



Yolo County Housing

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BOARD OF COMMISSIONERS

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DATE: May 7, 2009
TO: YCH Board of Commissioners
FROM: Lisa A. Baker, Executive Director
By: Mark Stern, Finance Director
SUBJECT: **Presentation and Approval of the FY 2007-2008 Single Audit for Yolo County Housing**

RECOMMENDED ACTIONS:

That the Board of Commissioners receive presentation and approve the FY 2007-2008 audit.

BACKGROUND / DISCUSSION

Staff presents the audit report from our independent Certified Public Accounting firm for the fiscal year ended June 30, 2008. The auditors have issued an unqualified opinion on the financial statements, compliance with requirements applicable to each major program and on internal control over compliance with Circular OMB A-133. However, because of the YCH's financial condition and its "troubled" status with the U.S. Department of Housing and Urban Development (HUD), the YCH is not considered a "low risk" auditee.

There are two (2) financial findings related to prior year issues and two (2) program findings also related to prior operations issues. YCH staff agrees with the findings and is continuing to improve controls over the areas of concern. These findings are generally continuations of findings from 2006-2007 and although the status has improved, the shortcomings have not been completely eliminated.

The online submission of the audit to the federal clearinghouse was submitted prior to the March 31, 2009 due date. HUD's delay in implementing changes to their FDS audit submission format allowed extra time to submit the audit to HUD. Our Unaudited FDS was submitted by the due date of April 15, 2009. Upon review by our auditors, the audited FDS will be submitted to HUD along with the auditor's supplemental report thereon.

The audit report is on record at the Clerk of the Board. Interested persons can review the report at either the Clerk of the Board at 625 Court Street, Room 204 or at the office of the YCH at 147 W. Main Street, Woodland, CA during normal business hours.

Staff wishes to commend and thank the auditors, Harn & Dolan for its conscientious, professional and thorough approach during the audit process.

FISCAL IMPACT

No additional fiscal impact. Net income for the year is \$90,537. Net Assets at the end of the year are \$12,752,020, a decrease of only \$48,263. This compares very favorably to the losses of \$2.2 million (rounded) for FY 2005-2006 and a further loss of \$2.5 million (rounded) for the fiscal year ended June 30, 2007. As of June 30, 2008, YCH's unrestricted Net Assets were deficit by \$2,303,644 at June 30, 2008 compared to an unrestricted Net Asset deficit of \$3,082,621 at June 30, 2007. YCH continues to be considered a "troubled" agency by HUD.

CONCLUSION:

Staff recommends that the Board receive and approve the audit as submitted.

**YOLO COUNTY HOUSING
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008
(Including Auditors' Report Thereon)**

**YOLO COUNTY HOUSING
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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Harn & Dolan

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Yolo County Housing
Woodland, California

We have audited the accompanying financial statements of the business-type activities and the major fund of Yolo County Housing (YCH), formally known as the Housing Authority of the County of Yolo, California, as of and for the year ended June 30, 2008, which collectively comprise YCH's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Yolo County Housing's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the major fund of Yolo County Housing, as of June 30, 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 a report dated March 25, 2009, on our consideration of Yolo County Housing'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 should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13, 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 measurement and presentation of the required supplementary 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 Yolo County Housing'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 Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

March 25, 2009

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

As management of the Housing Authority of the County of Yolo (YCH), we offer readers of YCH's financial statements this narrative overview and analysis of the financial activities of YCH for the year ended June 30, 2008. Since the MD&A is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with YCH's financial statements beginning on page 14.

This discussion and analysis is intended to serve as an introduction to the basic financial statements for YCH. The MD&A is designed to:

- (a) Assist the reader in focusing on significant financial issues.
- (b) Provide an overview of YCH's financial activity.
- (c) Identify changes in YCH's financial position (its ability to address the next and subsequent years' challenges).
- (d) Identify individual fund issues or concerns.

