

**HOUSING AUTHORITIES
OF THE CITY AND COUNTY OF FRESNO
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008
(Including Auditors' Report Thereon)**

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

To the Boards of Commissioners
Housing Authorities of the
City and County of Fresno
Fresno, California

We have audited the accompanying financial statements of the business-type activities and each major fund of the Housing Authorities of the City and County of Fresno, California, as of and for the year ended December 31, 2008, which collectively comprise the Authorities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Authorities of the City and County of Fresno, California's, management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Authorities' 2007 financial statements and, in our report dated August 15, 2008, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Housing Authorities of the City and County of Fresno, California, as of December 31, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2009, on our consideration of the Housing Authorities of the City and County of Fresno, 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 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authorities of the City and County of Fresno, California's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The Statements of Completed Capital Fund Programs are presented for purposes of additional analysis as required by the U.S. Department of Housing and Community Development and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and Statements of Completed Capital Fund Programs have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Harn & Dolan". The signature is written in black ink and is positioned above the date.

September 16, 2009

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

As management of the Housing Authorities of the City and County of Fresno, California (the Authorities or HACCF), we offer readers of the Authorities' financial statements this narrative overview and analysis of the financial activities of the Authorities for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the Authorities' financial statements.

Financial Highlights

- The assets of the Authorities exceeded its liabilities at the close of the most recent fiscal year by \$87.5 million (net assets). Of this amount, \$38.8 (unrestricted net assets) may be used to meet the Authorities' ongoing obligations to clients and creditors.
- The Authorities' total net assets increased by \$2.0 million in FY 2008 from FY 2007. The increase was due primarily to the surplus in the Housing Choice Voucher program and the increased capital contributions to the HOPE VI project.
- During the current fiscal year, the Authorities expensed \$94.8 million in its Federal grant programs and \$9.3 million in its State and Local programs for total expenses of \$104.1 million. The largest components of these expenses continued to be the Housing Choice Voucher program (\$77.2 million) and the Public Housing Program (\$10.2 million).
- The Authorities' cash balance, including restricted cash, at December 31, 2008 was \$50.8 million representing an increase of \$5.2 million from December 31, 2007. This increase in cash is entirely due to an increase of restricted cash. The majority of this increase is a result of an increase of \$4.7 million in excess housing assistance payments (HAP) funding received from the United States Department of Housing and Urban Development (HUD) in the Housing Choice Voucher program.
- The Authorities' current ratio which measures its ability to pay back its short-term liabilities with its short-term assets fell slightly but remained a strong 7.9. An increase in short-term borrowing for the Yosemite Village development caused the slight decline in current ratio.
- The Authorities' capital assets, net of depreciation, dropped from \$52.7 million to \$46.1 million, a 12.5% decline. The drop was due to depreciation, the disposal of public housing valued at \$3 million, and the reduction of HOPE VI capital assets to account for homes held for sale.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Authorities' basic financial statements. The Authorities' basic financial statements comprise three components: 1) Authorities-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

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Authority-wide financial statements are designed to provide readers with a broad overview of Authorities' finances, in a manner similar to a private-sector business, net of interfund activity.

The *Statement of Net Assets* presents information on all Authorities' assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authorities are improving or deteriorating.

The *Statement of Activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected grant revenue, accounts payable and earned but unused vacations leave).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authorities use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by the United States Department of Housing and Urban Development (HUD). However, the Authorities established other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using grants and other moneys. All of the funds of the Authorities are categorized as enterprise funds. GASBs 34 and 37 require individual enterprise funds to be reported as major if total assets, liabilities, revenue, or expenses of that individual fund exceed 10% of corresponding element total of the Authorities as a whole. The Authorities' major enterprise funds for the current fiscal year are the Housing Authority of the City of Fresno and the Housing Authority of the County of Fresno. In the past, the Authorities have presented six enterprise funds based predominately on grant or program. As the Authorities consider its mission to provide affordable housing, regardless of grant or program, we feel that this approach makes more sense and is easier for the reader to understand.

Enterprise funds account for activities similar to those found in the public sector, where the determination of net income is necessary or useful to sound financial administration. They are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statements of net assets. The focus of enterprise funds is on income measurement, which together with the maintenance of equity is an important financial indication.

The *Statement of Net Assets - Proprietary Funds* presents information on the Authorities' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases

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in net assets may serve as a useful indicator of whether the financial position of the Authorities are improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Assets* presents information showing how the Authorities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents the change in the Authorities' cash and cash equivalents during the most recent fiscal year.

Notes to the Financial Statements provide additional information that is essential to a full understanding of data provided in the authority-wide and fund financial statements.

Other Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents supplementary information which enhances the usefulness of this report.

Overview of Authorities Programs

Major Enterprise Funds:

The Housing Authority of the City of Fresno: The Housing Authority of the City of Fresno serves a population of nearly 500,000 residents in an area covering roughly 100 square miles. The Housing Authority of the City of Fresno manages 18 unique public housing properties organized in three Asset Management Projects (AMPs), has authority to provide 6,765 Section 8 housing vouchers monthly throughout the City, as well as administering a home buyer program. The Authority owns three bond financed properties, Woodside, El Cortez, and Dayton Square, that it manages as affordable housing with no outside subsidies. The Housing Authority of the City of Fresno is in the process of a major reconstruction project through the HOPE VI program. The Authority completely rehabilitated 33 units of public housing, demolished another 80 units of obsolete public housing, and rebuilt 36 units of brand new public housing. The Authority is embarking on another major redevelopment building over 400 units of affordable housing, replacing 200 units of public housing that were demolished in 2007. In addition to its public housing program and Housing Choice Voucher program, the Housing Authority of the City of Fresno owns and manages farm labor housing financed through the United States Department of Agriculture (USDA), a 51 unit Section 8 development financed through the California Housing Finance Agency (CHFA) and as emergency housing property on behalf of the County of Fresno. Additionally, the Authority manages a rehabilitation program for the City Redevelopment Agency.

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The Housing Authority of Fresno County: Fresno County encompasses 15 incorporated cities and a number of unincorporated towns and municipalities, covering a geographic area of roughly 5,962 square miles and a population of roughly 950,000. The Housing Authority of Fresno County manages 32 unique public housing properties organized in six AMPs and has authority to provide 5,587 Section 8 housing vouchers monthly throughout the County of Fresno. In addition, the Authority operates four USDA Farm Labor Housing properties, 2 Migrant Housing properties, and one CHFA financed Section 8 property in Huron. The Fresno County Housing Authority also administers homebuyer programs in the County.

Major Programs:

Housing Choice Voucher. The Housing Choice Voucher Program is designed to assist eligible low-income families pay their rent. Participants pay 30% of their adjusted gross income to the landlord for rent. The balance of the contract rent is paid by the Housing Authorities directly to the owner of the property. More than 3,500 owners of rental properties participate in the Housing Choice Voucher Program and the Authorities has over 12,000 families participating in the Housing Choice Voucher Program. The Housing Choice Voucher Program is funded by HUD.

Public Housing. The Housing Authorities own and manage 1,663 public housing units which are scattered throughout Fresno City and County. Residents of this housing pay 30% of their adjusted gross income to the Housing Authorities as rent and HUD subsidizes the balance needed to manage and maintain the properties.

Public Housing Capital Fund Program. The Housing Authorities administer HUD's Capital Fund for the properties it manages, providing for major renovations, updates, and site improvements to properties it manages. HUD grant this money annually to the Authorities which is then available to be drawn down over a three year period.

Demolition & Revitalization of Severely Distressed Public Housing. The Housing Authority of the City of Fresno was awarded a \$20 million HOPE VI grant in 2003 to revitalize the functionally obsolete 113-unit Yosemite Village public housing development. The funds must be expended by September 30, 2009.

Other Programs Include the Following:

California Housing Finance Agency Section 8 (City and County)
USDA Farm Labor Housing (City and County)
Migrant Farm Labor Housing (County)
Brownfield Assessment Cooperative Agreement (City)
Fresno County Emergency Housing (City)
Supportive Housing (City)

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Mental Health Services Act (County)
Community Housing Partnership with the Fresno City Redevelopment Agency (City)
Relinquished Funds - Local (City and County)
Low Income Housing Opportunity Program (City and County)
HOME (City and County)
Shelter Plus Care (City)
Hope VI (City)
TANF (County)
Housing Counseling Assistance (City)
Home Ownership (City and County)
Mainstream Voucher (City)
Disaster Voucher Program (City)

Blended Component Units:

Parc Grove Commons LP - Created to develop Parc Grove Commons utilizing a layered finance approach using Tax Credits, Bonds, and conventional loans. Parc Grove Commons is accounted for in the City fund.

Housing Self Insurance Corporation - Organized to provide additional security against a variety of insurable and non-insurable losses to include deductible, payouts, settlements, and other related obligations. HSIC is accounted for in the County fund.

Housing Relinquished Fund Corporation - Created as a steward for the Housing Authorities' development and investment capital. HRFC is accounted for in the City fund.

Silvercrest, Inc. - Formed as a vehicle to own and operate a number of housing developments throughout Fresno County, primarily in a limited partnership arrangement with local developers. Silvercrest is accounted for in the City fund.

Villa Del Mar, Inc. - Developed for purposes of ownership and management of the 48 unit Villa Del Mar affordable housing project in the City of Fresno. Villa Del Mar is accounted for in the City fund.

YEC Limited Partnership - Formed as a partnership between Silvercrest (above) and the Housing Authority of the City of Fresno, for the purpose of redeveloping the Yosemite Village, a public housing development previously owned by the Housing Authority of the City of Fresno. YEC is accounted for in the City fund.

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Financial Analysis

Statement of Net Assets. The Statement of Net Assets presents assets, liabilities, and net assets of the Authorities at the end of the fiscal year. The purpose of the Statement of Net Assets is to give the reader a snapshot of the fiscal condition of the Authorities at a certain point in time.

Statement of Net Assets

	FY 2008	FY 2007	Increase (Decrease)	%
Current assets	\$ 48,060,494	\$ 42,813,076	\$ 5,247,418	12.52%
Restricted assets	14,774,922	9,234,345	5,540,577	58.80%
Capital assets	46,093,107	52,687,675	(6,594,568)	12.52%
Other assets	<u>1,698,080</u>	<u>1,455,728</u>	<u>242,352</u>	16.65%
Total assets	<u>\$ 110,626,603</u>	<u>\$ 106,190,824</u>	<u>\$ 4,435,799</u>	4.28%
Current liabilities	\$ 6,095,479	\$ 4,094,780	\$ 2,000,699	48.86%
Payable from restricted assets	3,189,588	3,190,179	(591)	0.02%
Non-current liabilities	<u>13,887,314</u>	<u>13,461,157</u>	<u>426,157</u>	3.17%
Total liabilities	<u>\$ 23,172,381</u>	<u>\$ 20,746,116</u>	<u>\$ 2,426,265</u>	11.70%
Net assets:				
Invested in capital assets, net of related debt	\$ 31,827,440	\$ 38,759,681	\$ (6,932,241)	17.89%
Restricted	16,868,029	8,091,229	8,776,800	108.47%
Unrestricted	<u>38,758,753</u>	<u>38,593,798</u>	<u>164,955</u>	0.43%
Total net assets	<u>\$ 87,454,222</u>	<u>\$ 85,444,708</u>	<u>\$ 2,009,514</u>	2.35%

Net assets represent the Authorities' equity, a portion of which is restricted to certain uses. Net assets are divided into three categories. The first, invested in capital assets, net of related debt, shows the Authorities' equity in land, structures, construction in progress and equipment, net of related capital debt outstanding. Although the Authorities' investment in capital assets is reported net of related debt, it should be noted that the resources needed to prepay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The next category, restricted net assets, represents assets that have external limitations on the way in which they may be used. The next category, unrestricted net assets, is available for any use that is lawful and prudent purpose of the Authorities.

At the end of the current year the Authorities' assets exceeded liabilities by \$87.5 million, an increase of \$2.0 million from the previous year. The largest portion of the net assets (44%) is unrestricted net assets. Thirty-six percent reflects its investment in capital assets (land, buildings, furniture, equipment

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and construction in progress); less any depreciation and related debt used to acquire those assets. The Authorities use these capital assets to provide services and housing to its clients; consequently, these assets are not available for future spending.

Total assets increased from \$106.2 million to \$110.6 million. A \$6.6 million decline in capital assets was more than offset by a \$4.8 million increase in restricted cash, a \$1.5 million increase in deposits held by the City and a \$3.6 million addition to assets held for sale.

Total liabilities also increased in 2008, from \$20.7 million to \$23.2 million. Virtually all of the increase is due to the construction in progress at Yosemite Village, the Authorities' HOPE VI project.

The long-term debt of the Authorities consists solely of loans and notes incurred for the purpose of acquisition, planning and modernization of real property and equipment. Additionally, there are a significant number of interfund loans that have accumulated over a number of years, some of which are interest-bearing. Total long-term debt, omitting the interfund loans, remaining at December 31, 2008 was \$13.9 million.

In addition to the liabilities reported above, interfund notes totaled \$7.3 million. Interfund notes are made primarily from the City and County Relinquished Funds. Approximately \$400 thousand of the interfund long-term debt is scheduled to be retired in the next twelve (12) months. Additional information of the Authorities' long-term debt can be found in Note 9 of these financial statements.

Statement of Activities: The purpose of the Statement of Activities is to present the revenues earned by the Authorities, the expenses incurred by the Authorities, and the resulting change in net assets. The Statement of Activities shows the sources of the Authorities changes in net assets as they arise through its various programs and functions. A condensed Statement of Activities comparing FY 2008 with FY 2007 is shown in the table below:

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Statement of Activities
(Changes in Net Assets)

	City	County	FY 2008	FY 2007	Increase (Decrease)	%
Revenue						
Net tenant rent revenue	\$ 3,542,782	\$ 4,430,652	\$ 7,973,434	\$ 8,019,298	\$ (45,864)	0.57%
HUD operating grants	53,615,201	41,547,080	95,162,281	82,074,431	13,087,850	15.95%
HUD capital grants	462,813	1,553,395	2,016,208	5,625,521	(3,609,313)	64.16%
Other government grants	2,087,960	1,406,791	3,494,751	4,601,602	(1,106,851)	24.05%
Interfund fees/rents/interest	3,268,845	3,787,601	7,056,446	1,598,128	5,458,318	341.54%
Investment income	935,852	346,080	1,281,932	2,131,396	(849,464)	39.85%
Other revenue	<u>464,072</u>	<u>230,147</u>	<u>694,219</u>	<u>1,287,246</u>	<u>(603,027)</u>	<u>46.85%</u>
Total Revenue	<u>64,377,525</u>	<u>53,301,746</u>	<u>117,679,271</u>	<u>105,337,622</u>	<u>12,341,649</u>	<u>11.72%</u>
Expenses						
Administrative	7,111,056	6,234,816	13,345,872	12,683,770	662,102	5.22%
Interfund administrative fees	2,786,361	2,975,483	5,761,844	639,040	5,122,804	801.64%
Tenant services	270,866	564,083	834,949	499,881	335,068	67.03%
Utilities	596,879	1,124,246	1,721,125	1,709,593	11,532	0.67%
Maintenance	3,243,236	3,378,465	6,621,701	5,988,258	633,443	10.58%
Interfund maintenance	112,037	161,713	273,750	27,092	246,658	910.45%
General	309,028	679,031	988,059	1,263,131	(275,072)	2.18%
Interfund general	215,944	582,471	798,415	734,423	63,992	8.71%
Housing Assistance Payments	40,067,493	32,889,236	72,956,729	72,014,144	942,585	1.31%
Interfund HAP	154,302	67,934	222,236	197,573	24,663	12.48%
Depreciation/Amortization	3,191,467	2,219,744	5,411,211	4,394,479	1,016,732	23.14%
Devaluation of assets held for sale	1,555,512	-	1,555,512	-	1,555,512	-
Extraordinary maintenance	18,111	119,359	137,470	445,086	(307,616)	69.11%
Loss on disposition of capital assets	2,117,353	(47)	2,117,306	197,836	1,919,470	970.23%
Interest expense	395,698	141,850	537,548	567,186	(29,638)	5.23%
Interfund interest	<u>201</u>	<u>-</u>	<u>201</u>	<u>-</u>	<u>201</u>	<u>-</u>
Total Expenses	<u>62,145,544</u>	<u>51,138,384</u>	<u>113,283,928</u>	<u>101,361,492</u>	<u>11,922,436</u>	<u>11.76%</u>
Net income (loss) before transfers	2,231,981	2,163,362	4,395,343	3,976,130	419,213	10.54%
Transfers	<u>1,011</u>	<u>609</u>	<u>1,620</u>	<u>(1,620)</u>	<u>3,240</u>	<u>200.0%</u>
Changes in Net Assets	<u>2,232,992</u>	<u>2,163,971</u>	<u>4,396,963</u>	<u>3,974,510</u>	<u>422,453</u>	<u>10.63%</u>
Net Assets - beginning of the year	60,965,119	24,479,589	85,444,708	81,511,858	3,932,850	4.82%
Prior period adjustments	<u>(1,837,156)</u>	<u>(550,293)</u>	<u>(2,387,449)</u>	<u>(41,660)</u>	<u>(2,345,789)</u>	<u>-</u>
Net Assets - beginning, restated	<u>59,127,963</u>	<u>23,929,296</u>	<u>83,057,259</u>	<u>81,470,198</u>	<u>1,587,061</u>	<u>1.95%</u>
Net Assets - end of the year	<u>\$61,360,955</u>	<u>\$ 26,093,267</u>	<u>\$ 87,454,222</u>	<u>\$ 85,444,708</u>	<u>\$ 2,009,514</u>	<u>2.38%</u>

Overall, net assets increased by 2.4% in FY 2008. Both revenues and expenses increased, with revenues increasing by 11.7% and expenses by 11.8%. Almost half of the increase in both revenues

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and expenses came from increases in interfund fees as the Authorities moved solidly into Asset Management of its public housing. The fees are expenses incurred by the public housing department but revenue earned by the Central Office.

