------------|------------|
| Statement of Net Position: |            |
| Cash and Cash Equivalents  | \$ 624,235 |

Cash and investments consist of the following:

|                                   |            |
|-----------------------------------|------------|
| City of Perris Pooled Investments | \$ 624,235 |
|-----------------------------------|------------|

**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**2) CASH AND INVESTMENTS - Continued**

**Investments Authorized by the California Government Code and the Authority's Investment Policy**

The following table identifies the investment types that are authorized by the City of Perris's investment policy. The City manages the Authority's investments in the City's investment pool. The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized<br>Investment Type       | Maximum<br>Maturity <sup>(1)</sup> | Maximum<br>Percentage<br>Of Portfolio <sup>(2)</sup> | Maximum<br>Investment<br>In One Issuer |
|-------------------------------------|------------------------------------|--|--|
| Local Agency Bonds                  | 5 years                            | 10%  | None                                   |
| U.S. Treasury Obligations           | 5 years                            | None   | None                                   |
| U.S. Agency Securities              | 5 years                            | None   | None                                   |
| Banker's Acceptances                | 180 days                           | 40% of market value                                  | 5%                                     |
| Commercial Paper                    | 270 days                           | 25% of market value                                  | 5%                                     |
| Negotiable Certificates of Deposit  | 5 years                            | 30%  | None                                   |
| Repurchase Agreements               | 92 days                            | 20%  | None                                   |
| Mutual Funds                        | N/A                                | 20%  | 10%                                    |
| Money Market Mutual Funds           | N/A                                | 20%  | 10%                                    |
| Local Agency Investment Fund (LAIF) | N/A                                | 80%  | None                                   |
| Bank/Time Deposits                  | 5 years                            | 25%  | None                                   |

<sup>(1)</sup> No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

<sup>(2)</sup> Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

<sup>(3)</sup> The City of Perris's Pooled investments are subject to same above restrictions.

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

**Disclosures Relating 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 interest rates. One of the ways that the Authority manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

|                                   |                          | Maturity<br>Date |
|-----------------------------------|--------------------------|------------------|
| Investments:                      |                          |                  |
| City of Perris Pooled Investments | \$ <u>624,235</u>        | N/A              |
| Total                             | \$ <u><u>624,235</u></u> |                  |

**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**2) CASH AND INVESTMENTS - Continued**

**Disclosures Relating to Credit Risk**

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

Presented below is the minimum rating required by (where applicable) the California Government Code, the Corporation's investment policy, or debt agreements, and the actual rating as of the year end for each investment type:

|                    |            | Minimum<br>Legal<br>Rating | Not<br>Rated | Rating as of Period Ended |          |          |            |
|--------------------|------------|----------------------------|--------------|---------------------------|----------|----------|------------|
|                    |            |                            |              | AAA                       | AA       | A        | Unrated    |
| Investments:       |            |                            |              |                           |          |          |            |
| City of Perris     |            |                            |              |                           |          |          |            |
| Pooled Investments | \$ 624,235 | N/A                        | \$ _____     | \$ _____                  | \$ _____ | \$ _____ | \$ 624,235 |
| Total              | \$ 624,235 |                            | \$ 0         | \$ 0                      | \$ 0     | \$ 0     | \$ 624,235 |

**Concentration of Credit Risk**

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Government Code.

**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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, no deposits of the Authority with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**3) FAIR VALUE MEASUREMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with Level 1 given the highest priority and Level 3 the lowest priority. The three levels of the fair value hierarchy are as follows:

*Level 1* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date.

*Level 2* inputs are inputs other than quoted prices included within *Level 1* that are observable for the asset or liability, either directly or indirectly. *Level 2* inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

*Level 3* inputs are unobservable inputs for the asset or liability.

Fair value of assets measured on a recurring basis at June 30, 2017, are as follows:

|                                   | Fair Value | Uncategorized |
|-----------------------------------|------------|---------------|
| Investments:                      |            |               |
| City of Perris Pooled Investments | \$ 624,235 | \$ 624,235    |
| Total Investments                 | \$ 624,235 | \$ 624,235    |

The above investments are uncategorized under the fair value hierarchy. The City of Perris Pooled Investments is exempt under GASB No. 72 fair value measurements.

**4) LOANS RECEIVABLE**

The former Redevelopment Agency for the City of Perris has made long-term rehabilitation and acquisition loans to owner-occupants of substandard homes who would otherwise be unable to obtain sufficient public or private financing to rehabilitate or acquire their homes. These loans were transferred to the Authority subsequently after the dissolution of the redevelopment agency in accordance with Assembly Bill 1X 26. The loans are payable upon the sale or change in ownership of the property. Included in a portion of these loans are provisions for forgiving the balances if certain criteria is met. The amounts forgiven are reflected as loan amortizations on the financial statements which amounted to \$10,396 in the current year. The receivable balance of \$4,774,790 is not expected to be collected within one year.

**Perris Housing Authority**  
**Notes to Financial Statements**  
Year Ended June 30, 2017

**5) CAPITAL ASSETS**

Capital assets activity for the year was as follows:

|   | Beginning<br>Balance | Increases                 | Decreases | Ending<br>Balance |
|---|----------------------|---------------------------|-----------|-------------------|
| Capital Assets, Not Depreciated:        |                      |                           |           |                   |
| Land                                    | \$ 0                 | \$ 500,902 <sup>(1)</sup> | \$        | \$ 500,902        |
| Total Capital Assets Not<br>Depreciated | \$ 0                 | \$ 500,902                | \$ 0      | \$ 500,902        |

<sup>(1)</sup> The land addition was a capital contribution from the Perris Community Economic Development Corporation.

**6) COMPENSATED ABSENCES PAYABLE**

Accumulated vacation and sick leave benefits and compensatory time payable in future years when used by Authority employees amounted to \$117,406 at June 30, 2017 with \$23,481 estimated to be due within one year.

**7) COMMITMENTS AND CONTINGENCIES**

As of June 30, 2017, there are no outstanding matters which would have a significant affect on the financial condition of the funds of the Authority.