YCH-wide Financial Statements

YCH-wide financial statements are designed to provide readers with a broad overview of YCH's finances in a manner similar to a private sector business. All business-type activities are consolidated to a total for the agency taken as a whole.

YCH-wide financial statements include a *Statement of Net Assets* (similar to a balance sheet), a *Statement of Activities* (similar to an income statement), and a *Statement of Cash Flows*.

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated to specific activities or objectives. YCH, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus is on Major Funds, rather than fund types.

YCH employs, exclusively, Enterprise Funds which utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector.

Certain funds administered by YCH are programs provided by the U.S. Department of Housing and Urban Development (HUD). Others are segregated to enhance accountability and control. Government Accounting Standards require individual Enterprise Funds to be reported as major funds if total assets, liabilities, revenue or expenses of the fund exceed 10% of the corresponding element total of YCH-wide financial statements.

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

Proprietary funds include:

Low Rent Public Housing

Under the Low Rent Public Housing (LRPH) program, YCH rents units that it owns to low or very low income households. The LRPB Program is operated under an Annual Contributions Contract (ACC) with HUD. Public Housing Agencies are limited by law in the amount of rent collected to no more than thirty percent (30%) of a family's adjusted income, or the resident may choose what is known as "flat rent". The latter is a set rental amount comparable to local market rents. The rental amount does not increase or decrease over a three-year period; no matter the resident's actual income. Flat rents are designed to encourage residents to maximize their earnings in the hope that they may eventually purchase their own homes.

HUD, through the ACC, provides an operating subsidy to cover the gap between rents collected and annual operating expenses.

The ACC provides a Capital Fund Program designed to enable YCH to make capital improvements to its properties and otherwise provide long term assets for the benefit of tenants and the administration. At this time, a portion of the Capital Improvement fund is held in abeyance pending review by HUD of the financing of the new YCH's Administration building at 147 W. Main Street, Woodland, Ca.

The budget for the Low Rent Public Housing Program is adopted on the basis of accounting practices prescribed by the U.S. Department of Housing and Urban Development which differ in some respects from generally accepted accounting principles.

Housing Choice Voucher Program

Under the Housing Choice Voucher Program (formerly known as Section 8 tenant-based assistance), YCH administers contracts with independent landlords that own the rental property. YCH subsidizes the families' rents through a Housing Assistance Payment (HAP) payable to the landlord. The program is administered under an ACC with HUD that provides annual funding to enable YCH to structure a lease that generally sets the participant's rent as thirty percent (30%) of household income and pays YCH a fixed monthly administrative fee for each unit under lease on the first of every month.

Vouchers can also be applied toward the purchase of a home by tenants. At this time, one YCH Housing Choice Voucher participant has purchased a residence. Approximately six to eight additional participants are moving toward the completion of the home purchase process. YCH will use HUD's HAP funds to subsidize the participant's home loan for fifteen years unless the participant is disabled or elderly in which case there is no time limit on the use of HAP funds to subsidize the loan.

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

New Hope Community Development Corporation (Component Unit)

New Hope CDC is a 501(c)(3) non-profit corporation created to develop affordable housing and community based economic development ventures. Its primary business activities during the year ended June 30, 2008 were the operation of Cottonwood Meadows senior apartments.

Office of Migrant Services, Migrant Farm Labor Program (Other State/Local)

YCH manages Migrant Centers in Davis, Madison and Dixon, California. Pursuant to contracts with the State of California Business, Transportation & Housing Agency, YCH remits rents collected from tenants to the State Office of Migrant Services, which in turn reimburses YCH for its costs of operating the Migrant Centers. The Dixon Migrant Center is managed by YCH on behalf of the Dixon Housing Authority of Solano County.

Other Funds

Business Activities - used to administer various non-government subsidized programs.
Davis Solar Rural Rental Assistance - USDA/Rural Rental Assistance
Public Housing Capital Fund Program - HUD

Financial Statements

YCH's financial statements include a Statement of Net Assets which is similar to a balance sheet. The Statement of Net Assets reports all financial and capital resources available. The statement is presented in a format in which assets minus liabilities equals "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "current" (convertible to cash within one year), and "non-current".