On the revenue side, a 16.0% increase in HUD operating grants more than offset reductions in HUD capital grants, other government grants and investment income. The majority of the increase (76%) in HUD operating grants is attributable to excess HAP funding in the Housing Choice Voucher Programs and is restricted as to its use. The remainder of the increase is attributable to the HOPE VI program. The decrease in HUD capital grants is due entirely to timing of the capital expenditures and does not reflect a decline in capital grants. The capital grants are recognized when the funds are spent, rather than when they are appropriated by HUD. The reduction in other government grants reflect budget cuts locally in Fresno and at the State of California. The Redevelopment Agency of the City of Fresno cut its funding for its rehabilitation programs administered by the Authorities and the State cut funding for TANF and migrant centers. The drop in investments income is a direct result of the actions of the Federal Reserve Board cutting short-term interest rates.

Expenses rose across the board with exception of general expenses (benefitting from a reduction in insurance premiums and severance payments), extraordinary maintenance, and interest expense. The largest increases in expenses are not likely to be repeated in 2009 - loss on the disposal of real property and the devaluation of assets held for sale. The loss on the disposal of real property occurred as a result of the sale of public housing units known as Yosemite Village to YEC, Limited Partnership for the purpose of redevelopment. The devaluation expense was taken to recognize the decline in market value of the homeownership units that the Authorities are developing at Sierra Pointe, the for sale portion of the HOPE VI project.

Economic Events that will Financially Impact the Authorities

The Authorities continue to be primarily dependent upon HUD for the funding of operations. Therefore, the Housing Authorities are affected more by the Federal budget than by local economic conditions. During FY 2008, the Authorities earned 88% of its revenue from HUD grants. The Authorities are exploring numerous options to lessen its dependency on HUD funds, but HUD will always be a major sourcing of funds for the Authorities.

The federal government has been the principal source of funding for low-income housing, development and operations since prior to the National Housing Act of 1937. While federal support of public housing was waxed and waned with difference administrations, there is a long-term record of federal financial support for low-income housing. While much of the current decade has seen continued underfunding of public housing operating and capital grants, 2008 saw a significant increase in the funding proration for public housing operations, from 84% to 89%, and the Authorities capital grant allocation was essentially flat from 2007 after five years of declines.

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The near-term forecast for federal funding of low-income housing programs is promising. The 2009 Omnibus appropriations bill was passed by Congress in early March 2009 and the HUD appropriations of \$44.5 billion represented a 7.7% increase over the Bush Administration's 2009 proposed budget. The 2009 spending bill is in addition to the \$13.6 billion funding for HUD in the American Recovery and Reinvestment Act (ARRA). ARRA provided an additional infusion of \$4.0 billion in capital grants for public housing, nearly twice the ongoing annual capital grant funding.

Additionally, President Obama's fiscal year 2010 budget includes \$47.5 billion in HUD funding, an increase of 14.5% over the 2009 Omnibus bill funding level. As the federal government attempts to address the housing crisis, federal support for low-income and affordable housing development and operations has become a priority.

While the Authorities expect stable to increasing federal revenues for low-income and affordable housing over the next few years, we are feeling the effects of the severe recession on several fronts. First, our tenants are among the most vulnerable populations. Continued job cuts and further declines in work hours hamper their ability to pay rent. Since, in both the Public Housing and Housing Choice Voucher Programs our tenants' portion of rent is tied to their incomes, as income declines the Authorities' contribution toward rent must increase, putting strains on our financial health. Secondly, our development activities are negatively impacted by the recession. Finding mortgage financing for the homebuyers at Sierra Pointe is proving difficult, delaying sales greatly. In addition, home prices have fallen, making the viability of future for sale phases of Sierra Pointe or any other for sale development questionable. The recession has eliminated many low-income tax credit investors from the marketplace. With fewer investors, the price of credits has dropped precipitously. The lower tax credit prices has reduced the equity dollars into projects, increasing the need for debt and other gap financing.

Despite the recession and the difficulty finding financing, with support from ARRA funds, the Authorities expect to undertake the development of the first phase of Parc Grove Commons, a 200-unit affordable housing development in the City of Fresno, and Kerman Acres, a 21-unit affordable housing development on the City of Kerman.

Contacting the Authorities' Financial Management

This financial report is designed to provide our residents, citizens, grantors, and creditors with a general overview of the Authorities' finances and to demonstrate the Authorities' accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please write to the Housing Authorities of the City and County of Fresno, Chief Operations Officer, P.O. Box 11985, Fresno, California 93776-1985.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Business-type Activities	Total
<u>ASSETS</u>		
Current assets:		
Cash and investments (Note 2)	\$ 36,016,975	\$ 36,016,975
Accounts receivable - governments	3,250,995	3,250,995
Accounts receivable - related parties (Note 19)	33,283	33,283
Accounts receivable - tenants (net of allowance for doubtful accounts of \$27,939)	68,705	68,705
Accounts receivable - other (net of allowance for doubtful accounts of \$223,775)	274,868	274,868
Interest receivable	11,835	11,835
Prepaid expenses and other assets	263,042	263,042
Deposits (Note 6)	1,482,000	1,482,000
Notes receivable (Note 4)	3,506	3,506
Inventory (net of allowances for obsolete inventory of \$20,670) (Note 1.G)	62,010	62,010
Assets held for sale (Note 7)	6,593,275	6,593,275
Total current assets	48,060,494	48,060,494
Restricted assets:		
Restricted cash (Note 2 and 3)	14,774,922	14,774,922
Capital assets (Note 5):		
Land	4,833,143	4,833,143
Buildings	120,916,276	120,916,276
Equipment - dwelling	3,065,395	3,065,395
Equipment - administration	5,661,215	5,661,215
Accumulated depreciation	(104,697,152)	(104,697,152)
Construction in progress	16,314,230	16,314,230
Total capital assets	46,093,107	46,093,107
Other noncurrent assets:		
Notes receivable - related party (Note 4 and 19)	425,000	425,000
Notes receivable - other noncurrent (Note 4)	1,000,000	1,000,000
Other assets (Note 8)	273,080	273,080
Total other noncurrent assets	1,698,080	1,698,080
Total assets	\$ 110,626,603	\$ 110,626,603

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

(Continued)

	Business-type Activities	Total
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable - vendors	\$ 1,878,450	\$ 1,878,450
Due to related parties (Note 19)	632,621	632,621
Accounts payable - other governments	1,426,425	1,426,425
Accrued salaries	414,849	414,849
Accrued interest (Note 9)	17,234	17,234
Other current liabilities	33,756	33,756
Current portion of long-term debt (Note 9)	1,089,321	1,089,321
Current portion of compensated absences (Note 10)	517,463	517,463
Deferred revenue (Note 11)	85,360	85,360
Total current liabilities	6,095,479	6,095,479
Payable from restricted cash (Note 12)	3,189,588	3,189,588
Other noncurrent liabilities:		
Long-term debt (Note 9)	13,509,894	13,509,894
Compensated absences (Note 10)	242,182	242,182
Other (Note 9)	135,238	135,238
Total other noncurrent liabilities	13,887,314	13,887,314
Total liabilities	23,172,381	23,172,381
Net assets (Note 13):		
Invested in capital assets, net of related debt	31,827,440	31,827,440
Restricted	16,868,029	16,868,029
Unrestricted	38,758,753	38,758,753
Total net assets	87,454,222	87,454,222
Total liabilities and net assets	\$ 110,626,603	\$ 110,626,603

The accompanying notes are an integral part of this statement.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Function/Programs	<u>Expenses</u>	<u>Program revenue</u>			<u>Net (expenses) revenue and changes in net assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Business-type Activities</u>
BUSINESS-TYPE ACTIVITIES					
Federal Programs:					
Housing and Urban Development:					
Housing Choice Voucher	\$ 77,237,932	\$ 429,904	\$ 84,057,951	\$ -	\$ 7,249,923
Public Housing	10,238,680	5,703,785	4,645,308	-	110,413
Shelter Plus Care	1,343,277	-	-	-	(1,343,277)
Public Housing Capital Fund	1,273,292	-	1,277,372	2,014,963	2,019,043
N/C S/R Section 8 Program (CHFA)	842,197	302,690	604,330	-	64,823
Demolition and Revitalization of Severely					
Distressed Public Housing	1,882,575	7,587	4,171,766	-	2,296,778
Supportive Housing for Persons					
with Disabilities (Mainstream Voucher)	200,368	-	202,695	-	2,327
Supportive Housing	144,590	19,540	106,673	-	(18,377)
Housing Counseling Assistance	53,985	-	53,985	-	-
CDBG (H/O training)	18,760	22,298	-	-	3,538
Disaster Voucher	3,739	355	-	-	(3,384)
Public Housing - Neighborhood Network	34,269	-	34,624	1,245	1,600
Public Housing FSS under ROSS	690	-	690	-	-
United States Department of Agriculture:					
Rural Rental Assistance	1,194,942	971,558	454,270	-	230,886
Health and Human Services:					
Temporary Assistance for Needy Families	38,859	-	45,222	-	6,363
Emergency Housing	250,638	159	288,073	-	37,594
Environmental Protection Agency:					
Brownfield Assessment Cooperative Agreement	3,850	-	3,850	-	-
State and Local Programs:					
Central Office Cost Center	5,159,378	19,114	-	-	(5,140,264)
Redevelopment Agency	1,261,654	36,091	1,516,810	-	291,247
State of California - Migrant Housing	957,984	50,908	947,424	-	40,348
Affordable Housing	1,270,606	1,159,889	-	-	(110,717)
Other State and Local	540,750	53,136	239,103	-	(248,511)
Blended Component Units	155,542	123,064	6,887	-	(25,591)
Total business-type activities	<u>104,108,557</u>	<u>8,900,078</u>	<u>98,657,033</u>	<u>2,016,208</u>	<u>5,464,762</u>
Total primary government	<u>\$104,108,557</u>	<u>\$ 8,900,078</u>	<u>\$ 98,657,033</u>	<u>\$ 2,016,208</u>	<u>5,464,762</u>
General revenue:					
Unrestricted interest					1,049,507
Loss on the sale/disposition of capital assets					(2,117,306)
Total general revenue					<u>(1,067,799)</u>
Change in net assets					<u>4,396,963</u>
Net assets - beginning of the year, as originally stated					85,444,708
Prior period adjustment (Note 14)					<u>(2,387,449)</u>
Net assets - beginning of the year, restated					<u>83,057,259</u>
Net assets - end of the year					<u>\$ 87,454,222</u>

The accompanying notes are an integral part of this statement

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2008

(With Comparable Totals for 2007)

	City	County	2008 Totals	2007 Totals
<u>ASSETS</u>				
Current assets:				
Cash and investments (Note 2)	\$ 27,639,505	\$ 8,377,470	\$ 36,016,975	\$ 36,268,833
Due from other funds (Note 1.H.)	2,930,301	57,328	2,987,629	2,948,882
Accounts receivable - governments	3,015,076	235,919	3,250,995	2,684,411
Accounts receivable - related parties (Note 19)	33,283	-	33,283	43,049
Accounts receivable - tenants	46,587	50,057	96,644	99,327
Allowance for doubtful accounts	(9,952)	(17,987)	(27,939)	(8,908)
Accounts receivable - other	295,046	203,597	498,643	527,511
Allowance for doubtful accounts	(105,495)	(118,280)	(223,775)	(104,789)
Interest receivable	901	10,934	11,835	23,321
Prepaid expenses and other assets	177,144	85,898	263,042	92,206
Deposits (Note 6)	1,482,000	-	1,482,000	-
Notes receivable (Note 4)	405,344	-	405,344	6,508
Inventory (Note 1.G.)	82,680	-	82,680	176,778
Allowances for obsolete inventory	(20,670)	-	(20,670)	(1,809)
Assets held for sale (Note 7)	<u>6,185,024</u>	<u>408,251</u>	<u>6,593,275</u>	<u>3,006,638</u>
Total current assets	<u>42,156,774</u>	<u>9,293,187</u>	<u>51,449,961</u>	<u>45,761,958</u>
Restricted assets:				
Restricted cash (Note 2 and 3)	<u>8,239,684</u>	<u>6,535,238</u>	<u>14,774,922</u>	<u>9,234,345</u>
Capital assets (Note 5):				
Land	3,333,030	1,500,113	4,833,143	4,694,444
Buildings	59,159,956	61,756,320	120,916,276	122,869,375
Equipment - dwelling	1,318,368	1,747,027	3,065,395	3,624,584
Equipment - administration	5,046,756	614,459	5,661,215	5,721,129
Accumulated depreciation	(50,283,676)	(54,413,476)	(104,697,152)	(101,201,521)
Construction in progress	<u>9,644,315</u>	<u>6,669,915</u>	<u>16,314,230</u>	<u>16,979,664</u>
Total capital assets	<u>28,218,749</u>	<u>17,874,358</u>	<u>46,093,107</u>	<u>52,687,675</u>
Other noncurrent assets:				
Notes receivable - noncurrent (Note 4)	7,270,641	1,023,612	8,294,253	6,240,404
Other assets (Note 8)	<u>273,281</u>	<u>51,689</u>	<u>324,970</u>	<u>168,708</u>
Total other noncurrent assets	<u>7,543,922</u>	<u>1,075,301</u>	<u>8,619,223</u>	<u>6,409,112</u>
 Total assets	 <u>\$ 86,159,129</u>	 <u>\$ 34,778,084</u>	 <u>\$ 120,937,213</u>	 <u>\$ 114,093,090</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2008

(With Comparable Totals for 2007)
(Continued)

	City	County	2008 Totals	2007 Totals
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable - vendors	\$ 1,461,624	\$ 416,826	\$ 1,878,450	\$ 1,794,194
Due to other funds (Note 1.H.)	2,668,510	319,119	2,987,629	2,948,882
Due to related parties (Note 19)	632,621	-	632,621	-
Accounts payable - other governments	1,066,269	360,156	1,426,425	633,295
Accrued salaries	403,861	10,988	414,849	301,829
Accrued interest (Note 9)	17,234	-	17,234	17,488
Other current liabilities	33,756	-	33,756	27,533
Current portion of long-term debt (Note 9)	1,180,972	255,187	1,436,159	528,624
Current portion of compensated absences (Note 10)	384,786	132,677	517,463	762,316
Deferred revenue (Note 11)	35,511	49,849	85,360	29,501
Total current liabilities	<u>7,885,144</u>	<u>1,544,802</u>	<u>9,429,946</u>	<u>7,043,662</u>
Payable from restricted assets (Note 12)	<u>1,004,135</u>	<u>2,185,453</u>	<u>3,189,588</u>	<u>3,190,179</u>
Other noncurrent liabilities:				
Long-term debt (Note 9)	15,606,814	4,827,333	20,434,147	18,261,279
Compensated absences (Note 10)	177,969	64,213	242,182	79,274
Other (Note 9)	124,112	63,016	187,128	73,988
Total noncurrent liabilities	<u>15,908,895</u>	<u>4,954,562</u>	<u>20,863,457</u>	<u>18,414,541</u>
Total liabilities	<u>24,798,174</u>	<u>8,684,817</u>	<u>33,482,991</u>	<u>28,648,382</u>
Net assets (Note 13):				
Invested in capital assets, net of debt	17,401,861	14,425,579	31,827,440	38,759,681
Restricted	12,353,857	4,514,172	16,868,029	8,091,229
Unrestricted	31,605,237	7,153,516	38,758,753	38,593,798
Total net assets	<u>61,360,955</u>	<u>26,093,267</u>	<u>87,454,222</u>	<u>85,444,708</u>
Total liabilities and net assets	<u>\$ 86,159,129</u>	<u>\$ 34,778,084</u>	<u>\$ 120,937,213</u>	<u>\$ 114,093,090</u>

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2008

(With Comparable Totals for 2007)

