

PERRIS
HOUSING AUTHORITY
FINANCIAL STATEMENTS

Year Ended June 30, 2014

Perris Housing Authority
Financial Statements
Year Ended June 30, 2014

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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, 2014, 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 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, 2014, 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, 2014, 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 Authority's internal control over financial reporting and compliance.

Teaman Ramirez & Smith, Inc.

Riverside, CA
December 29, 2014

Perris Housing Authority
Statement of Net Position
June 30, 2014

ASSETS

Current Assets:

Accounts Receivable	\$ 24,994
Loans Receivable	<u>6,123,241</u>

Total Assets	<u>6,148,235</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	19,669
Compensated Absences - Current Portion	<u>21,104</u>

Total Current Liabilities	<u>40,773</u>
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Noncurrent Liabilities:

Compensated Absences Payable	<u>84,415</u>
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Total Noncurrent Liabilities	<u>84,415</u>
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Total Liabilities	<u>125,188</u>
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NET POSITION

Unrestricted	<u>6,023,047</u>
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Total Net Position	<u><u>\$ 6,023,047</u></u>
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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, 2014

OPERATING REVENUES	
Charges for Services	\$ 63,934
Miscellaneous Revenue	<u>67,788</u>
Total Operating Revenues	<u>131,722</u>
OPERATING EXPENSES	
Salaries Expense	622,128
Contractual Services	2,556
Housing Assistance	2,512,313
Loan Amortization Expense	143,093
Miscellaneous Expense	<u>48,361</u>
Total Operating Expenses	<u>3,328,451</u>
Operating Income (Loss)	<u>(3,196,729)</u>
NON-OPERATING REVENUE (EXPENSES)	
Investment Earnings	14,222
Developer Noncapital Contributions	400,000
Contributions from Other Governments	<u>89,791</u>
Total Non-Operating Revenue (Expenses)	<u>504,013</u>
Change in Net Position	(2,692,716)
Net Position, Beginning of Year	<u>8,715,763</u>
Net Position, End of Year	<u><u>\$ 6,023,047</u></u>

The accompanying notes are an integral part of this statement.

Perris Housing Authority
Statement of Cash Flows
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 321,021
Cash Payments for Employee Services	(518,758)
Cash Payments to Suppliers for Goods and Services	(2,239,640)

Net Cash Provided by (Used for) Operating Activities	(2,437,377)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Advances from Other Governments	98,697
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Net Cash Provided by (Used for) Noncapital Financing Activities	98,697
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CASH FLOWS FROM INVESTMENT ACTIVITIES

Investment Earnings	18,861
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Net Cash Provided by (Used for) Investment Activities	18,861
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Net Increase (Decrease) in Cash and Cash Equivalents	(2,319,819)
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Cash and Cash Equivalents - Beginning of Year	2,319,819
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Cash and Cash Equivalents - End of Year	\$ 0
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating Income	\$ (3,196,729)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Developer Noncapital Contributions	400,000
Changes in Assets and Liabilities:	
Accounts Receivables (Increase) Decrease	(24,994)
Loans Receivables (Increase) Decrease	357,386
Accounts Payable and Accrued Liabilities Increase (Decrease)	(78,559)
Compensated Absences Payable Increase (Decrease)	105,519

Net Cash Provided by (Used for) Operating Activities	\$ (2,437,377)
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Perris Housing Authority
Notes to Financial Statements
Year Ended June 30, 2014

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, 2014

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. At June 30, 2014, the Authority held no investments; therefore, no adjustment is reflected in these financial statements.

E) Uncollectible Accounts Receivable

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

F) 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.

G) 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.

H) 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, liabilities, revenues, and expenses/expenditures, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Perris Housing Authority
Notes to Financial Statements
Year Ended June 30, 2014

2) CASH AND INVESTMENTS

Currently, as of June 30, 2014, the Authority holds no cash and investments.

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity⁽¹⁾</u>	<u>Maximum Percentage Of Portfolio⁽²⁾</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	80%	None
U.S. Agency Securities	5 years	80%	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

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

⁽²⁾ Excluding amounts held by bond trustee that are not subject to California Government Code 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.

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.

Perris Housing Authority
Notes to Financial Statements
Year Ended June 30, 2014

2) CASH AND INVESTMENTS - Continued

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, 2014, the Authority held no deposits with financial institutions.

3) 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 \$143,093 in the current year. The receivable balance of \$6,123,241 is not expected to be collected within one year.

4) COMPENSATED ABSENCES PAYABLE

Accumulated vacation and sick leave benefits and compensatory time payable in future years when used by Authority employees amounted to \$105,519 at June 30, 2014 with \$21,104 estimated to be due within one year.

5) COMMITMENTS AND CONTINGENCIES

As of June 30, 2014, there are no outstanding matters which would have a significant affect on the financial condition of the funds of the Authority.