The focus of the Statement of Net Assets (the Unrestricted Net Assets) represents the net available (non-capital) assets, net of liabilities, for the entire YCH or for individual funds. Net assets are reported in three broad categories:

Net Assets invested in Capital Assets, Net of Related Debt. This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets consists of assets which have constraints placed on them by creditors (such as debt covenants), grantors, contributors, laws, or regulations.

Unrestricted Net Assets consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

The assets of YCH exceed its liabilities as of June 30, 2008 by \$12,752,020.

	<u>2008</u>	<u>2007</u>	<u>Net Change</u>	<u>% Change</u>
<u>ASSETS</u>				
Current Assets	\$ 2,403,232	\$ 847,617	\$ 1,555,615	184%
Restricted Assets	2,569,445	1,910,757	658,688	34%
Capital Assets, Net	17,775,305	20,723,764	(2,948,459)	-14%
Non-Current Assets	<u>45,280</u>	<u>-</u>	<u>45,280</u>	-
TOTAL ASSETS	<u>\$22,793,262</u>	<u>\$ 23,482,138</u>	<u>\$ (688,876)</u>	-3%
<u>LIABILITIES</u>				
Current Liabilities	\$ 2,848,618	\$ 1,675,817	\$ 1,172,801	70%
Payable form Restricted Cash	346,634	295,488	51,146	17%
Non-Current Liabilities	<u>6,845,990</u>	<u>8,710,550</u>	<u>(1,864,560)</u>	-21%
TOTAL LIABILITIES	<u>\$10,041,242</u>	<u>\$ 10,681,855</u>	<u>\$ (640,613)</u>	-6%
<u>NET ASSETS</u>				
Investing in Capital Assets, net of Related Debt	\$ 12,764,675	\$ 14,143,923	\$ (1,379,248)	-10%
Restricted	2,290,989	1,738,981	552,008	32%
Unrestricted	<u>(2,303,644)</u>	<u>(3,082,621)</u>	<u>778,977</u>	25%
TOTAL NET ASSETS	<u>\$ 12,752,020</u>	<u>\$ 12,800,283</u>	<u>\$ (48,263)</u>	0%

During the fiscal year ended June 30, 2008, YCH's assets decreased \$688,000 (3%). Cash increased due to excess of HAP Housing Choice Voucher subsidy over vouchers paid by more than \$350,000, the Yolo County Alcohol, Drug, & Mental Health \$700,000 grant was received in full and \$291,000 proceeds from the sale of New Hope's Kentucky property. Capital Assets decreased due to depreciation of \$1,061,000 and the sale of the Kentucky property which had a cost basis of \$1,600,000

YCH's total liabilities decreased by \$640,000 (6%) in the year ended June 30, 2008. The increase in Current liabilities of \$1.2 million is due to the receipt of the ADMH grant funds (\$700,000) and increase in rents payable to the Office of Migrant Services (\$550,000). The long term obligations decrease of \$1.9 million resulting from the normal retirement of a portion of the long term debt and payoff of the note payable for the Kentucky Property of \$1.3 million.

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

Statement of Revenues, Expenses, and Changes in Fund Net Assets

The Statement of Revenue, Expenses and Changes in Fund Net Assets (similar to an Income Statement) includes Operating Revenues, such as rental income, Operating Expenses such as administrative, utilities, maintenance, and depreciation, and non-Operating Revenue and Expenses such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to Net Income or Net Loss.