	City	County	2008 Totals	2007 Totals
Operating revenue:				
Rents	\$ 3,765,018	\$ 4,430,652	\$ 8,195,670	\$ 8,216,871
Interfund fees	3,046,409	3,787,600	6,834,009	1,085,691
Gain on sale of assets held for sale (Note 7)	7,863	-	7,863	154,486
Other	346,208	230,148	576,356	1,447,624
Total operating revenue	7,165,498	8,448,400	15,613,898	10,904,672
Operating expenses:				
Administrative	9,897,417	9,210,299	19,107,716	13,322,810
Tenant services	270,866	564,083	834,949	499,881
Utilities	596,879	1,124,246	1,721,125	1,709,593
Maintenance	3,355,273	3,540,178	6,895,451	6,015,350
General	524,973	1,261,502	1,786,475	1,997,554
Housing assistance payments	40,221,795	32,957,170	73,178,965	72,211,717
Depreciation (Note 5)	3,182,844	2,219,744	5,402,588	4,385,557
Total operating expenses	58,050,047	50,877,222	108,927,269	100,142,462
Operating loss	(50,884,549)	(42,428,822)	(93,313,371)	(89,237,790)
Nonoperating revenue (expenses):				
Grants	55,703,162	42,953,871	98,657,033	86,676,033
Interest - unrestricted	781,788	267,719	1,049,507	1,883,965
Interest - restricted	134,009	78,361	212,370	227,431
Capital contributions (Note 8)	110,000	-	110,000	-
Interest - earned on long-term notes (Note 4)	20,256	-	20,256	20,000
Gain (loss) on sale/disposition of capital assets	(2,117,353)	47	(2,117,306)	(197,836)
Devaluation of assets held for sale (Note 7)	(1,555,512)	-	(1,555,512)	-
Extraordinary maintenance	(18,111)	(119,359)	(137,470)	(445,086)
Debt service - interest (Note 9)	(395,899)	(141,850)	(537,749)	(567,186)
Amortization (Note 8)	(8,623)	-	(8,623)	(8,922)
Net income (loss) before contributions and transfers	1,769,168	609,967	2,379,135	(1,649,391)
Capital contributions	462,813	1,553,395	2,016,208	5,625,521
Transfers in (out) (Note 1.H.)	1,011	609	1,620	(1,620)
Change in net assets	2,232,992	2,163,971	4,396,963	3,974,510
Net assets at beginning of year, as originally stated	60,965,119	24,479,589	85,444,708	81,511,858
Prior period adjustments (Note 14)	(1,837,156)	(550,293)	(2,387,449)	(41,660)
Net assets at beginning of year, restated	59,127,963	23,929,296	83,057,259	81,470,198
Net assets at end of year	\$ 61,360,955	\$ 26,093,267	\$ 87,454,222	\$ 85,444,708

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
(With Comparable Totals for 2007)

	<u>City</u>	<u>County</u>	<u>2008 Totals</u>	<u>2007 Totals</u>
Cash flows from operating activities:				
Tenant receipts	\$ 3,525,287	\$ 4,433,580	\$ 7,958,867	\$ 7,947,130
Other receipts	374,414	96,252	470,666	1,223,191
Proceeds from the sale of assets held for sale	7,863	-	7,863	446,475
Net reimbursement of rents and other receipts to HCD	-	(85,331)	(85,331)	52,810
Funds used to acquire assets held for sale	(3,658,716)	-	(3,658,716)	(889,210)
Payroll and benefit expenditures	(5,595,912)	(6,584,451)	(12,180,363)	(12,395,434)
Administrative expenditures	(2,076,279)	(1,069,140)	(3,145,419)	(2,614,989)
Tenant services expenditures	(270,866)	(564,083)	(834,949)	(499,881)
Utility expenditures	(596,879)	(1,124,246)	(1,721,125)	(1,709,593)
Maintenance expenditures	(2,355,843)	(2,359,438)	(4,715,281)	(4,977,247)
General expenditures	(347,199)	(765,667)	(1,112,866)	(1,237,964)
Housing assistance payment expenditures	<u>(39,949,418)</u>	<u>(32,698,294)</u>	<u>(72,647,712)</u>	<u>(72,100,489)</u>
Net cash used by operating activities	<u>(50,943,548)</u>	<u>(40,720,818)</u>	<u>(91,664,366)</u>	<u>(86,755,201)</u>
Cash flows from noncapital financing activities:				
Operating grants received	54,283,486	43,190,664	97,474,150	86,569,168
Funds returned to funding source	-	-	-	(211,766)
Interfund transactions	(266,995)	294,743	27,748	(776)
Related party transactions	344,887	-	344,887	456,074
Repayment of notes issued	7,081	-	7,081	9,746
Notes receivable issued	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,508)</u>
Net cash provided by noncapital financing activities	<u>54,368,459</u>	<u>43,485,407</u>	<u>97,853,866</u>	<u>86,813,938</u>
Cash flows from capital financing activities:				
Grants received to acquire capital assets	1,030,468	1,944,327	2,974,795	5,026,683
Proceeds from sale of capital assets	115,583	118	115,701	171,119
Issuance of debt	1,453,052	-	1,453,052	2,300,359
Acquisition of capital assets	(2,371,916)	(1,795,233)	(4,167,149)	(8,544,400)
Funds placed on deposit for capital project	(1,482,000)	-	(1,482,000)	-
Interest paid on debt (Note 9)	(396,168)	(139,960)	(536,128)	(573,312)
Principal paid on debt (Note 9)	<u>(285,580)</u>	<u>(246,835)</u>	<u>(532,415)</u>	<u>(645,887)</u>
Net cash used by capital financing activities	<u>(1,936,561)</u>	<u>(237,583)</u>	<u>(2,174,144)</u>	<u>(2,265,438)</u>
Cash flows from investing activities:				
Interest receipts	783,697	277,296	1,060,993	1,878,928
Interest on restricted cash	<u>134,009</u>	<u>78,361</u>	<u>212,370</u>	<u>227,431</u>
Net cash provided by investing activities	<u>917,706</u>	<u>355,657</u>	<u>1,273,363</u>	<u>2,106,359</u>
Net increase to cash	2,406,056	2,882,663	5,288,719	(100,342)
Cash at beginning of year	<u>33,473,133</u>	<u>12,030,045</u>	<u>45,503,178</u>	<u>43,603,520</u>
Cash at end of year	<u>\$ 35,879,189</u>	<u>\$ 14,912,708</u>	<u>\$ 50,791,897</u>	<u>\$ 45,503,178</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
(With Comparable Totals for 2007)
(Continued)

	City	County	2008 Totals	2007 Totals
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (50,884,549)	\$ (42,428,822)	\$ (93,313,371)	\$ (89,237,790)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense	3,182,844	2,219,744	5,402,588	4,385,557
Bad debt on notes receivable	1,061	-	1,061	-
Program income returned to funding agency	-	-	-	211,766
Devaluation of assets held for sale	(1,555,512)	-	(1,555,512)	-
Extraordinary maintenance	(18,110)	(119,359)	(137,469)	(445,086)
Related party transactions	(2,500)	-	(2,500)	(1,500)
Prior period adjustment	-	511	511	-
(Increase) Decrease in:				
Accounts receivable - governments	31,068	12,676	43,744	-
Accounts receivable - related parties	-	-	-	100,500
Accounts receivable - tenants	4,931	16,783	21,714	(66,506)
Accounts receivable - other	76,246	70,548	146,794	(388,098)
Prepaid expenses	(84,939)	(85,897)	(170,836)	14,969
Inventory	112,959	-	112,959	88,780
Assets held for sale	(2,611,717)	-	(2,611,717)	(597,220)
Increase (Decrease) in:				
Accounts payable	513,393	(81,812)	431,581	39,625
Accounts payable - other governments	(9,662)	(108,652)	(118,314)	45,306
Accrued salaries	111,356	2,491	113,847	(194,829)
Other current liabilities	6,223	-	6,223	113
Due to related parties	-	-	-	(4,500)
Compensated absences	115,365	(197,310)	(81,945)	(454,897)
Deferred revenues	9,002	37,865	46,867	726
Payable from restricted assets	58,993	(59,584)	(591)	(252,117)
Net cash used by operating activities	<u>\$ (50,943,548)</u>	<u>\$ (40,720,818)</u>	<u>\$ (91,664,366)</u>	<u>\$ (86,755,201)</u>
Cash per the Statement of Net Assets:				
Cash and investments	\$ 27,639,505	\$ 8,377,470	\$ 36,016,975	\$ 36,268,833
Restricted cash	<u>8,239,684</u>	<u>6,535,238</u>	<u>14,774,922</u>	<u>9,234,345</u>
Cash at end of year	<u>\$ 35,879,189</u>	<u>\$ 14,912,708</u>	<u>\$ 50,791,897</u>	<u>\$ 45,503,178</u>

Noncash transactions:

- The Central Office Cost Center was established this year in accordance with HUD regulations. Capital assets (administrative equipment) were transferred from City and County Public Housing to the Central Office Cost Center.
- Capital assets (administrative equipment) were also transferred from County Relinquished fund to the County USDA Fund.
- Capital assets (building costs) were transferred from the Neighborhood Network and First Five California funds to the HOPE VI fund.

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) General Statement

The Housing Authorities of the City and County of Fresno, California (the Authorities) are responsible for the development and implementation of housing programs and activities for the City and County of Fresno, California.

The Housing Authority of the City of Fresno was established by a resolution of the Fresno City Council on March 14, 1940. The Authority is governed by a seven member Board of Commissioners. Commissioners are appointed for four year terms by the City Council.

The Housing Authority of the County of Fresno was established by a resolution of the Fresno County Board of Supervisors on February 5, 1946. The Authority is governed by a seven member Board of Commissioners. Commissioners are appointed for four year terms by the County Board of Supervisors.

(B) Financial Reporting Entity

The two Boards of Commissioners meet jointly and have historically agreed upon essentially all major policy issues such as salary structure, selection of an Executive Director, adoption of personnel and other administrative policies. The Authorities have jointly purchased office buildings, phone and data processing systems.

Although the Authorities are two legally separate entities, they meet the criteria of one combined reporting entity as defined by Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The Authorities combined financial statements include the accounts of all the Authorities' operations. The criteria for including organizations as component units within the Authorities' reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- * The organization is legally separate (can sue and be sued in their own name)
- * The Authorities hold the corporate powers of the organization
- * The Authorities appoint a voting majority of the organization's Board
- * The Authorities are able to impose their will on the organization
- * The Organization has the potential to impose a financial benefit/burden on the Authorities
- * There is financial dependency by the organization on the Authorities

Based on the aforementioned criteria, the Housing Relinquished Fund Corporation (HRFC), the Housing Self Insurance Corporation (HSIC), Silvercrest, Inc., Villa Del Mar, Inc., Parc Grove Commons, LP, and YEC Limited Partnership, are considered by the Authorities to be blended component units. The Board of Directors of HRFC, HSIC, Silvercrest, Inc., and Villa Del Mar, Inc., consist of the Chairman of the Board of Commissioners of the County Housing Authority, the Chairman of the Board of Commissioners of the City Housing Authority, and the Executive Director of the Housing Authorities. The general partners of Parc Grove Commons, LP, a California Limited Partnership, are Silvercrest, Inc and the Housing Authority of the City of Fresno. The general partners of YEC Limited Partnership, a California Limited Partnership, are Silvercrest, Inc and the Housing Authority of the City of Fresno. Accordingly, the Authorities exercise oversight responsibility over HRFC, HSIC, Silvercrest, Inc., Villa Del Mar, Inc., Parc Grove Commons, LP, and YEC Limited

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 1 (continued)

Partnership. All of these blended component units are included in the City Housing Authority, except HSIC which is included in the County Housing Authority.

(C) Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the Authorities as a whole. They include all funds of the Authorities, including the blended component units. The Authorities have no fiduciary funds. The statements distinguish between government and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Authorities' activities are strictly business-type.

Fund Financial Statements:

Fund financial statements of the Authorities are organized into funds, each of which is considered to be 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 assets, revenues, and expenses/expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authorities consider 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 Authorities or if total assets, liabilities, revenues, or expenses of the individual fund are at least 10 percent of the Authorities-Wide total. The Authorities have chosen to report their activity in two funds. Each fund includes the entire activity of each of its housing authorities. Both funds are considered by the Authorities to be major. The Authorities have no non-major funds.

The various funds are grouped by fund type in the combined 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.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 1 (continued)

(D) 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 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 Authorities apply (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

When the Authorities incur an expense for which both restricted and unrestricted resources may be used, it is the Authorities' policy to use restricted resources first and then unrestricted resources as needed.

(E) Interfund Transactions

Certain funds have fiscal years ending June 30 and September 30 to correspond with the reporting periods required by the funding sources of these funds. For this reason, a reconciliation of interfund receivables and payables is not presented. The effect on the financial statements of these differing year ends is not material. See also Note 1.H.

(F) Cash and Cash Equivalents

For the purpose of the cash flows, the Authorities consider all of their cash and investments, including restricted cash, to be cash and cash equivalents. The Authorities consider all of their investments to be highly liquid and, therefore, cash equivalents.

(G) Inventory/Assets Held for Sale

Maintenance supplies - Inventory of maintenance supplies is accounted for using a perpetual inventory system and is valued on a moving average basis. Inventory consists of expendable maintenance supplies held for consumption. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as assets when purchased and expenditures as used. The value of the maintenance supplies inventory as of December 31, 2008 is \$62,010, net of an allowance for obsolete inventory of \$20,670.

Assets held for sale - several of the Authorities' funds administer home ownership programs. Assets held for sale consists of housing units set aside by the Authorities for these home ownership programs. See Note 7 for further discussion.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 1 (continued)

(H) Interfund Activity

Short-term amounts owed between funds are classified as “Due from/to other funds”. Interfund loans are included in “Notes receivable - noncurrent” and “Long-term debt”. Interest on these loans is included in “Other assets” and “Other non-current liabilities”. For the purpose of the Government-Wide Statement of Net Assets, these interfund balances, totaling \$10,310,610, have been eliminated. See also Notes 4, 7 and 8.

The Authorities have various interfund revenue and expenses as follows (see Note 15):

Management and bookkeeping fees	\$ 5,517,628
Insurance costs (See also Notes 21 and 22)	508,850
PILOT contribution agreements	289,565
Centralized maintenance costs	273,354
Rent on the administration building, emergency housing units, and other buildings	231,736
Housing Assistance Payments	222,236
Supportive Housing matching requirement	7,128
Equipment leases	5,748
Interest	201
	<u>\$ 7,056,446</u>

The payment of PILOT by the Public Housing Program has been forgiven by several cities within the County of Fresno, including the City of Fresno, with whom the Authorities have various formal and informal agreements. PILOT was transferred from the Public Housing Programs to the Relinquished Funds. The above interfund revenue and expenses have been eliminated for the purposes of preparing the Government-Wide Statement of Activities.

Interfund transfers were made for the following reasons:

Other State and Local funds were transferred to cover the costs of the Shelter Plus Care Program	\$ 2,220,509
Proceeds from the sale of Public Housing real property (Yosemite Village) were transferred to Other State and Local	1,094,564
Funds were transferred from the Public Housing Programs for the purpose of establishing the Central Office Cost Center	1,100,944
Proceeds from the sale of homebuyer units were transferred from Public Housing Programs to Other State and Local	7,863
Funds were transferred to cover operating costs:	
HOPE 3 to CDBG Home Ownership	30,000
County Capital Fund to County Public Housing	600
	<u>\$ 4,454,480</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 1 (continued)

These operating transfers have been eliminated from the Government-Wide Statement of Activities. Further, the amount above differs from the amount shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The amount shown on that financial statement represents only the amount that was transferred between the two Authorities. In addition, the transfers-in differ from the transfers-out by \$776, which represents reimbursement costs of employee benefits transferred from the Housing Self-Insurance Corporation, in the prior year, to enterprise funds with year ends different than December 31.

Equity transfers for the year total \$680,678. Equity transfers were made to transfer administration equipment, in the amount of \$166,946 and \$120, from Public Housing to the Central Office Cost Center and to Emergency Housing, respectively. The first amount was for the establishment of the Central Office Cost Center. Further, building improvements, in the amount of \$513,612, were transferred from Neighborhood Network and First Five California Programs to the HOPE VI program, which holds the building. These equity transfers have been eliminated from the Government-Wide Statement of Activities. Further, the amount above differs from the amount shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The amount shown on that financial statement represents only the amount that was transferred between the two Authorities. In addition, the transfers-in differ from the transfers-out by \$844, which represents capital assets transferred from the Public Housing Enterprise Funds, in the prior year, to enterprise funds with year ends different than December 31.

(I) 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 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 funds' balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Buildings are being depreciated over a useful life of thirty years, modernization over ten years, and dwelling and other equipment over five years.

(J) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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, including the interest due on the borrowing (excluding interfund borrowing). Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 1 (continued)

(K) Operating Revenue and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Authorities, 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. All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

(L) Income Taxes

The Authorities are exempt from Federal Income and California Franchise Taxes.

(M) Encumbrances

Encumbrance accounting is not employed by the Authorities.

(N) Grant Restrictions

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

Further, if the fund equity of the Authorities' U.S. Department of Agriculture programs exceed certain levels, the payments on these notes must be increased.

Note 2 - CASH AND INVESTMENTS

All cash and investments held by the Authorities are maintained in checking or savings accounts, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury and its agencies, and money market funds invested by Bank of the West in the names of the Housing Relinquished Fund Corporation (HRFC) and the Housing Self Insurance Corporation (HSIC).