	<u>2008</u>	<u>2007</u>	<u>Net Change</u>	<u>% Change</u>
<u>OPERATING REVENUE</u>				
Tenant	\$ 2,291,689	\$ 2,418,981	\$ (127,292)	-5%
HUD PHA Grants	9,588,849	8,579,076	1,009,773	12%
HUD Operating and Capital Grants	349,642	590,614	(240,972)	-41%
Other government grants	2,918,236	1,997,862	920,374	46%
Interfund fees	1,041,785	-	1,041,785	-
Other	93,890	366,127	(272,237)	-74%
Total Operating Revenue	<u>16,284,091</u>	<u>13,952,660</u>	<u>2,331,431</u>	17%
<u>OPERATING EXPENSES</u>				
Administration	3,211,433	3,284,845	(73,412)	-2%
Tenant Services	99,699	108,569	(8,870)	-8%
Utilities	710,153	800,857	(90,704)	-11%
Ordinary maintenance and operations	1,071,269	1,201,654	(130,385)	-11%
Extra ordinary maintenance	1,227,765	363,513	864,252	238%
General Expenses	564,309	1,064,283	(499,974)	-47%
Housing Assistance Payments	7,852,625	7,348,864	503,761	7%
Depreciation Expense	<u>1,061,372</u>	<u>1,159,762</u>	<u>(98,390)</u>	-8%
Total Operating Expenses	<u>15,798,625</u>	<u>15,332,347</u>	<u>466,278</u>	3%
<u>NON-OPERATING REVENUE (EXPENSES)</u>				
Investment Income - Restricted Cash	49,382	58,388	(9,066)	-16%
Interest Income	9,038	20,564	(11,526)	-56%
Interest Expense	(435,749)	(532,167)	96,418	18%
Amortization of loan costs	<u>(23,887)</u>	-	<u>(23,887)</u>	-
Net Non-Operating Revenue	<u>(401,216)</u>	<u>(453,215)</u>	<u>51,999</u>	11%
Gain (Loss) before Equity Transfers	84,250	(1,832,902)	1,917,152	-
Prior Period Adjustments	(138,800)	218,462	(357,262)	-
Gain (Loss) on Disposition of Fixed Assets	6,287	(635,900)	642,187	-
Beginning Net Assets	<u>12,800,283</u>	<u>15,050,623</u>	<u>(2,250,340)</u>	-15%
ENDING NET ASSETS	<u>\$ 12,752,020</u>	<u>\$ 12,800,283</u>	<u>\$ (48,263)</u>	-

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

Operating revenue increased 17%. Tenant revenue rent collections decreased by \$125,000 due to the loss of rental income from the sale of the Kentucky property. PHA Grant revenue includes increases of \$300,000 in LRPB operating subsidy and \$900,000 in HCV Voucher funding, a reduction of HCV Admin funding of \$125,000 and a reclassification of HUD Capital Funds to Operations in compliance with the HUD transition to AMP guidelines. HUD Capital Fund decreased due to the HUD guidelines referenced above. Capital Funds are also still under pending resolution of issues involving the purchase and remodeling of YCH Administration Building. The Other Government Grant revenue increase primarily resulted from the County of Yolo ADMH grant of \$700,000. Interfund Fees resulted from a change in HUD Asset Management guidelines to account for Management, Bookkeeping, and Asset Management fees. In previous audits this income had been offset by charges to programs rather than separately identified. There is a \$700,000 increase in Administrative Expenses and a \$200,000 decrease in Other Income associated with this reporting change.

Operating expenses during the year ended June 30, 2008 increased by over \$400,000 (3%) overall.

The decrease in Administrative Costs is due a combination of several factors:

- The change in HUD reporting requirements referenced above (\$750,000).
- \$600,000 savings in salaries and benefits that resulted from staffing changes and employee concessions relating to hours worked and furloughs. Management is very grateful to the employee union representatives and negotiators for their help and understanding of YCH difficulties.
- Property taxes decreased by \$20,000 due to the sale of the Kentucky property.
- Other administrative expenses included computer, telephone, postage, office machines, office supplies, etc, declined due to cost saving measures taken in general.

The tenant service cost decrease resulted from the reduced staff hours during 2007-2008.

The decrease in Ordinary Maintenance also is primarily the result of employee concessions which resulted in salary and benefit savings of \$175,000

Extra Ordinary Maintenance increased by \$850,000. The extra ordinary maintenance was rehabilitation of the Dixon Migrant Center.

General Expenses decreased by \$500,000. Clean up of items that were recorded in 2007 and not repeated in 2008 included:

- Stale accounts receivable in COCC (\$34,000)
- Payback of excess program funds in New Hope CDC (\$31,000)
- Reclassification of Unrestricted Net Assets to a liability account (\$440,000).

HAP expenses increase primarily due to the average rent subsidy increasing by 11% from \$490/month to \$545/month.

Depreciation decreased due to the sale of Kentucky property.

The decrease in Net interest income of \$20,000 is due to falling interest rates in 2007-2008. Interest expense decreased due to the sale of the Kentucky property and the retirement of associated debt.

Prior period adjustments included adjustments to correct the accounts payable 2005 opening balance entered in the accounting system that were identified to be unsupported (+\$106,000), write off of net book

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

value YCH identified that could not be associated with any known capital assets (-\$196,000) and reversal of a prior period adjustment made in 2007 (-\$49,000).

The change in Gain/Loss on sale of assets is due to the write down of the Kentucky property in 2007.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, non capital financing activities and from capital and related financing activities.

	<u>2008</u>	<u>2007</u>	<u>Net Change</u>	<u>% Change</u>
Cash flows from operating activities:				
Tenant Receipts	\$ 2,275,437	\$ 2,311,529	\$ (36,092)	-2%
Other receipts	134,861	329,742	(194,881)	-59%
Migrant receipts collected in excess of disbursements to HCD	415,299	72,798	342,501	470%
Payroll and benefit expenditures	(2,171,642)	(3,004,185)	832,543	-28%
Administration expenditures	(894,373)	(1,474,996)	580,623	-39%
Tenant services expenditures	(8,633)	(36,407)	27,774	-76%
Utilities expenditures	(710,153)	(800,857)	90,704	-11%
Maintenance expenditures	(1,784,857)	(858,726)	(926,131)	107%
General expenditures	(420,490)	(309,236)	(111,254)	36%
Housing assistance pmt expenditures	(7,800,774)	(7,307,450)	(493,324)	7%
Net cash used by operating activities	<u>(10,965,325)</u>	<u>(11,077,788)</u>	<u>112,463</u>	-1%
Cash flows from noncapital financing activities:				
Operating grants received	12,619,197	11,696,969	922,228	8%
Funds returned to granting agency	-	(14,451)	14,451	-
Prior Period Adjustment	-	<u>320,802</u>	<u>(320,802)</u>	-
Net cash provided by noncapital financing activities	<u>12,619,197</u>	<u>12,003,320</u>	<u>615,877</u>	5%
Cash flows from capital financing activities:				
Proceeds from the sale of capital assets	1,614,318	-	1,614,318	-
Grants to acquire capital assets	700,000	32,819	667,181	-
Acquisition of capital assets	(10,241)	(381,112)	370,871	-97%
Principal paid on debt	(1,547,800)	(266,362)	(1,281,438)	481%
Interest paid on debt	(457,160)	(505,189)	48,029	-10%
Net cash provided (used) by capital financing activities	<u>299,116</u>	<u>(1,119,844)</u>	<u>1,418,961</u>	-127%
Cash flows from investing activities:				
Interest receipts	9,038	8,482	556	7%
Interest on restricted cash	49,382	58,388	(9,006)	-15%
Net cash provided by investing activities	<u>58,420</u>	<u>66,870</u>	<u>(8,450)</u>	-13%
Net decrease to cash	2,011,409	(127,442)	2,138,851	
Cash at beginning of year	<u>2,194,779</u>	<u>2,322,221</u>	<u>(127,442)</u>	
Cash at end of year	<u>\$ 4,206,188</u>	<u>\$ 2,194,779</u>	<u>\$ 2,011,409</u>	
Cash and investments	\$ 1,658,988	\$ 284,022	1,374,966	
Restricted cash	2,547,200	1,910,757	636,443	
Total cash at the end of year	<u>\$ 4,206,188</u>	<u>\$ 2,194,779</u>	<u>\$ 2,011,409</u>	