Cash and investments as of December 31, 2008, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 36,016,975
Restricted cash	<u>14,774,922</u>
Total cash and investments	<u>\$ 50,791,897</u>

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 2 (continued)

Cash and investments as of December 31, 2008, consist of the following:

Deposit with the State of CA - LAIF	\$ 30,416,768
Deposits with financial institutions	17,572,035
Investments	1,835,793
Held in escrow	442,350
Held by regulatory agencies (CHFA)	340,735
Interest due on the LAIF deposit	182,416
Cash on hand	<u>1,800</u>
Total cash and investments	<u>\$ 50,791,897</u>

Investments Authorized by the Authorities' Investment Policy

The Authorities' Investment Policy allows for the investment of surplus cash in specific investments. The objective of the policy, ranked in decreasing order of importance, are; a) to provide for the safety of the principal, b) to meet the liquidity needs of the Authorities, and c) generate a return on the investment. In order to meet the objectives of the policy, the Authorities may invest in the following types of investments:

- U.S. Treasury Bills, Notes, and Bonds.
- Obligations issued by Agencies or Instrumentalities of the U.S. Government. (Such as Federal Home Loan Bank, Federal Farm Credit Banks and Federal National Mortgage Association.
- Certificates of Deposit and Negotiated Certificates of Deposit of any federally insured institution. Collateralization required if balance exceeds \$100,000.
- Passbook savings demand accounts or other interest bearing bank accounts with a federally insured financial institution. Collateralization required if balance exceeds \$100,000.
- Bankers' Acceptances of the 100 largest banks.
- Corporate Notes meeting Government Code requirements.
- Repurchase Agreements executed against qualifying securities having collateral value in excess of principal invested.
- State of California Local Agency Investment Fund (LAIF).
- Investments must mature within the time specified in the Government Code for each type of investment. Purchases of investments having a maturity in excess of five year must have specific Board approval.

Disclosure 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 the market rates. See the table on the next page for the maturity dates of the Authorities' investments.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 2 (continued)

The Authorities consider the deposits with LAIF to be cash equivalents, due to the fact that they are convertible to cash within a twenty-four hour period.

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 of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. See the tables below for the ratings for the Authorities' various investments. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The Authorities' investments are concentrated as follows.:

**Investment Disclosure
December 31, 2008**

<u>Investment Type</u>	<u>Custodial Institution</u>	<u>Cost</u>	<u>Market Value</u>	<u>Maturity</u>	<u>Rate</u>
Federal Home Loan Bank	Bank of the West	109,593	111,159	3/30/2009	AAA
Fannie Mae	Bank of the West	210,000	210,131	9/19/2014	AAA
Fannie Mae	Bank of the West	225,000	225,462	4/01/2011	AAA
Fannie Mae	Bank of the West	500,000	501,027	4/01/2011	AAA
Fannie Mae	Bank of the West	225,000	225,779	2/20/2018	AAA
Fannie Mae	Bank of the West	100,000	100,053	6/04/2014	AAA
Fannie Mae	Bank of the West	100,000	100,052	7/02/2014	AAA
Freddie Mac	Bank of the West	210,000	210,068	2/15/2018	AAA
Freddie Mac	Bank of the West	148,500	150,075	7/30/2018	AAA
GNMA Pass Thru Pool	Bank of the West	534	491	5/15/2017	AAA
GNMA Pass Thru Pool	Bank of the West	135	124	8/15/2017	AAA
GNMA Pass Thru Pool	Bank of the West	184	173	8/15/2017	AAA
GNMA Pass Thru Pool	Bank of the West	1,199	1,199	12/15/2020	AAA
		<u>\$ 1,830,145</u>	<u>\$ 1,835,793</u>		

These investments are owned by the following blended component units:

Housing Self-Insurance Corporation	\$ 200,105	10.90%
Housing Relinquished Fund Corporation	<u>1,635,688</u>	89.10%
Total investments	<u>\$ 1,835,793</u>	

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

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 2 (continued)

securities that are in the possession of an outside party. The California Government Code and the Authorities' 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 Authorities' 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 Authorities.

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 Authorities' investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The Authorities executed a "General Depository Agreement" with Bank of the West (formerly Sanwa Bank) on June 16, 1994. This agreement states that "any portion of the PHA funds not insured by a Federal insurance organization shall be fully (110%) 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 Authorities' exposure to custodial credit risk is as follows:

Funds deposited with the State of CA LAIF	\$ 30,416,768
Demand deposits with a single bank, covered by a depository agreement	17,520,340
Government securities	1,835,793
Funds held in escrow with a title company	387,350
Funds held by the State of CA - CHFA	340,735
LAIF - interest receivable reported as cash	182,416
Funds held in escrow with a financial institution - general ledger understatement	67,813 (12,813)
Demand deposits with a second financial institution, covered by FDIC	51,695
Cash on hand	<u>1,800</u>
Total cash and investments	<u>\$ 50,791,897</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 2 (continued)

The Authorities are voluntary participants 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 secures investments in LAIF.

At December 31, 2008, accounts were maintained in the name of the Housing Authority of the City of Fresno for \$15,905,862, the Housing Authority of the County of Fresno for \$12,657,751, the Housing Relinquished Fund Corporation for \$141,102, and the Housing Self-Insurance Corporation for \$1,712,053. The total cost value of investment in LAIF was \$30,416,768. The total fair value of investments in LAIF was \$30,508,426. The fair value total includes an unrealized gain on investments of \$91,658. The unrealized gain was based on a fair value adjustment factor of 1.003013411 that was calculated by the State of California Treasurer's Office. This unrealized gain was not recorded by the Authorities and is considered immaterial.

At December 31, 2008, the market value of the State of California Pooled Money Investment Account (PMIA) including accrued interest was \$63,610,592,461, which included the LAIF. The PMIA portfolio had securities in the form of structured notes totaling \$6,555,846,000 and asset-backed securities totaling \$1,625,227,000. 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. LAIF's and the Authorities' exposure to credit, market, or legal risk is not available.

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 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.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 3 - RESTRICTED CASH

Restricted cash consists of funds that cannot be disbursed by the Authorities unless approval is obtained from another government agency, funds held by mortgagors, and funds held by the Authorities on behalf of clients. These balances are as follows:

Offset by restricted net assets (Note 13.B.):	
HUD funds restricted in use for HAP payments only	\$ 8,578,089
Held by Authorities for USDA project replacement	2,193,836
Held by CHFA for Parkside Apartments	202,328
Held by CHFA for Garland Gardens	138,407
Offset by payable from restricted assets (Note 12):	
Held by Authorities for retirees' health insurance program (Note 18)	1,461,753
Held by Authorities on behalf of FSS program participants	905,441
Held by Authorities on behalf of tenants for security deposits	647,347
Held by Authorities as a retirees' medical trust fund (See also Note 18)	139,392
Held by Authorities on behalf of homebuyer program participants	35,979
Other:	
Held by a title company for future capital expenditures	387,350
Held by Wells Fargo Bank, offset by bonds issued thru Bank of America	55,000
Held by Authorities as a performance deposit required by the California Debt Limit Allocation Committee (CDLAC)	<u>30,000</u>
Total restricted cash	<u>\$ 14,774,922</u>

Funds held by the California Housing Finance Agency (CHFA) can only be used for major repairs or insurance on the associated project, upon receipt of prior written approval from CHFA. The amounts held for the replacement of the USDA projects cannot be disbursed without the approval of the USDA Rural Economic and Community Development.

The funds held by CHFA, excess HAP funds, and the funds held for the replacement of the USDA program projects are also reported as restricted net assets. The amounts held by the Authorities on behalf of program participants, tenants, and retirees are also reported as payable from restricted assets. The funds held by Wells Fargo are offset by long-term liabilities. The deposit required by CDLAC and the escrow funds held with Stewart Title do not have a corresponding liability.

Please see the prior note to determine interest rates and credit risks for the above restricted cash.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 4 - NOTES RECEIVABLE

The following is a summary of changes in notes receivable as of December 31, 2008:

	Balance 12/31/07	Additions	Payments Received	Other	Balance 12/31/08
Short-term:					
Computer purchase	\$ 6,508	\$ -	\$ (7,082)	\$ 4,080	\$ 3,506
Total short-term	<u>6,508</u>	<u>-</u>	<u>(7,082)</u>	<u>4,080</u>	<u>3,506</u>
Long-term:					
Computer purchase	4,080	-	-	(4,080)	-
City of Clovis	500,000	-	-	-	500,000
Fresno Canyon Springs LP Better Opportunities Builders, Inc	500,000	-	-	-	500,000
	<u>300,000</u>	<u>300,000</u>	<u>(175,000)</u>	<u>-</u>	<u>425,000</u>
Subtotal long-term	<u>1,304,080</u>	<u>300,000</u>	<u>(175,000)</u>	<u>(4,080)</u>	<u>1,425,000</u>
Interfund:					
Short-term:					
City Relinquished Fund from YEC Limited	-	401,838	-	-	401,838
Long-term:					
City Relinquished Fund from various	2,267,295	210,389	-	-	2,477,684
HRFC from various	1,500,117	-	-	-	1,500,117
CHFA Help Loan fund From Parc Grove LP	989,412	-	-	-	989,412
Other State and Local from YEC Limited Partnership	-	990,000	-	-	990,000
HOPE 3 from HOPE VI	-	732,540	-	-	732,540
City Public Housing from Admin Office Fund	145,300	-	-	(145,300)	-
Central Office Cost Center From Admin Office Fund	-	-	-	145,300	145,300
County Relinquished Fund from various	34,200	-	-	-	34,200
Subtotal l/t interfund	<u>4,936,324</u>	<u>1,932,929</u>	<u>-</u>	<u>-</u>	<u>6,869,253</u>
Subtotal interfund	<u>4,936,324</u>	<u>2,334,767</u>	<u>-</u>	<u>-</u>	<u>7,271,091</u>
Total Notes Receivable	<u>\$ 6,246,912</u>	<u>\$ 2,634,767</u>	<u>\$ (182,082)</u>	<u>\$ -</u>	<u>\$ 8,699,597</u>
Total Short-Term	\$ 6,508	\$ 401,838	\$ (7,082)	\$ 4,080	\$ 405,344
Total Long-Term	<u>6,240,404</u>	<u>2,232,929</u>	<u>(175,000)</u>	<u>(4,080)</u>	<u>8,294,253</u>
Total Notes Receivable	<u>\$ 6,246,912</u>	<u>\$ 2,634,767</u>	<u>\$ (182,082)</u>	<u>\$ -</u>	<u>\$ 8,699,597</u>

Shown as notes receivable are loans made to employees for computer purchases. Repayment of these loans is made directly through employee payroll deductions. This program was discontinued by Board action in 2008. In the future, no new loans will be issued.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 4 (continued)

The Authorities administer a first time home buyer program, originally funded by HUD, utilizing a HOPE 3 grant. Under this program the Authorities developed properties for the purpose of selling them to qualified low and moderate income families. These loans accrue no interest unless the borrower defaults on the loan, in which case the loan accrues interest at a rate of ten percent per annum. No payment is due on the loan unless the borrower sells or transfers the property or any interest therein. These notes hold their value for six years from date of execution and thereafter are forgiven on a monthly basis through the twentieth year from the date of execution. Since these loans are intended to be forgiven and not collected, the Authorities have removed them from assets. As of December 31, 2008, \$181,627 of these loans were outstanding.

The Authorities' have purchased a \$500,000 subordinate, multifamily housing revenue bond for the Silvercrest at Clovis Project. The bond was purchased with Public Housing homebuyer reserve proceeds. The proceeds of the bond were used to develop an apartment complex for seniors in the City of Clovis. The bond matures September 1, 2040 and accrues interest at a rate of 1% per annum. Annual principal and interest payments depend on the residual cash flows of this future tax credit project. No payments have been received on this loan.

The Authorities have loaned \$500,000 to Fresno Canyon Springs LP, a California limited partnership. This loan was made using Public Housing homebuyer reserve proceeds. The funds will help finance the construction of a twenty-eight unit, affordable housing, tax credit project. The loan is amortized over thirty years, matures January 12, 2033, and carries a simple interest rate of 4% per annum. Payments on this loan are due only if the project generates residual receipts. Interest on this loan of \$121,205 has been accrued and is reported as other noncurrent assets, while \$20,055 is reported as income for the fiscal year ended December 31, 2008. No payments have been received on this loan.

The Authorities have made two loans to Better Opportunities Builders (BOB), Inc. The first loan is unsecured and interest free. The balance on this loan at the beginning of the year was \$300,000. The Authorities and BOB agreed to offset this loan with another due to BOB in the amount of \$175,000. This left a balance due from BOB of \$125,000 at year end. See also Note 8. The second note, for \$300,000, was made during 2008. It is interest free, due in 30 years, and secured by property owned by BOB. See also Note 19, BOB is considered to be a related party of the Authorities.

The Authorities have made various interfund loans. These interfund notes receivable are offset by interfund notes payable (See also Note 9). These majority of these interfund loans carry no interest. However, on March 28, 2008, the Board approved an interfund loan, not to exceed \$300,000, from the City Relinquished Fund to the HOPE VI program to cover the marketing costs of the units held for sale. This loan accrues simple interest at a rate of 3% per annum. As of December 31, 2008, \$33,880 had been drawn and \$201 interest had accrued on the loan.

The CHFA HELP Loan Fund borrowed \$989,412 from the State and loaned the funds to Parc Grove LP. This loan earns interest at a rate of 3.5% per annum. Parc Grove LP incurs the interest expense, while CHFA HELP Loan Fund holds the liability. These transactions are offset by interfund asset/liability for the total interest owed of \$51,689 as of December 31, 2008.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
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DECEMBER 31, 2008

(Continued)

Note 5 - CAPITAL ASSETS

The following is a summary of the Authorities' changes in capital assets for the fiscal year ended December 31, 2008:

	Balance 12/31/07	Additions	Deletions	Adjustments and Transfers	Balance 12/31/08
Public Housing (SF-170)	\$ 56,678,512	\$ 477,045	\$ (5,946,554)	\$ (1,021,458)	\$ 50,187,545
Public Housing (SF-199)	57,418,582	1,561,841	(9,593)	(313,885)	58,656,945
Section 8 (SF-472)	1,924,709	7,494	(1,360)	-	1,930,843
Section 8 (SF-604)	100,513	-	(568)	-	99,945
CHFA Garland Gardens	2,818,514	-	(595)	4,249	2,822,168
CHFA Parkside Apts.	2,303,091	3,243	(393)	2,100	2,308,041
U.S. Dept of Agriculture - City	2,633,544	-	(544)	-	2,633,000
U.S. Dept of Agriculture - County	7,883,796	-	(404)	19,384	7,902,776
USDA - Migrant Center	2,741,930	-	-	-	2,741,930
Emergency Housing	19,233	6,884	(1,448)	4,976	29,645
Redevelopment Agency	47,885	-	(274)	-	47,611
Relinquished Fund 4835	1,230,222	-	(2,658)	-	1,227,564
Relinquished Fund LC-25	600,017	-	(2,436)	(19,384)	578,197
Administration Buildings	3,038,152	5,375	-	-	3,043,527
El Cortez Apartments	1,526,512	-	-	-	1,526,512
Dayton Square	1,955,650	-	-	-	1,955,650
Woodside Apartments	2,644,796	-	-	-	2,644,796
Del Ray	161,392	-	-	-	161,392
HOPE VI	4,171,012	380	(1,044,757)	(461,308)	2,665,327
Neighborhood Network	149,832	1,245	-	(125,000)	26,077
First 5 Fresno	388,612	-	-	(388,612)	-
CHFA HELP	1,425,283	41,791	(826)	-	1,466,248
Central Office Cost Center	-	14,518	-	1,335,046	1,349,564
Supportive Housing (HMIS)	177,831	-	-	-	177,831
MCC	9,094	-	(9,094)	-	-
HOPE 3	3,051	-	-	-	3,051
YEC Limited Partnership	152,962	2,080,147	-	-	2,233,109
Parc Grove	1,684,469	686,496	-	-	2,370,965
	<u>\$153,889,196</u>	<u>\$ 4,886,459</u>	<u>\$ (7,021,504)</u>	<u>\$ (963,892)</u>	<u>\$150,790,259</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 5 (continued)

The Authorities have chosen to calculate depreciation on a straight-line basis with the useful lives of capital assets being - 30 years for buildings, 10 years for modernization costs, and 5 years for equipment. The following is a summary of the Authorities' changes in depreciation for the fiscal year ended December 31, 2008:

	Balance <u>12/31/07</u>	Prior Period <u>Adjustment</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>12/31/08</u>
Public Housing (SF-170)	\$ (39,943,476)	\$ (4,671)	\$ (2,459,088)	\$ 2,725,655	\$ 886,759	\$ (38,794,821)
Public Housing (SF-199)	(41,081,400)	(830,592)	(1,817,707)	9,521	281,518	(43,438,660)
Section 8 (SF-472)	(1,651,302)	-	(145,144)	1,110	-	(1,795,336)
Section 8 (SF-604)	(89,865)	-	(1,108)	569	-	(90,404)
CHFA Garland Gardens	(2,240,035)	-	(125,380)	594	(4,066)	(2,368,887)
CHFA Parkside Apts.	(2,104,152)	-	(77,367)	394	(2,001)	(2,183,126)
U.S. Dept of Agriculture:						
- City	(1,455,732)	-	(80,382)	543	-	(1,535,571)
- County	(5,543,000)	-	(233,716)	404	(19,384)	(5,795,696)
USDA - Migrant	(2,249,328)	-	(87,987)	-	-	(2,337,315)
Emergency Housing	(14,964)	-	(1,888)	1,118	(4,806)	(20,540)
Redevelopment Agency	(45,403)	-	(2,483)	275	-	(47,611)
Relinquished Fund 4835	(775,978)	-	(37,777)	1,202	-	(812,553)
Relinquished Fund LC-25	(588,237)	-	(1,859)	2,437	19,384	(568,275)
Administration Building	(1,203,910)	-	(114,111)	-	-	(1,318,021)
El Cortez Apartments	(578,768)	-	(42,884)	-	-	(621,652)
Dayton Square	(660,174)	-	(52,862)	-	-	(713,036)
Woodside Apartments	(833,266)	-	(76,187)	-	-	(909,453)
HOPE VI	-	-	(22,861)	-	-	(22,861)
Central Office Cost Center	-	-	-	-	(1,168,100)	(1,168,100)
Supportive Housing (HMIS)	(130,386)	-	(21,797)	-	-	(152,183)
MCC	(9,094)	-	-	9,094	-	-
HOPE 3	(3,051)	-	-	-	-	(3,051)
	<u>\$ (101,201,521)</u>	<u>\$ (835,263)</u>	<u>\$ (5,402,588)</u>	<u>\$ 2,752,916</u>	<u>\$ (10,696)</u>	<u>\$ (104,697,152)</u>
Land	\$ 4,694,444	\$ -	\$ 176,000	\$ (37,301)	\$ -	\$ 4,833,143
Construction in progress	16,979,664	-	3,730,396	(1,045,583)	(3,350,247)	16,314,230
Buildings	122,869,375	-	924,000	(5,220,159)	2,343,060	120,916,276
Equipment - dwelling	3,624,584	-	27,245	(597,462)	11,028	3,065,395
Equipment - administration	5,721,129	-	28,818	(120,999)	32,267	5,661,215
Total	<u>153,889,196</u>	<u>-</u>	<u>4,886,459</u>	<u>(7,021,504)</u>	<u>(963,892)</u>	<u>150,790,259</u>
Less accumulated depreciation:						
Buildings	(93,185,356)	(825,912)	(4,893,047)	2,054,443	-	(96,849,872)
Equipment - dwelling	(3,250,987)	(5,136)	(160,689)	578,563	271,844	(2,566,405)
Equipment - administration	(4,765,178)	(4,215)	(348,852)	119,910	(282,540)	(5,380,875)
Total	<u>(101,201,521)</u>	<u>(835,263)</u>	<u>(5,402,588)</u>	<u>2,752,916</u>	<u>(10,696)</u>	<u>(104,697,152)</u>
Net Capital Assets	<u>\$ 52,687,675</u>	<u>\$ (835,263)</u>	<u>\$ (516,129)</u>	<u>\$(4,268,588)</u>	<u>\$ (974,588)</u>	<u>\$ 46,093,107</u>

Adjustments to capital assets include \$974,920 transferred to assets held for sale in the HOPE VI program. The remaining \$332 amount reported as "transfers" represents assets transferred from Public Housing in the prior year to programs with a June 30 or September 30 fiscal year end. Therefore, the transfers-out were reported last year, while the transfers-in appear in this year's activity.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 6 - DEPOSITS

The City of Fresno required a \$1,482,000 deposit to ensure adequate completion of the infrastructure associated with the HOPE VI subdivision know as Sierra Pointe. These funds were supplied by the Affordable Housing Enterprise Fund. The funds are being held by Bank of the West in the name of the City of Fresno in four interest bearing certificates of deposit. The value of these deposits as of December 31, 2008 was \$1,486,667. No interest was accrued to the Authorities books of accounts during the current fiscal year. The deposit, plus interest earned, is expected to be returned to the Authorities once the infrastructure for the subdivision is fully in place and the work has been approved by the City of Fresno. It is the Authorities opinion that these conditions will be met within the year, therefore the deposits are reported as short-term assets. The cost of the infrastructure is being funded by the HOPE VI grant.

Note 7 - ASSETS HELD FOR SALE

Assets held for sale consists of Public Housing units that have been approved by HUD and the Authorities' Boards of Commissioners to be sold and Redevelopment Agency Program and HOPE VI Program properties that are being developed for resale. The assets held for sale are owned by the following funds:

HOPE VI Program	\$ 3,321,980
City Redevelopment Agency Program	2,267,304
City Public Housing Program	476,580
County Public Housing Program	408,251
City Capital Fund Grant Program	<u>119,160</u>
	<u>\$ 6,593,275</u>

The purpose of the Public Housing Home Buyer Program, administered by the Authorities and sanctioned by HUD, is to sell single family homes, originally owned by the Public Housing Programs, to qualified low and moderate income families. These units are valued at historical cost less depreciation up to the date that they were made available for resale. After that date, no further depreciation has accrued to these units. The home's sale price is determined when the family is approved to participate in the program and is based on an appraisal of the home at that time. Upon completion of the program and purchase of the home, a promissory note is generated for the difference between the appraised value of the home at the time of purchase and the actual sales price. These subordinated loans are forgiven once the family has occupied the home for more than five years. These loans are not accounted for in the Authorities' books of accounts, since they are meant to be forgiven. The total loans outstanding are unknown.

The Authorities sold no Public Housing Program units during the fiscal year ended December 31, 2008. One prior homeownership participant sold or refinanced their property within the first five years of their deferred loan term. This triggered the repayment of a portion of their loan. The Authorities

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 7 (continued)

collected \$7,863 on this City loan, which was transferred to the Low Income Housing Opportunity Program (Other State and Local Program).

The purpose of the Redevelopment Agency's homebuyer program is to acquire property in targeted areas, rehabilitate the properties and sell them to qualified low and moderate income families. The Authorities acquired and rehabilitated properties at a cost of \$264,657 during the current fiscal year. The Authorities sold no units during the current fiscal year.

The purpose of the HOPE VI program is to develop an entire community consisting of rental units, homebuyer units, and a community center. Fifty-three lots are being developed by the Authorities for sale to low and moderate income families. During the fiscal year ended December 31, 2007, \$974,920 of the costs associated with this homebuyer program were capitalized. These funds were transferred to assets held for sale during the current year. The Authorities incurred another \$3,902,572 developing these units during the current fiscal year. Due to the decrease in housing sale prices in the Fresno area, the Authorities expensed \$1,555,512 of these development costs. Management believes that the current book value of the assets approximates market value for these homes.

Note 8 - OTHER ASSETS

Other assets consists of the following:

Interest accrued on a bond (See also Note 4)	\$ 121,205
Investment in partnership (YEC Limited Partnership)	110,000
Loan costs on the three loans with Bank of the West	81,565
Amortization of loan costs (\$8,151 expensed this year)	(40,076)
Organizational costs of Villa Del Mar, Inc	5,756
Amortization of organizational costs (\$472 expensed this year)	(5,520)
Investment in partnership (Silvercrest and Villa Del Mar)	<u>150</u>
Other assets	273,080
Interfund interest receivable (See also Note 4)	<u>51,890</u>
Other assets, including interfund assets	<u>\$ 324,970</u>

Other assets include \$110,000 investment in YEC Limited Partnership. This was contributed by the partnership's two general partners; Silvercrest Inc and the Housing Authority of the City of Fresno. Since all three entities are considered to be one reporting entity as defined by Section 2100 of GASB (see Note 1.B.), the contribution received by YEC Limited Partnership is reported as revenue in the Statement of Revenue, Expenses, and Changes in Fund Net Assets. This is not an interfund transaction and has not been eliminated in any of the financial statements.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 9 - NOTES PAYABLE

Following is a summary of changes in notes payable for the year ended December 31, 2008:

	<u>Balance</u> <u>12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/08</u>	<u>Short-term</u> <u>Portion</u>
U.S. Department of Agriculture Notes	\$ 3,477,991	\$ -	\$ (272,596)	\$ 3,205,395	\$ 275,624
CHFA Mortgages					
- Garland Gardens	1,763,959	-	(68,484)	1,695,475	75,162
- Parkside	1,482,157	-	(65,769)	1,416,388	71,493
- HELP Program	2,382,447	-	-	2,382,447	-
Mortgages:					
El Cortez Apartments	1,150,780	-	(31,642)	1,119,138	31,757
Dayton Square	1,570,082	-	(43,097)	1,526,985	43,253
Woodside Apartments	1,851,163	-	(50,828)	1,800,335	51,012
Yosemite Village:					
Bridge loan	-	912,032	-	912,032	-
Bonds	-	55,000	-	55,000	55,000
Line of credit	-	486,020	-	486,020	486,020
Related Parties:					
BOB	<u>175,000</u>	<u>-</u>	<u>(175,000)</u>	<u>-</u>	<u>-</u>
Subtotal	<u>13,853,579</u>	<u>1,453,052</u>	<u>(707,416)</u>	<u>14,599,215</u>	<u>1,089,321</u>
Interfund:					
City Public Housing (PH) to HRFC	298,096	1	(200,000)	98,097	-
Admin building fund to various	977,358	-	-	977,358	-
Affordable hsg fund to various	983,681	-	-	983,681	-
HOPE VI to various	-	942,928	-	942,928	-
City relinquished fund to HRFC	526,365	-	-	526,365	-
County relinquished fund to HRFC	655,656	-	-	655,656	-
YEC Limited to various	-	1,391,838	-	1,391,838	401,838
Parc Grove Commons, LP to various	1,489,412	-	200,000	1,689,412	-
Villa Del Mar, Inc to city RF	<u>5,756</u>	<u>-</u>	<u>-</u>	<u>5,756</u>	<u>-</u>
Interfund total	<u>4,936,324</u>	<u>2,334,767</u>	<u>-</u>	<u>7,271,091</u>	<u>401,838</u>
Grand total	<u>\$18,789,903</u>	<u>\$ 3,787,819</u>	<u>\$ (707,416)</u>	<u>\$21,870,306</u>	<u>\$ 1,436,159</u>

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 9 (continued)

Following is a schedule of debt payment requirements to maturity for notes payable other than the bonds, interfund balances, and the interest on the other notes due to unpredictable variable rates:

Year Ending December 31	Notes with Government Agencies		Mortgages		Other		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2009	\$ 422,279	\$ 297,689	\$ 126,022	\$ 225,715	\$ 486,020	\$ -	\$ 1,557,725
2010	438,753	281,380	139,274	218,717	912,032	-	1,990,156
2011	456,346	263,787	146,353	211,362	-	-	1,077,848
2012	455,846	244,793	153,270	204,444	-	-	1,058,353
2013	539,636	236,465	161,535	195,407	-	-	1,133,043
2014 - 2018	4,639,083	1,371,256	3,720,004	2,620	-	-	9,732,963
2019 - 2023	1,298,642	151,378	-	-	-	-	1,450,020
2024 - 2028	191,138	17,654	-	-	-	-	208,792
2029 - 2033	200,888	7,904	-	-	-	-	208,792
2034 - 2038	57,094	367	-	-	-	-	57,461
	<u>\$8,699,705</u>	<u>\$2,872,673</u>	<u>\$4,446,458</u>	<u>\$1,058,265</u>	<u>\$1,398,052</u>	<u>\$ -</u>	<u>\$ 18,475,153</u>

The USDA notes accrue interest at 1% per annum and require monthly payments of \$25,488. The Garland Gardens CHFA note accrues interest of 9.34% per annum and requires a monthly payment of \$19,196. The Parkside CHFA project has two loans with the State of California. The first note requires a monthly payment of \$15,178 and accrues interest at a rate of 8.33% per annum. The second loan of \$63,000 accrues interest at a rate of 3% per annum. This loan, principal and interest, is deferred until March 1, 2020.

The Authorities have entered into loan agreements with the California Housing Finance Agency (CHFA). The purpose of the first loan is to establish a revolving source of funds to finance the acquisition/ demolition and construction/rehabilitation costs for an infill and substandard single-family housing program. The purpose of the second loan is to establish a revolving loan fund to assist with the development of ownership housing. The purpose of the third loan is to fund a revolving loan program that will provide short-term financing for the development of multifamily rental housing projects. Payment of interest and principal on these loans is deferred until the due date. Balances and terms of these three loans are as follows:

Date of the loan	Interest Rate	Due Date	Available	Drawn	Interest Accrued
2/5/2003	3%	2/5/2013	\$ 550,000	\$ 77,605	\$ 2,509
2/17/2004	3%	2/17/2014	1,600,000	1,315,430	69,713
3/21/2007	3.5%	3/21/2014	1,000,000	989,412	51,689
			<u>\$ 3,150,000</u>	<u>\$ 2,382,447</u>	<u>\$ 123,911</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 9 (continued)

During 2007, \$989,412 of these CHFA funds were drawn and loaned to Parc Grove Commons, LP a blended component unit of the Authorities'. This loan is also shown as interfund notes. The interest accrued of \$51,689 is reported as noncurrent liabilities - other as well as interfund noncurrent liabilities.

On January 14, 2004, the Authorities borrowed \$5,000,000 from the Bank of the West, with the purpose of refinancing the debt on its three apartment complexes that represent its Business Activities Enterprise Fund. Each of the three loans are secured by a different apartment complex. The loans are due January 5, 2014, require monthly payments of interest that accrue at the adjusted LIBOR rate, and require payment of principal that increase on an annual basis. The interest payments noted above are based on the original interest rate of 5.16%. The total monthly principal payments change each February as follows: 2009 - \$11,089; 2010 - \$11,653; 2011 - \$12,245; 2012 - \$12,820; and 2013 - \$13,519. A balloon payment is due January 5, 2014 of \$3,716,138. These loans are an interest rate derivative transaction. The amount owed on these loans as of December 31, 2008 was \$4,446,458. The interest rate on these loans as of December 31, 2008 was 2.8%. The total market value of these loans as of December 31, 2008, was unknown.

The Authorities have an unsecured line of credit with the Bank of the West. As of December 31, 2008, the Authorities had drawn \$486,020 of the \$4,000,000 available balance. Interest accrues on this loan at 4% per annum. The Authorities consider all draws on this line of credit to be due within one year and therefore are reported on the Statement of Net Assets as short-term liabilities. Since payments on this line of credit are not structured, no interest amounts for this loan have been included in the debt payment requirements table above.

During the current fiscal year YEC Limited Partnership, a California Limited Partnership, received funding for the construction of a 69-unit affordable housing development in the City of Fresno. The Authority is a general partner in YEC Limited Partnership. On November 18, 2008, YEC Limited Partnership received a bridge loan from PNC Bank in the amount of \$912,032. This loan is due January 1, 2010 or, if the bridge loan is extended, July 1, 2010. The loan earns interest at the greater of the Prime Rate or the Federal Funds Effective Rate plus one percent per annum. No interest amounts for this loan have been included in the debt payment requirements table above.

During 2008, the Authorities issued multifamily revenue draw-down bonds in the amount of \$6,000,000. The bonds were issued on behalf of YEC Limited Partnership, a California Limited Partnership. Bank of America is the lender, with Wells Fargo Bank as the trustee. As of December 31, 2008, \$55,000 of these bonds had been issued. The trustee held \$67,813 in trust for this issuance as of December 31, 2008. These bonds are due October 1, 2009, and are considered to be short-term.

The Authorities have made various interfund loans. These interfund loans are offset by interfund notes receivable (see also Note 4). The majority of these interfund loans carry no interest; however, see Note 4 for a discussion of the interfund interest activity. These loans and the interest accrued have been eliminated in the Government-Wide Statement of Net Assets.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 9 (continued)

During the fiscal year ended December 31, 1999, HUD directed the Authorities to remove all HUD-guaranteed debt from their books of accounts. This debt included \$24,821,775 of HUD permanent notes and \$16,510,740 of interest accrued on these notes, \$1,114,740 of outstanding Federal Financing Bank notes, and \$1,380,000 of outstanding New Housing Bonds. These HUD-guaranteed notes and bonds have not been forgiven by HUD. The Public Housing Programs' Annual Contributions Contract (ACC) states that all debt service requirements related to these notes will be HUD's responsibility. It is therefore management's opinion, that the Authorities are not liable for these notes unless the federal government fails to honor the ACC. Accordingly, these amounts have been removed from the Authorities' books of accounts.