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

Comparison of Actual to Budget for the Year Ended June 30, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Net Change</u>	<u>% Change</u>
<u>OPERATING REVENUE</u>				
Tenant	\$ 2,291,689	\$ 2,260,940	\$ 30,749	1%
Interfund fees	1,041,785	1,150,268	(108,483)	-9%
HUD PHA Grants	9,588,849	9,127,887	460,962	5%
HUD Operating and Capital Grants	349,642	377,506	(27,864)	-7%
Other Government Grants	2,918,236	1,741,657	1,176,579	68%
Other Income	<u>93,890</u>	<u>50,300</u>	<u>43,590</u>	87%
Total Operating Revenue	<u>16,284,091</u>	<u>14,708,558</u>	<u>1,575,533</u>	11%
<u>OPERATING EXPENSES</u>				
Administration	3,211,433	3,660,672	(449,239)	-12%
Tenant Services	99,699	108,312	(8,613)	-8%
Utilities	710,153	877,162	(167,009)	-19%
Ordinary Maintenance and Operations	1,071,269	948,584	122,685	13%
Extra Ordinary Maintenance	1,227,765	-	1,227,765	-
General Expenses	564,309	663,891	(99,582)	-15%
Housing Assistance Payments	7,852,625	7,616,817	235,808	3%
Depreciation Expense	<u>1,061,372</u>	<u>-</u>	<u>1,061,372</u>	-
Total Operating Expenses	<u>15,798,625</u>	<u>13,875,438</u>	<u>1,923,187</u>	14%
Operating Income (Loss)	485,466	833,120	(347,654)	-42%
<u>NON-OPERATING REVENUE (EXPENSES)</u>				
Interest income - Restricted	49,382	16,000	33,382	209%
Interest income - Unrestricted	9,038	9,600	(562)	-6%
Gain on sale of equipment	6,287	-	6,287	-
Interest Expense	(435,749)	(566,733)	130,984	-23%
Amortization of Loan Costs	<u>(23,887)</u>	<u>-</u>	<u>(23,887)</u>	-
NET INCOME (LOSS)	<u>\$ 90,537</u>	<u>\$ 291,987</u>	<u>\$ (201,450)</u>	

Significant Variances from original budget include:

- HUD LRPB Funding was \$120,000 less than budget.
- HUD HCV Voucher Funding was \$600,000 higher than budget.
- HCV Admin Fees earned were \$15,000 less than budget.
- HCV Operating and Capital Grants.

HUD Funding levels are not known until well into the year. NAHRO makes estimates of funding levels available and HUD requires reports that calculate funding levels but until the Federal Budget is passed and the final allocation percentage is determined, agencies make an educated guess.

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

- Capital Improvement Grant a the Dixon Migrant Center that had not been budgeted.
- Interfund fees budget included higher than actual HCV participation and Inter Program Maintenance changes.
- Other income budget did not include TANA project fees (\$2,700), ADMH Fees (\$3,300), Bond Fees from 03-04 through 06-07 (\$13,200) and YMCA Rent for the Winters and Woodland AMPs (\$25,000).
- Savings in the Administration, Tenant Services, and Maintenance lines resulted from the reduced labor costs associated with the work week reduction, furlough hours and staff reductions implemented for the last ten months of the fiscal year.
- Extremely high estimates for all utilities in the 2007-2008 budget combined with concerted efforts to conserve at all site resulted in the savings on the utilities line.
- Omission of the Dixon Migrant Capital Grant from the budget caused this difference between actual and budget.
- The General Expenses budget included interest on the Kentucky property (\$30,000) and a subsidy to New Hope (\$83,000) that were not incurred.
- The budget that was presented was a Cash Budget and did not include depreciation.
- Despite galling interest rates throughout the year, interest income exceeded an extremely conservative budget amount.
- Interest expense is lower than budget due to the sale of the Kentucky property.