Interest activity for the loans are as follows:

	<u>Expensed</u>	<u>Capitalized</u>	<u>Paid</u>	<u>Payable Current</u>	<u>Payable Noncurrent</u>
USDA	\$ 35,820	\$ -	\$ 33,259	\$ -	\$ -
CHFA - Garland Gardens	161,871	-	161,871	-	-
CHFA - Parkside Apartments	118,258	-	116,368	-	11,327
CHFA - HELP loan	-	41,791	-	-	123,911
YEC Limited Partnership:					
Bridge loan	-	1,419	1,419	-	-
Bonds	-	696	609	216	-
Line of Credit	-	3,826	3,826	-	-
Mortgage - El Cortez	57,293	-	44,300	4,285	-
Mortgage - Dayton	75,400	-	57,714	5,843	-
Mortgage - Woodside	88,906	-	68,045	6,890	-
	<u>537,548</u>	<u>47,732</u>	<u>487,411</u>	<u>17,234</u>	<u>135,238</u>
Interfund loans	<u>201</u>	<u>34,629</u>	<u>-</u>	<u>-</u>	<u>51,890</u>
Grand totals	<u>\$ 537,749</u>	<u>\$ 82,361</u>	<u>\$ 487,411</u>	<u>\$ 17,234</u>	<u>\$ 187,128</u>

Note 10 - COMPENSATED ABSENCES

It is the Authorities' policy to permit employees to accumulate earned but unused vacation leave, which will be paid to employees upon separation from the Authorities' service or used in future periods. The Authorities permit employees to accumulate earned but unused sick leave which will be used in future periods, paid to the employee upon termination, or paid to the employee upon retirement. Upon termination employees are paid 25% of the value of their unused sick leave. Upon retirement, employees are paid 50% of the value of their unused sick leave. Accrued vacation and vested sick leave have been valued by the Authorities at \$603,505 and \$188,124, respectively, as of December 31, 2008. The valued compensated absences as of December 31, 2008 of \$791,629 differ from the reported balance of \$759,645, due to the balances contained in programs with year ends different than December 31. The difference is not material. The Authorities reported \$517,463 of the total \$759,645 reported compensated absences as current liabilities. The accrued sick leave amount represents 25% of the valuation of unused sick leave for all employees at December 31, 2008, except for the Executive Director which is entitled to 100% of the value of his sick leave upon request.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 11 - DEFERRED REVENUE

Deferred revenue consists of prepaid rents collected for the various rental housing administered by the Authorities and prepaid services of the Supportive Housing Program.

Note 12 - PAYABLE FROM RESTRICTED ASSETS

As of December 31, 2008, payable from restricted assets consisted of the following:

Retirees' future health insurance costs (see also note 3 and 18)	\$ 1,461,753
Family Self Sufficiency participant escrows - Housing Choice Voucher Programs (see also Note 3)	905,441
Tenant security deposits	647,023
Retiree's medical trust fund (see also note 3 and 18)	139,392
Home buyer reserves - Public Housing Programs (see also Note 3)	<u>35,979</u>
Total amount payable from restricted assets	<u>\$ 3,189,588</u>

Note 13 - NET ASSETS

A. Investment in Capital Assets, Net of Related Debt

Investments in capital assets, net of related debt consists of the following:

Fixed assets, net of depreciation (see also Note 5)	\$ 46,093,107
Long-term Debt (omitting interfund balances) (see also Note 9)	(14,599,215)
Unsecured debt included above (see also Note 9)	486,020
Accrued interest on long-term debt (See also Note 9)	<u>(152,472)</u>
Investment in capital assets, net of related debt	<u>\$ 31,827,440</u>

B. Restricted Net Assets

Net assets are reported as restricted when constraints placed on the net assets 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 Authorities have reported the following as restricted net assets:

Excess HAP funds	\$ 8,578,089
HOPE VI Program	3,293,978
Redevelopment Agency Program	2,297,310
USDA replacement reserves	1,871,927
USDA/Migrant replacement reserves	321,909
CHFA replacement and insurance reserves	336,600
Migrant operating reserves	<u>168,216</u>
Total restricted net assets	<u>\$ 16,868,029</u>

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Note 13 (continued)

On January 11, 2006, HUD issued *Notice PIH 2006-03*. On January 30, 2008, HUD issued *Notice PIH 2008-09*. Both notices address the proper manner in which HUD receipts should be accounted for and reported to HUD REAC. *Notice PIH 2006-03* instructed PHAs to no longer account for the Housing Choice Voucher grant as a cost reimbursement grant. All HUD funding received for this grant was to be retained by the Authorities, with any excess HAP funding restricted as to its use - "may only be used to assist additional families up to the number of units under contract." While *Notice PIH 2008-09* clarified the fact that all unused HAP funding should be reported as "restricted net assets."

The revenue recognition directives contained in the Notices are a departure from the revenue recognition policy of years prior to 2005. In prior years, HUD grant revenue was recognized only to the extent that HAP expenses were incurred. During the most recent four years, HUD grant revenue has been recognized when received, regardless of whether or not HAP expenses have been incurred. The current excess HAP funding balance is made up of the following:

	<u>City</u>	<u>County</u>	<u>Disabled</u>	<u>Total</u>
Balance as of December 31, 2007	\$ 3,069,935	\$ 848,053	\$ 19,848	\$ 3,937,836
Prior period adjustment - HAP	185,149	161,550	(16,464)	330,235
Interest	11,446	(587)	-	10,859
Excess HAP funding (used)	2,568,093	1,315,702	(3,739)	3,880,056
Interest earned on excess funding	119,344	40,141	355	159,840
FSS escrow forfeitures	<u>123,599</u>	<u>135,664</u>	-	<u>259,263</u>
Balance as of December 31, 2008	<u>\$ 6,077,566</u>	<u>\$ 2,500,523</u>	<u>\$ -</u>	<u>\$ 8,578,089</u>

In May 2009, HUD advised all housing authorities of the calendar year 2009 HAP renewal funding. Within this calculation, HUD assessed the amount of excess HAP funding held by housing authorities. A portion of this excess HAP funding will be recaptured during 2009 from most housing authorities. The County Authority will have \$188,991 of the above excess HAP funding recaptured. The City Authority will have no funds recaptured.

The HOPE VI Program and the Redevelopment Agency Program (RDA) amounts represent assets held for sale. Once the RDA assets are converted to cash, they must be used to cover current expenditures of the RDA program or be returned to the City Redevelopment Agency. The proceeds received on the sale of the HOPE VI Program assets can only be used to develop more housing unit stock for sale to moderate and low income home buyers. Therefore, it would be inappropriate to show these amounts as unrestricted net assets.

The replacement reserves are fully funded (see also Note 3). The USDA reserves are held by the Authorities and may not be spent without prior written approval of the U.S. Department of Agriculture. The CHFA reserves are held by the California Housing Finance Agency and will not be disbursed without their approval.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 13 (continued)

The final figure is the amount of excess operating grants received from the California State Department of Housing and Community Development (HCD) for the two Migrant Programs that the Authorities administer on behalf of the State of California. These funds may only be used to fund future operating expenses of the Migrant Programs.

C. Deficit Net Assets

Both the City and County CHFA programs had deficit net asset balances as of June 30, 2008 and 2007 (their fiscal year end). The deficit is primarily due to the fact that the Authorities chose to depreciate the historical cost of the capital assets for these programs over a useful life of thirty years on a straight-line basis; while the CHFA loans, obtained to cover the development costs of these capital assets, are being repaid over forty years. Assets are therefore decreasing at a faster rate than the liabilities are being paid down. The result of which is a deficit net assets balance in these two programs.

In addition, as of December 31, 2008, the following programs have deficit unrestricted net assets balances:

	12/31/08	12/31/07
County CHFA - Parkside Apartments (6/30 FYE)	\$ (23,749)	\$ (16,811)
City Administration Building	(331,698)	(599,354)
Parc Grove Commons LP	(1,329,864)	(677,997)
YEC Limited Partnership	(1,175,522)	(152,962)

Note 14 - PRIOR PERIOD ADJUSTMENT

The Authorities received \$346,699 from HUD during 2008. This funding was the Authorities' portion of the final allocation of 2007 set-aside funds for the Housing Choice Voucher Program. These funds are to be used for HAP only and therefore are reported as part of restricted net assets.

The Authorities administer a Shelter Plus Care Program funded by HUD. During the prior fiscal year it was determined that the Authorities had not administered this program in compliance with the grant agreements. During 2009, management determined that \$864,637 of the more than \$2.7 million of unallowable program costs was received and recorded as HUD grant revenue prior to January 1, 2008. These funds will be returned to HUD during 2009; and therefore, were removed from net assets and reported as a liability due back to HUD as of December 31, 2008.

The Disaster Voucher Program came to an end during the current fiscal year. The Authorities held excess HAP funds for this program in the amount of \$16,464. These funds were removed from net assets and reported as a liability due back to HUD as of December 31, 2008.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 14 (continued)

The Authorities incurred pre-development costs of \$1,044,756 prior to January 1, 2008, on the property being developed by the HOPE VI Grant Program. During the current fiscal year, it was determined that these costs could not be used as part of the basis for the current development. Therefore, they were removed from assets and charged, as a reduction, to net assets.

During the Authorities' annual analysis of depreciation costs, it was noted that depreciation had not been applied in a consistent manner for some of the Public Housing capital assets. An adjustment of \$835,263 was made to increase depreciation as of January 1, 2008.

Prior to January 1, 2008, the Authorities accounted for compensated absences in their largest four programs (City and County, Public Housing and Housing Choice Voucher). During the current year, the Authorities reallocated the liabilities to nine programs (the original four, plus City and County USDA, Migrant, Emergency Housing, and the Central Office Cost Center). This prior period adjustment should zero for the agency as a whole. However, since liabilities were reallocated to programs with fiscal year ends different than December 31 (Migrant and Emergency Housing), the prior period adjustment will not zero. The current year will show an increase to net assets of \$26,972; while next year's net assets will be reduced by the same amount.

During the current fiscal year, the Authorities discovered that interest was not being allocated to all programs in an equitable manner. To remedy this situation, an analysis of the interest allocation for 2007 and 2008 was conducted. This analysis resulted in the reallocation of interest for both years. Although the Authorities determined that interest was not allocated properly to programs with fiscal year ends different than December 31, these programs were not included in the prior period adjustment posted during the current fiscal year. Another prior period adjustment will be posted prior to June 30, 2009, to adjust these balances. Therefore, this prior period adjustment does zero for the Authorities as a whole. Interest of \$155,650, earned in 2007, was reallocated from the Public Housing Programs to the Housing Choice Voucher Programs, USDA Programs, HOPE 3 Program, and to several other local programs.

A summary of the prior period adjustments is as follows:

	<u>City</u>	<u>County</u>	<u>Total</u>
HUD funds received - 2007 Set-Aside (HAP only)	\$ 185,149	\$ 161,550	\$ 346,699
Shelter Plus Care funds to be returned	(864,637)	-	(864,637)
Disaster Voucher Program funds to be returned	(16,464)	-	(16,464)
Pre-development costs written-off	(1,044,756)	-	(1,044,756)
Depreciation adjustment	(4,671)	(830,592)	(835,263)
Compensated absences reallocated	(143,167)	170,139	26,972
Interest reallocated	<u>51,390</u>	<u>(51,390)</u>	<u>-</u>
Total prior period adjustments	<u>\$ (1,837,156)</u>	<u>\$ (550,293)</u>	<u>\$ (2,387,449)</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 15 - INTRA-AUTHORITY REVENUE AND EXPENSES

During the current fiscal year, the Authorities had various interfund transactions which generated \$7,056,446 in revenue and expenses. The majority of these transactions were due to the fact that the Authorities established a Central Office Cost Center (CORE). This fund incurs many of the Authorities' administrative and overhead costs, while collecting fees from the Authorities' other funds to cover these costs. Other interfund activities were the result of Housing Choice Voucher and Supportive Housing for Persons with Disabilities Program participants choosing to live in other Authorities' owned housing units; interest accrued on interfund debt; the forgiveness of PILOT by local municipalities; insurance activities, and matching requirements.

The following is a summary of the programs effected by interfund revenue and expenses:

	<u>Revenue</u>	<u>Expense</u>
CORE	\$ 5,759,259	\$ 91,467
Housing Choice Voucher	23,586	3,122,942
Public Housing	1,872	2,942,325
Public Housing Capital Fund	-	3,480
Supportive Housing for Persons with Disabilities	-	1,152
Shelter Plus Care	-	12,595
Supportive Housing	7,128	10,685
HOPE VI	-	201
Neighborhood Network	-	355
USDA	-	120,783
Emergency Housing	-	17,343
Temporary Assistance for Needy Families	-	6,362
CHFA	-	61,506
Migrant	-	179,095
Business enterprise	222,236	39,813
Redevelopment Agency	-	35,476
Office building fund	222,240	-
Relinquished fund	311,274	-
Agency	-	7,128
HRFC	-	5,700
HSIC	508,851	393,585
YEC Limited Partnership	-	4,453
Total interfund revenue/expense	<u>\$ 7,056,446</u>	<u>\$ 7,056,446</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
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(Continued)

Note 16 - DEFERRED COMPENSATION

The Authorities offer 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, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

The Authorities maintain two plans which are administered by the Hartford Life Insurance Company and the California Public Employees' Retirement System. A total of \$2,680,808 is being held by these companies/agencies on behalf of the Authorities' employees. These funds are not recorded as assets of the Authorities since they are held in trust for the exclusive benefit of participants and their beneficiaries and are not subject to claims of the Authorities' general creditors.

Note 17 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Authorities contribute to the California Public Employees Retirement System (PERS), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statutes within the Public Employees' Retirement Law. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from their executive office - 400 P Street - Sacramento, CA 95814.

B. Funding Policy

Participants are required to contribute 7.0% of their annual covered salary. The Authorities make the contribution required of their employees on their behalf and for their account. The Authorities are required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate of the annual covered payroll for the fiscal year ended December 31, 2008, consisted of two different rates due to increases established by PERS in conjunction with its fiscal year end of June 30. The current and future rates for the City and County Housing Authorities are as follows:

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 17 (continued)

<u>Period covered:</u>	<u>Authority</u>	<u>Rate</u>
January 1 through June 30, 2008	City	4.709%
	County	5.920%
July 1, 2008 through June 30, 2009	City	4.963%
	County	5.696%
July 1, 2009 through June 30, 2010	City	4.016%
	County	4.191%
July 1, 2010 through June 30, 2011 (projected)	City	3.900%
	County	4.100%

C. Annual Pension Cost

For the fiscal year ended December 31, 2008, the Authorities' annual pension cost of \$406,266 for PERS was equal to the Authorities' required contributions. The Authorities made payments to PERS totaling \$921,555, which included contributions made to PERS by the Authorities on behalf of its employees of \$515,289. The required contributions for the fiscal year ended December 31, 2008, were determined as part of the June 30, 2005 (for the first six months of the fiscal year) and June 30, 2006 (for the second six months of the fiscal year) actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions used during the June 30, 2005, actuarial valuation included (a) 7.75 % investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3.0%. The actuarial assumptions used during the June 30, 2006, actuarial valuation included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary depending on age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period (smoothed market value) depending on the size of investment gains and/or losses. PERS unfunded actuarial liability (or excess assets) is amortized as a level percentage of projected payroll on a closed basis.

D. Three-Year Trend Information for PERS

	<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Surplus)</u>
City Authority:	12/31/05	\$ 94,440	100%	\$ -
	12/31/06	235,728	100%	-
	12/31/07	192,566	100%	-

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

(Continued)

Note 17 (continued)

County Authority:				
	12/31/05	150,662	100%	-
	12/31/06	252,420	100%	-
	12/31/07	218,004	100%	-

E. Required Supplemental Information

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
City Authority:						
6/30/05	\$ 20,587,780	\$ 21,489,861	\$ (902,081)	104.4%	\$ 5,143,123	(17.540%)
6/30/06	22,073,022	22,909,783	(836,761)	103.8%	5,294,532	(15.804%)
6/30/07	23,356,031	24,446,269	(1,090,238)	104.7%	4,001,444	(27.246%)
County Authority:						
6/30/05	14,823,051	15,270,231	(447,180)	105.4%	4,743,840	(10.782%)
6/30/06	15,949,271	16,439,577	(490,306)	103.0%	4,725,633	(10.375%)
6/30/07	16,603,219	17,671,129	(1,067,910)	106.4%	3,943,812	(27.078%)

Note 18 - POST EMPLOYMENT HEALTH BENEFIT PROGRAM

Effective December 31, 2003, the Authorities initiated a Post Employment Health Benefit Program. Under this program, retirees are eligible for a health insurance stipend of approximately \$225 per month, except for former Executive Directors, who receive the actual costs of their health benefits. As of December 31, 2008, 64 retirees and two past Executive Directors were participating in the program.

Following is a summary of changes in accrued liability for the past two years:

	<u>2008</u>	<u>2007</u>
Set aside as of January 1,	\$ 1,491,974	\$ 1,535,322
Payments made on behalf of participants	(211,271)	(213,855)
Amortization of service costs	<u>181,050</u>	<u>170,507</u>
Set aside as of December 31,	1,461,753	1,491,974
Actuarially determined past service cost	<u>2,460,218</u>	<u>2,460,218</u>
Unfunded liability	<u>\$ 998,465</u>	<u>\$ 968,244</u>

These actuarial estimates assume no future increases to the monthly benefits noted above and annual cost of living adjustments of 4% per year. Generally accepted accounting principles (GAAP) require actuarial valuations be done on these other post-employment benefit (OPEB) programs at least every three years. The most recent actuarial report done for the Authorities' OPEB program was performed in 2004. It is management's opinion that this departure from GAAP does not have a material effect on

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 18 (continued)

the OPEB program or on the financial statements. No adjustments to the basic financial statements have been made for this uncertainty.

The set-aside is fully funded by the Authorities (See Note 3 and 12). The unfunded liability is not included on the Authorities' balance sheet. The Authorities retain the right to terminate these benefits at any time. It is estimated that payments to retirees under this program will total \$216,260 during 2009. During 2009, the Authorities expect to charge \$247,000 to its various programs, based on 2.69% of gross wages, to amortize past service costs.