YCH presents a summary of Fixed Assets for your information

	Balance 6/30/2007	Prior Period Adjustment	Additions	Deletions	Transfer	Balance 6/30/2008
Capital Assets:						
Land	\$ 4,626,298	\$ -	\$ -	\$ (705,000)	\$ -	\$ 3,921,298
Construction in progress	217,822	(32,732)	10,241	-	173,165	368,496
Building and Improvements	32,272,181	(1,127,190)	-	(995,001)	(173,165)	29,976,825
Furniture, equipment and vehicles	1,093,171	-	-	(334,499)	-	758,672
Total capital assets	<u>38,209,472</u>	<u>(1,159,922)</u>	<u>10,241</u>	<u>(2,034,500)</u>	<u>-</u>	<u>35,025,291</u>
Less Accumulated Depreciation	<u>(17,485,708)</u>	<u>963,626</u>	<u>(1,061,372)</u>	<u>333,468</u>	<u>-</u>	<u>(17,249,986)</u>
Total Capital Assets, Net	<u>\$ 20,723,764</u>	<u>\$ (196,296)</u>	<u>\$ (1,051,131)</u>	<u>\$ (1,701,032)</u>	<u>\$ -</u>	<u>\$ 17,775,305</u>

The deletions are the result of the sale of the Kentucky property and the write off of costs that could not be associated with any of the assets that were included in the fixed asset balances.

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

YCH presents a summary of Long Term Debt for your information

	<u>Balance</u> <u>6/30/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2008</u>
Low Rent Public Housing				
Office Building, Mortgage 1	\$ 2,174,835	-	\$ (46,139)	\$ 2,128,696
Office Building, Mortgage 2	180,000	-	-	180,000
Office Building, Mortgage 3	320,000	-	(160,000)	160,000
Total Low Rent Public Housing	<u>2,674,835</u>	<u>-</u>	<u>(206,139)</u>	<u>2,468,696</u>
Cottonwood				
HCD Note	368,800	-	-	368,800
Cottonwood Note	1,842,509	-	(39,264)	1,803,245
Total Cottonwood	<u>2,211,309</u>	<u>-</u>	<u>(39,264)</u>	<u>2,172,045</u>
Commercial Building				
Kentucky loan	1,299,182	-	1,299,182	-
Esparto Development				
Esparto Project - CDHC	331,269	-	-	331,269
Esparto Project - CDBG	32,209	-	2,322	29,887
Total Esparto Development	<u>363,478</u>	<u>-</u>	<u>2,322</u>	<u>361,156</u>
Davis Solar Rural Rental Assistance				
USDA Note	4,058	-	893	3,165
Total Long Term Debt	<u>\$ 6,552,862</u>	<u>\$ -</u>	<u>\$ 1,547,800</u>	<u>\$ 5,005,062</u>

- Office building mortgage #1 and Cottonwood mortgage principle balances were reduced through normal monthly payments of the mortgage obligations.
- Office building mortgage #3 principle decrease came from the 2nd of three schedules payments on this obligation. The terms of this mortgage have now been renegotiated to pay the final \$160,000 over four years (\$50,000 January 2011, 2012, 2013 and \$10,000 January 2014)
- The Kentucky loan was retired with the sale of the property in November 2007.

Significant environmental economic factors affecting YCH include:

Federal funding from the Department of Housing and Urban Development (HUD)
 Funding from the State Office of Migrant Services (OMS)
 Local labor supply and demand which affect salary and wage rates
 Local inflation, recession and employment trends, which can affect resident income and therefore the amount of rental income
 Local rental market and economy, which has a direct effect on the ability to find viable privately-owned rental properties that are available to our Housing Choice Voucher program

**YOLO COUNTY HOUSING
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

(Continued)

Inflationary pressure on utility rates, supplies and other costs are another concern.