In 2004 and again in 2006, the Authorities offered an early retirement incentives program which gave employees the option of converting 100% of their sick leave balance into a Retiree's Medical Trust Fund. The fund may be used by retirees to decrease medical benefit costs in the future. As of December 31, 2008, this prepaid medical benefit trust fund contained \$139,392 and is included in Payable from Restricted Assets (See also Notes 3 and 12).

Note 19 - BETTER OPPORTUNITIES BUILDERS, INC.

The Executive Director of the Authorities serves as the Secretary-Treasurer of Better Opportunities Builders, Inc. (BOB). Another of the Authorities' staff serves as the Executive Officer of BOB. One of the Authorities' Commissioners serves on the Board of Directors of BOB. Accordingly, the Authorities can exercise significant influence over BOB. BOB has agreed to be the managing general partner in several low income housing projects within the City of Fresno.

BOB maintains its own administrative staff. The salaries of this staff are paid through the Authorities' payroll system. The Authorities also provide management and bookkeeping services for BOB. BOB reimburses the Authority on a monthly basis for these costs. During 2008, the Authorities charged BOB \$17,367 for these services. As of December 31, 2008, BOB owed the Authorities \$33,283 for direct charges paid by the Authorities on behalf of BOB.

Other related party transactions occurring during 2008 include:

- BOB owes partnership fees to two of the blended component units - Silvercrest Inc. and Villa Del Mar, Inc., for a total of \$7,500.
- The Authorities have loaned \$425,000 to BOB. The first note, \$125,000, is unsecured and interest free. The second note, \$300,000, is interest free, due in 30 years, and secured by real property known as the H Street Lofts. (See also Note 4).
- BOB has partially funded the development costs of Parc Grove Commons and YEC Limited Partnership. The Authorities consider these amounts to be short-term and are therefore reported as due to related parties in the amount of \$632,621.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
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(Continued)

Note 20 - CONTINGENT LIABILITIES

A. Grants

The Authorities have received funds from various federal, state, and local grant programs. It is possible that at some future date it may be determined that the Authorities were 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 Authorities do not expect such disallowed amounts, if any, to materially affect the financial statements.

B. Pending Litigation - Reduction in Force

In January 2008, three former employees filed a complaint for damages for numerous causes of actions as a result of the three former employees termination due to the Authorities' reduction in force. The Authorities' management intends to vigorously defend against this lawsuit. The ultimate resolution of this matter is not determinable at this time.

C. Housing Choice Voucher Programs Over-Leasing

At December 31, 2007, the Authorities records initially indicated that the actual number of unit months leased significantly exceeded the number of unit months authorized by HUD in the Housing Choice Voucher Programs for the calendar year. In order to reduce the financial impact to the Authorities, all contracts that had housing assistance payment of zero were removed from the unit month count for every month in 2007. Additionally, unit months were removed where the housing assistance payments throughout 2007 were from \$0 to \$270 per month. The impacted units were returned, if applicable, to the Housing Choice Voucher Programs effective January 1, 2008. Housing assistance payments of \$49,821 were transferred out of the City's Housing Choice voucher Program and charged to the City Relinquished Fund, while \$1,016,014 were transferred out of the County program and charged to the County Relinquished Fund. It is the opinion of the Authorities' management that in the event that HUD raises any compliance issues caused by the over-leasing and the Authorities' subsequent action to limit the financial impact to the Authorities, this will not have a material effect on the financial statements. Accordingly, no provision for any adverse financial impact has been provided in the financial statements.

D. Shelter Plus Care Program - Possible Disallowed Costs

In late 2007, HUD stopped processing the Authorities' grant fund requisitions for the Shelter Plus Care Program and the Authorities' management became aware that the Shelter Plus Care Program was significantly over-leased. Further, it became apparent that there was insufficient funds to pay the authorized number of units in the time remaining on the three Shelter Plus Care grants that the Authorities received from HUD. As of December 2007, the Authorities had leased up 405 units, which was 288 units in excess of the approved 117 units funded by the grants.

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Note 20 (continued)

As of the date of this report, the Authorities have identified \$2,724,792 of unallowable costs for this program. These costs have been covered by transfers of funds from the Authorities City Relinquished Fund and Low Income Housing Opportunity Program. Of these costs \$887,021 were requisitioned from HUD and are required to be returned to HUD in 2009.

These programs have a matching requirement of in-kind services. An equivalent value of in-kind match must be obtained for HAP expenditures to be eligible for requisition from HUD. The Authorities' staff is currently working with HUD to reconcile the HAP and the eligible in-kind matching services. The above unallowable costs were estimated based on the over-leasing issues and the amount of in-kind match that could be obtained from community service providers. It is possible that HUD may not allow all or a portion of the Authorities' match. If this occurs, then the Authorities will be asked to return additional funds to HUD.

The Authorities have amended their Housing Choice Voucher Administrative Plan to give Shelter Plus Care Program participants a preference in obtaining Housing Choice Vouchers. Several program participants have since been transferred to the Housing Choice Voucher Program.

G. Settlements Approved

On May 29, 2008, the Authorities settled with the contractor engaged to demolish the Funston Terrace and Funston Place Public Housing Projects. In the settlement agreement, the Authorities agreed to pay the contractor an additional \$140,000 for work done prior to December 31, 2007.

On June 25, 2008, the Authorities' Board of Commissioners authorized a payment of \$215,000 to a property management company in exchange for the execution of a formal settlement and mutual release document between the property management company and the Authorities. No litigation was ever filed related to this matter.

Note 21 - INSURANCE

The Authorities are 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, automobile, fidelity, and officers' liability insurance to participants. There were 86 member public housing authorities at December 31, 2008. The relationship between the Authorities and HARRP is such that HARRP is not a component unit of the Authorities for financial reporting purposes.

The Authorities paid premiums totaling approximately \$260,000; for a fifteen month term; for property, general, automobile, and fidelity insurance during the fiscal year ended December 31, 2008. The loss

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
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(Continued)

Note 21 (continued)

limits for the various types of insurance varied for property with a deductible per occurrence of \$1,000 to \$10,000; \$2,000,000 for general liability with no deductible; \$2,000,000 for automobile, except for losses arising from the use of a non-owned covered automobile which is \$1,000,000; \$100,000 for employee dishonesty and forgery and alteration with a \$1,000 deductible; and \$10,000 for theft with a \$1,000 deductible. The Authorities are also insured through a private insurance company for excess auto coverage which raises the limits to \$5,000,000 automobile coverage. The Authorities are self insured for public officials errors and omissions and employment related practices liability.

All activity related to risk management is accounted for in the Housing Self Insurance Corporation (HSIC). HSIC records an expense when it pays the premiums on the Authorities' insurance policies and when it pays for repairs to the Authorities properties when damaged. HSIC records revenue when it receives payment from the Authorities for insurance premiums and when it receives reimbursement from the insurance companies for claims made. The Authorities' funds also record as expenses insurance premiums paid to HSIC. These interfund type transactions, which approximate \$121,265, have not been eliminated from the fund financial statements, but have been eliminated from the Government-Wide Statement of Activities (See also Note 1.H.).

Note 22 - JOINT POWERS AGREEMENT—WORKERS' COMPENSATION INSURANCE

The Authorities participate in a joint venture under a joint powers agreement (JPA) with the California Housing Workers' Compensation Authority (CHWCA). CHWCA was formed to provide workers' compensation insurance coverage for member housing authorities. At December 31, 2008, there were thirty-one members. The relationship between the Authorities and CHWCA is such that CHWCA is not a component unit of the Authorities for financial reporting purposes.

Condensed audited financial information for the years ended December 31, 2007 and 2008, are as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Total assets	\$ 23,509,064	\$ 20,827,232
Total liabilities	<u>(11,901,569)</u>	<u>(11,838,302)</u>
Total net assets	<u>\$ 11,607,495</u>	<u>\$ 8,988,930</u>
Total revenues	\$ 5,766,523	\$ 5,886,727
Total expenses	(3,147,958)	(4,280,681)
Dividend expense	<u>-</u>	<u>(2,258,931)</u>
Net change in net assets	<u>\$ 2,618,565</u>	<u>\$ (652,885)</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

(Continued)

Note 22 (continued)

CHWCA had no long-term debt outstanding at December 31, 2008. The Authorities' share of year-end assets, liabilities, or retained earnings has not been calculated. The Authorities' annual premium is based on their covered payroll. Premium paid for the calendar year ended December 31, 2008, was \$442,758. The Authorities also paid a 2007 premium adjustment of \$54,575 during 2008. During 2009, the Authorities received a premium adjustment of \$55,266 for 2008. CHWCA issues a separate comprehensive annual financial report. Copies of this report may be obtained by contacting Bickmore Risk Services, 6371 Auburn Boulevard, Suite B, Citrus Heights, California, 95621.

CHWCA payments are accounted for in the same manner as HARRP above, in HSIC. Interfund type transactions of \$387,585, have not been eliminated from the fund financial statements, but have been eliminated from the Government-Wide Statement of Activities (See also Note 1.H.)

During August 2008, CHWCA performed a risk assessment of the Authorities safety and risk control program. The assessment resulted in several findings and a compliance score of approximately 50% based upon compliance with regulatory requirements (CAL/OSHA) and CHWCA best practices. The financial impact of this assessment, if any, has not been determined and/or are reflected in these basic financial statements.

Note 23 - REDEVELOPMENT AGENCY NOTES RECEIVABLE

Pursuant to a contract with the Redevelopment Agency (RDA) of the City of Fresno, the Authorities administer a deferred payment, housing rehabilitation loan program, The Authorities use RDA funds to repair and rehabilitate the homes owned by low and moderate income individuals in the City of Fresno. In order to participate in the program, homeowners execute a note payable to the RDA. Generally, the notes are forgiven if the individual remains the owner of the home for three years following the completion of the work. Because the notes are payable to the RDA rather than the Authorities, the balance of the notes is not included in the financial statements or books of account of the Authorities. At December 31, 2008 and 2007, approximately \$3,092,621 and \$3,018,960, in notes, were outstanding, respectively.

SUPPLEMENTAL INFORMATION

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>		
Direct Program:		
Rural Rental Assistance Payments Program	10.427	\$ <u>454,270</u>
 <u>Environmental Protection Agency</u>		
Direct Program:		
Brownfield Assessment Cooperative Agreement	66.818	<u>3,850</u>
 <u>Health and Human Services (HHS)</u>		
Passed through the Fresno County Social Services Department:		
Emergency Housing	93.645	288,073
 Passed through the County of Fresno:		
Temporary Assistance for Needy Families	93.558	<u>45,222</u>
Subtotal HHS		<u>333,295</u>
 <u>Department of Housing and Urban Development (HUD)</u>		
Direct Programs:		
Housing Counseling Assistance Program	14.169	<u>53,985</u>
Supportive Housing for Persons with Disabilities	14.181	<u>201,520</u>
Supportive Housing Program	14.235	<u>106,673</u>
Shelter Plus Care Program	14.238	<u>-</u>
 Public Housing:		
Contract #SF-170		2,484,527
Contract #SF-199		<u>2,167,668</u>
Subtotal	14.850	<u>4,652,195</u> *
Demolition and Revitalization of Severely Distressed Public Housing	14.866	<u>4,171,766</u> *
 Housing Choice Voucher Program:		
Contract #SF-472		43,159,441
Contract #SF-604		37,062,676
Disaster Voucher Program (CA006)		<u>3,739</u>
Subtotal	14.871	<u>80,225,856</u> *

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

(Continued)

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>HUD (continued):</u>		
Direct Programs:		
Public Housing Capital Fund Program:		
Contract #SF-170		\$ 977,334
Contract #SF-199		<u>2,315,001</u>
Subtotal	14.872	<u>3,292,335</u> *
Public Housing Neighborhood Network Grant:		
Grant CA-39-URD-006-N103	14.875	<u>35,869</u>
Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services		
Grant CA006RFS015A007		423
Grant CA028RFS020A007		<u>267</u>
Subtotal	14.877	<u>690</u>
Passed through the State of California Housing Finance Agency:		
Section 8 Rental Certificate Program:		
CHFA #76-65-N		357,751
CHFA #76-54-N		<u>246,579</u>
Subtotal	14.182	<u>604,330</u>
Subtotal HUD		<u>93,345,219</u>
Total federal expenditures		<u>\$ 94,136,634</u>

* Major federal financial assistance program.

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

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2008**

1. The schedule of expenditures of federal awards includes the federal grant activity of the Housing Authorities of the City and County of Fresno, California, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Expenditures of federal awards reported for the Public Housing Programs consist only of the operating subsidy received from HUD for the fiscal year ended December 31, 2008.
3. Expenditures of federal awards reported for the Housing Choice Voucher Programs and Supportive Housing for Persons with Disabilities (Mainstream Vouchers) consist of operating expenses, omitting depreciation (which is not an expenditure) and including capital additions (which is an expenditure), to the extent that federal grants were received towards these expenditures and/or that prior year funding is available for expenditure. The calculations for the current fiscal year are as follows:

	<u>Federal Funding Awarded</u>	<u>Program Expenditures</u>	<u>Federal Awards Expended</u>
City Housing Choice Voucher Program:			
Housing Assistance Payments (HAP)	\$ 41,449,493	\$ 38,696,251	\$ 38,696,251
Administrative costs/FSS/Homeownership	4,422,647	4,422,647	
Use of admin fees received in a prior period		33,049	
Equipment purchases (admin fees rec'd in prior period)	-	7,494	4,463,190
Total City - Expenditures of Federal Awards			<u>\$ 43,159,441</u>
County Housing Choice Voucher Program:			
Housing Assistance Payments (HAP)	34,434,421	32,957,170	\$ 32,957,170
Administrative costs/FSS/Homeownership	4,098,089	4,098,089	
Use of admin fees received in a prior period	-	7,417	4,105,506
Total County - Expenditures of Federal Awards			<u>\$ 37,062,676</u>
Disaster Voucher Program:			
Housing Assistance Payments (HAP)	-	3,739	3,739
Administrative costs/FSS/Homeownership	-	-	-
Total DVP - Expenditures of Federal Awards			<u>\$ 3,739</u>
Supportive Housing for Persons with Disabilities (Mainstream):			
Housing Assistance Payments (HAP)	178,528	178,528	178,528
Administrative costs/FSS/Homeownership	24,167	22,992	22,992
Total Mainstream - Exp of Federal Awards			<u>\$ 201,520</u>

HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2008
(Continued)

4. Although the Authorities reported federal expenditures of \$1.3 million for the Shelter Plus Care Program on the unaudited *Data Collection Form* submitted to the HUD Real Estate Assessment Center, the actual federal expenditures for this program are \$0. The Shelter Plus Care Program did incur expenses for HAP in the amount of \$1,343,277. However, no federal funds were received to cover these costs expended during the current fiscal year. The Authorities have run this program significantly out of compliance with HUD regulations for the past few years. The Authorities and HUD are currently in negotiations over the amount of expenditures for this program that HUD will allow (See also Footnote 20.D. to the Basic Financial Statements). At this time it is uncertain if HUD will reimburse the Authorities for any of these costs incurred. Therefore, no expenditures of federal awards has been reported for the Shelter Plus Care Program on the Schedule of Expenditures of Federal Awards.

5. Expenditures of federal awards reported for the following programs agree with actual revenue and expenses of each program, including expenditures for capital additions and omitting depreciation expense:
 - Public Housing Capital Fund Programs
 - Public Housing Self-Sufficiency under Resident Opportunity and Supportive Services
 - Public Housing Neighborhood Networks Grant
 - Housing Counseling Assistance Program
 - Temporary Assistance for Needy Families
 - Brownfield Assessment Cooperative Agreement

6. Expenditures of federal awards reported for the following programs agree with the actual grant revenue received from the granting agency, which is less than the actual expenses or expenditures of the programs:
 - Rural Rental Assistance Payment Program
 - Supportive Housing Program
 - Section 8 Rental Certificate Program

7. The expenditures of federal awards reported for the Demolition and Revitalization of Severely Distressed Public Housing (a.k.a. HOPE VI Program) agree with the HUD grant revenue accrued for the fiscal year ended December 31, 2008. The revenue requisitioned covered expenditures for the assets held for sale in the amount of \$3,902,572, operating costs of \$268,814, and capital additions of \$380. See also Note 7 to the Basic Financial Statements.

8. The expenditures of federal awards reported for the HHS Emergency Housing passed through the Fresno County Social Services Department Program agrees with the amount of grant received from the County. This amount is greater than the expenditures of the program. The grant amount received exceeded the expenditures of this program by approximately \$22,000 and \$61,000, for the fiscal years ended September 30, 2008 and 2007, respectively.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF COMPLETED CAPITAL FUND PROGRAMS
ANNUAL CONTRIBUTION CONTRACT SF-170
DECEMBER 31, 2008**

Project number CA39P00650203

Funds approved	\$	382,386
Funds expended		(382,386)
Excess of funds approved	\$	-
Funds advanced	\$	382,386
Funds expended		(382,386)
Excess of funds advanced	\$	-

Project number CA39P00650104

Funds approved	\$	2,134,646
Funds expended		(2,134,646)
Excess of funds approved	\$	-
Funds advanced	\$	2,134,646
Funds expended		(2,134,646)
Excess of funds advanced	\$	-

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

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATEMENT OF COMPLETED CAPITAL FUND PROGRAMS
ANNUAL CONTRIBUTION CONTRACT SF-199
DECEMBER 31, 2008**

Project number CA39P028750103

Funds approved		\$ 2,199,866
Funds expended		<u>(2,199,866)</u>
Excess of funds approved		<u>\$ -</u>
Funds advanced		\$ 2,199,866
Funds expended		<u>(2,199,866)</u>
Excess of funds advanced		<u>\$ -</u>

Project number CA39P028750203

Funds approved		\$ 438,426
Funds expended		<u>(438,426)</u>
Excess of funds approved		<u>\$ -</u>
Funds advanced		\$ 438,426
Funds expended		<u>(438,426)</u>
Excess of funds advanced		<u>\$ -</u>

Project number CA39P028750104

Funds approved		\$ 2,547,682
Funds expended		<u>(2,547,682)</u>
Excess of funds approved		<u>\$ -</u>
Funds advanced		\$ 2,547,682
Funds expended		<u>(2,547,682)</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

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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 Boards of Commissioners
Housing Authorities of the
City and County of Fresno
Fresno, California

We have audited the financial statements of the business-type activities and each major fund of the Housing Authorities of the City and County of Fresno, California, as of and for the year ended December 31, 2008, which collectively comprise the Housing Authorities of the City and County of Fresno, California's basic financial statements and have issued our report thereon dated September 16, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authorities of the City and County of Fresno, California's internal control over financial reporting as a basis for designing our auditing procedures 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 Authorities of the City and County of Fresno, California's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authorities of the City and County of Fresno, California's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Housing Authorities of the City and County of Fresno, California's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authorities of the City and County of Fresno, California's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Housing Authorities of the City and County of Fresno, California's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might

be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authorities of the City and County of Fresno, 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*.

We noted certain matters that we reported to management of the Housing Authorities of the City and County of Fresno, California, in a separate letter dated September 16, 2009.

This report is intended solely for the information and use of management, the audit committee, others within the organization, the Boards of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.



September 16, 2009

Harn & Dolan

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Boards of Commissioners
Housing Authorities of the
City and County of Fresno
Fresno, California

Compliance

We have audited the compliance of the Housing Authorities of the City and County of Fresno, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The Housing Authorities of the City and County of Fresno, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Authorities of the City and County of Fresno, California's management. Our responsibility is to express an opinion on the Housing Authorities of the City and County of Fresno, California's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Authorities of the City and County of Fresno, 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. Our audit does not provide a legal determination of the Housing Authorities of the City and County of Fresno, California's compliance with those requirements.

As described in item III-2008-1 in the accompanying Schedule of Findings and Questioned Costs, the Housing Authorities of the City and County of Fresno, California, did not comply with requirements regarding special tests and provisions that are applicable to its Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the Housing Authorities of the City and County of Fresno, California, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Housing Authorities of the City and County of Fresno, California, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008. The results of our auditing procedures disclosed another instance of noncompliance with those requirements, which

are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item III-2008-2.

Internal Control Over Compliance

The management of the Housing Authorities of the City and County of Fresno, California, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authorities of the City and County of Fresno, California's 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, 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 Authorities of the City and County of Fresno, California's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authorities' internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and another that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the internal control over compliance described in the accompanying schedule of findings and questioned costs as items III-2008-1 and III-2008-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item III-2008-1 to be a material weakness.

The Housing Authorities of the City and County of Fresno, California's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Housing Authorities' of the City and County of Fresno, California's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Boards of Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



September 16, 2009

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

The previous audit report for the year ending December 31, 2007, contained four audit findings. A summary of the status of these four findings follows:

II-2007-A - Financial Accounting System Needs Improvement (All Programs)

During our prior audit, we noted that the Authorities' Executive Director and the Boards of Commissioners were not always receiving accurate, timely, financial reports. During the current audit, we noted no recurrence of this finding.

II-2007-B - Bank Reconciliation Were Not Prepared on a Timely Basis (All Programs)

During our prior audit, we noted that bank reconciliation were not being performed on a timely basis. The effect of this condition was that errors and omissions in the Authorities' accounting records were not being identified on a timely basis. It appears that as of December 31, 2008, bank reconciliation are being prepared on a timely basis.

III-2007-1 - The Housing Choice Voucher Program (CFDA # 14.872) was Significantly Over Leased

During 2006, the unit months allotted by HUD for the City Housing Authority and County Housing Authority were 76,046 and 67,044, respectively. The allotted units were exceeded by 1,208 and 1,913 in the City Housing Authority and County Housing Authority, respectively.

During 2007, this situation was repeated. Units allotted were 79,806 and 67,044 for the City and County Housing Authorities respectively. The number of allotted units were exceeded by 2,767 and 7,344 in the City Housing Authority and the County Housing Authority, respectively.

During 2008, the Authorities did not appear to lease more units than they were allotted by HUD for these programs.

III-2007-2 - Ineligible Housing Choice Voucher HAP Payments (CFDA # 14.872)

The Authorities make ineligible housing assistance payments to landlords from time to time. This condition typically occurs when a tenant transfers to a new unit or leaves the program. The housing assistance payment to the landlord does not always cease during the same month as the tenant's change. In these instances, the Authorities create a receivable from the landlord. Historically, approximately 65% of these ineligible housing assistance payments have been returned by landlords. Uncollected payments are written off against administrative fees.

The Authorities made approximately \$425,000 in ineligible housing assistance payments to landlords during 2008. Approximately \$151,000 remained uncollected as of the end of the fiscal year. Uncollected from prior year payments was \$284,000 as of December 31, 2008. Therefore, the total receivable from landlord for ineligible housing assistance payments was \$435,000, offset by an allowance for doubtful accounts of \$212,000, for a net receivable of \$223,000.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

(Continued)

III-2007-3 - Administration of Shelter Plus Care Program (CFDA #14.238)

During the prior year, the Shelter Plus Care Program had not been administered in compliance with the grant agreements. The Authorities admitted significantly more tenants to the program than were approved in the grant agreements. The Authorities could not document that the supportive services provided to program participants were at least equal in value to the aggregate amount of rental assistance charged to the HUD grants, as required by the grants. A number of ineligible tenants were admitted to the program because, although they were at risk of being homeless, the tenants were not homeless at the time of admission, as required by the grants. Incorrect calculation procedures were used for a number of program participants, misstating their rental assistance payments. These conditions resulted in questioned program costs of \$481,899. These costs were covered by local funds as of December 31, 2007.

During 2008, this program continued to incur program costs which HUD refused to fund. Program costs incurred during the current fiscal year of \$1,355,872 were covered by the Authorities' local funds. With the consent of the Board of Commissioners, the Authorities' City Relinquished Fund transferred \$460,079 to the Shelter Plus Care Program, while \$895,793 was transferred from the Authorities' Low Income Home Ownership Program (LIHOP). The LIHOP funds originated from the sale of Public Housing units to program participants through the homeownership program.

During 2009, the Authorities amended their Housing Choice Voucher administrative plan to give families transferring from the Shelter Plus Care Program priority over other applicants. The families that did not meet the eligibility requirements of the Shelter Plus Care Programs, due to the fact that they were not actually homeless when admitted to the program, were encouraged to apply for the Authorities' Housing Choice Voucher Program. The majority of the ineligible Shelter Plus Care Program participants are now participants of the Housing Choice Voucher Program, which has no homelessness requirement.

The Authorities continue their negotiations with HUD regarding this program. In September 2009, the Authorities' staff calculated that ineligible costs of \$887,021 were requisitioned from HUD and would need to be returned. Of this amount, \$864,637 was incurred prior to December 31, 2008 and has been reported in the basic financial statements as a liability due to HUD. Management anticipates that the Board of Commissioners will consent to an additional fund transfer from LIHOP to cover these ineligible costs. This most recent estimate brings the total ineligible expenditures covered by the Authorities' local funds to \$2,724,792.

HUD has issued current Shelter Plus Care grants for the Authorities to administer.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

(Continued)

III-2007-4 - Administration of Housing Choice Voucher Tenant Files (CFDA # 14.872)

During our prior audit we noted that the re-certification of family income and composition was not being performed on an annual basis for a number of the samples tested. We also noted that rent reasonableness documentation was missing or incomplete in a number of the samples tested. Although these specific issues did not recur during our current testing, other issues were noted. Please refer to Finding III-2008-1.

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unqualified
Is a "going concern" explanatory 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

Dollar threshold used to distinguish between Type A and Type B programs	\$ 2,823,892
Auditee qualified as low-risk auditee?	no
Identification of major programs:	
Public and Indian Housing	14.850
Demolition and Revitalization of Severely Distressed Public Housing	14.866
Housing Choice Voucher Program	14.871
Public Housing Capital Fund Program	14.872
Type of auditors' report issued on compliance for major programs:	qualified
Internal control over major programs:	
Significant deficiencies identified?	yes
Significant deficiencies identified also considered to be material weaknesses?	yes
Any known questioned costs	no
Were prior audit findings related to direct funding shown in the Summary of Prior Audit Findings?	yes

Section II - Financial Statement Findings

None

**HOUSING AUTHORITIES OF THE CITY AND COUNTY OF FRESNO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2008**

(Continued)

Section III - Federal Award Findings

III-2008-1 - Administration of Housing Choice Voucher Tenant Files (CFDA #14.872)

Criteria - The Authorities have been awarded grants by HUD for the purpose of housing low income families, seniors, and the disabled. HUD requires the Authorities to comply with various regulations and to maintain tenant files to document this compliance as well as support the calculation of the housing assistance payment (HAP) .

Condition - We reviewed twenty-five of the Authorities' Housing Choice Voucher tenant files to test compliance with various HUD regulations. During our testing we noted errors in HAP calculation in 32% of the files reviewed. These errors stemmed from two main sources:

1. The calculation of utility allowances was not supported by the evidence of the unit's utility mix in the tenant file. Utility allowances are set annually by housing authorities based on average utility rates for their area. Utility allowances are given to the tenant based on the size and utility mix of their rental unit. Typically, utility allowances effect the amount of HAP paid by the Authorities. However, if the contract rent of the unit is higher than the area's voucher payment standard, set by each housing authority, then the utility allowance has no bearing on the amount of HAP paid by the Authorities on the unit.

Of the twenty-five samples tested, nine had insufficient support for the amount of utility allowance given. The utility mix documented in the file did not agree with the utility allowance given. HAP was effected in six of these cases. Therefore, HAP was incorrect in 26% of the files reviewed due to the fact that utility allowances given were not adequately supported by documentation in the tenant file.

2. The methodology used to calculate income was not always documented and retained in the tenant file. Often, eligibility staff must make decisions when calculating tenant income. The Authorities have established a hierarchy of acceptable documentation to be used when calculating tenant income.

Of the twenty-five samples tested, five contained income verification which either did not agree with the income used to calculate HAP or was not verified by a third party. This income verifications included (1) twelve months of income activity while only a few months were used to annualize expected income, (2) pay stubs used to annualize income while year-to-date information was ignored, and (3) public assistance used to calculate income which differed from the verification due to sanctions. In none of these instances were notations made to explain why a certain methodology was used over another to calculate annual income. These inconsistencies resulted in one clear error in HAP. It is unclear how HAP was effecting in the other instances, if at all, due to offsetting errors and insignificant differences.

The final HAP error was due to the use of an incorrect voucher payment standard.

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(Continued)

III-2008-1 (continued)

Questioned Costs - Questioned costs are unknown

Cause - The Authorities have not established adequate internal controls to ensure that HAP is calculated accurately and to insure that support for each unit's utility mix and documentation of calculation decisions are contained in each Housing Choice Voucher Program tenant file.

Effect - The Authorities are not fully in compliance with HUD regulations requiring the accurate calculation of HAP, including utility allowances and tenant income.

Recommendation - We recommend that the Authorities improve their controls over the maintenance of the Housing Choice Voucher Program files to ensure compliance with applicable HUD regulations.

Authorities' Response - The Audit showed two area of concern regarding the Administration of Housing Choice Tenant Files. The Authorities acknowledge the Finding that 1) the utility mix documented in the file did not agree with the utility allowance given and 2) the methodology used to calculate income was not always documented and retained in the tenant file.

The Authorities agree with the auditor's recommendation about needed improvements to internal controls over the maintenance of the Housing Choice Voucher Program files to ensure compliance with applicable HUD regulations. The following actions are being taken:

1. The attached check list is currently being utilized and is under immediate review for modification to ensure the utility mix is properly applied to future HAP calculations.
2. Staff recently attended mandatory Enterprise Income Verification (EIV) training on July 16, 2009. EIV is a HUD tool that provides integrated income data from one source, via the Internet, for housing authorities to use to improve income verification during required reexaminations for continuing participants. Staff, supervisors and managers who use EIV attended the training. We are confident that the material covered in the EIV training will help remedy file documentation errors, coupled with other measures. Quadel HCV Occupancy and Rent Calculation Training is scheduled for October 2009. All Housing Program Coordinator I/II's, supervisors, and managers will be attending and taking the Certification exam. In addition, supervisor monitoring practices will be evaluated to ensure more accurate tenant rent calculations.

In addition to the above, a Corrective Action Plan detailing necessary steps, responsible parties, and completion dates will be finalized September 25, 2009.

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(Continued)

III-2008-2 - Family Self-Sufficiency - Housing Choice Voucher Program (CFDA #14.872)

Criteria - The Authorities administer a Family Self-Sufficiency (FSS) Program under the Housing Choice Voucher Program as allowed by 24 CFR part 984. The purpose of this program is to promote the development of local strategies and coordinate the use of housing assistance to enable eligible families to achieve economic independence and self-sufficiency. The objective of the FSS program is to reduce dependency of low-income families on welfare and Section 8 subsidies. FSS participants are also Housing Choice Voucher Program participants. Each FSS participant enters into a contract of participation with the Authorities. Contract terms are generally five years but can be extended for an additional two years. Each FSS participant sets specific and unique goals to achieving self-sufficiency. In return for the participant's pledge to achieve their goals, the Authorities pledge to establish escrow accounts, the balance of which will be presented to the participants upon graduation from the program. Escrow deposits are made monthly and generally are calculated by comparing the participant's current family rent (30% of adjusted family income) with the family rent at the time that the contract of participation was executed. If the rent increases, then an escrow deposit is made on the family's behalf.

Condition - During our review of five FSS program participants escrow balances and program files, we noted a condition which overstates FSS escrows in the favor of the participants. In each instance the participant was employed as of the date of the contract of participation. In each instance the contract of participation reported no earned income. In each instance the current family rent agreed with the contract of participation. In three instances the participants were in the process of a re-certification to calculate a revised family rent based on changes in the tenant's employment status. In the remaining two instances re-certifications were not performed in response to revised employment status.

Questioned Costs - Questioned costs are unknown. As of the date of our audit, these participants had not been paid their escrow.

Cause - The Authorities have not established internal controls to ensure that current employment information be included on the contract of participation. In each of these cases the contract of participation was executed at a time different than the effective date of the re-certification. In three of the five samples tested the contract of participation was executed 2 months before the re-certification. These procedures cause the contract of participation to contain outdated information from a prior re-certification and to omit currently known facts, such as employment information.

Effect - The effect of dating the contract of participation at a time different than the most recent recertification is the misstatement of participant escrows. In each of these five cases, escrow is overstated due to the omission of employment income known at the time the contract of participation was executed.

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(Continued)

III-2008-2 (continued)

Recommendation - We recommend that the Authorities improve their internal controls over the FSS program and the calculation of escrow by adopting policies and procedures to ensure that the contract of participation includes employment income information known at the time of its execution.

Authorities' Response - Although it appears that in at least two of the files audited, the employment income information was not known, our review indicates that the income was known but the participant was unemployed or underemployed at the time of the FSS enrollment. The eligibility calculations were performed in accordance with the Code of Federal Regulations and the Administrative Plan.

The Authorities agree that there must be better internal controls in the administration of the Family Self-Sufficiency (FSS) program. A significant step in that improvement has been the new ELITE housing software which does not require the type of monitoring and audit for errors in escrow accruals which were common with the previous housing software. ELITE was implemented in May 2009. Additional measures to be taken include:

1. Re-organization of FSS case management in January 2010. The FSS Coordinators will fully manage the files of clients enrolled under the FSS Program. In the past, the FSS Coordinators were not responsible for the maintenance of the continued eligibility of the clients, only the management of the FSS Contract of Participation. The change will mean that the FSS Coordinator will be responsible for the timely completion of all re-examinations of a client's income and have correct escrow balance for each client in their caseload.
2. The FSS Coordinators will be attending the Quadel HCV Occupancy and Rent Calculation Training scheduled for October 2009.

There may have been an administrative error periodically of using an incorrect 50058 at the time of the enrollment but there has been no intent to overstate the escrow accounts. The scheduled training and full management of FSS client's files will ensure that accurate income information is used for determining the escrow accounts.

A Corrective Action Plan detailing the necessary steps, responsible parties, and completion dates will be finalized by September 25, 2009.