Contacting YCH

This financial report is designed to provide a general overview of YCH's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Lisa A. Baker, Executive Director, Yolo County Housing, 147 W. Main Street, Woodland, California 95695.

**YOLO COUNTY HOUSING
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Primary Government Business-type Activities</u>
<u>ASSETS</u>	
Current assets	
Cash and investments (Note 2)	\$ 1,636,743
Due from other agencies	567,943
Tenant accounts receivable	40,137
Allowance for doubtful accounts	(15,000)
Inventory (net of allowance for obsolete inventory of \$9,141) (Note 1.I.)	82,270
Prepaid expenses	<u>91,139</u>
Total current assets	<u>2,403,232</u>
Restricted assets:	
Restricted cash (Note 2 and 3)	<u>2,569,445</u>
Fixed assets (Note 5):	
Land	3,921,298
Buildings	29,976,825
Furniture and equipment	758,672
Construction in progress	368,496
Accumulated depreciation	<u>(17,249,986)</u>
Total fixed assets	<u>17,775,305</u>
Loan costs - net of amortization (Note 6)	<u>45,280</u>
Total assets	<u><u>\$ 22,793,262</u></u>

**YOLO COUNTY HOUSING
STATEMENT OF NET ASSETS
JUNE 30, 2008**

(Continued)

		<u>Primary Government Business-type Activities</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$	177,744
Due to other agencies (Note 7)		1,337,223
Accrued interest (Note 6)		5,568
Unearned revenue (Note 8)		740,240
Current portion of compensated absences (Note 1.J.)		30,826
Current portion of long-term debt (Note 6)		183,932
Other current liabilities		<u>373,085</u>
Total current liabilities		<u>2,848,618</u>
Payable from restricted assets:		
Tenant security deposits		183,590
Family self sufficiency escrows		<u>163,044</u>
Total payable from restricted assets		<u>346,634</u>
Other noncurrent liabilities:		
Long-term portion of compensated absences (Note 1.J.)		92,480
Long-term debt (Note 6)		4,821,130
Other noncurrent liabilities (Note 9)		<u>1,932,380</u>
Total noncurrent liabilities		<u>6,845,990</u>
Total liabilities		<u>10,041,242</u>
 <u>NET ASSETS (Note 10)</u>		
Investment in capital assets, net of related debt		12,764,675
Restricted net assets		2,290,989
Unrestricted net assets		<u>(2,303,644)</u>
Total net assets		<u>12,752,020</u>
Total liabilities and net assets	\$	<u><u>22,793,262</u></u>

The accompanying notes are an integral part of this statement

**YOLO COUNTY HOUSING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Function/Programs Business-type activities:	Program Revenues			Capital Grants/ Contributions	Net Revenue (Expenses) Changes in Net Assets
	Expenses	Charges for Services	Operating Grants		
Federal:					
Housing Choice Voucher	\$ 8,386,348	\$ 48,951	\$ 9,139,111	\$ -	\$ 801,714
Public Housing	2,498,777	1,984,360	449,738	-	(64,679)
Public Housing Capital Fund	7,582	-	183,406	166,236	342,060
USDA	32,145	32,058	-	-	(87)
State:					
Migrant	2,604,796	7,144	2,902,353	-	304,701
RHCP (New Hope CDC)	295,133	306,559	12,553	-	23,979
Other:					
Central Office Cost Center	1,318,696	26,159	3,330	-	(1,289,207)
Esparto Development	1,819	-	-	-	(1,819)
Kentucky Commercial Property (NHCDC)	71,180	29,730	-	-	(41,450)
Total primary government	<u>\$ 15,216,476</u>	<u>\$ 2,434,961</u>	<u>\$ 12,690,491</u>	<u>\$ 166,236</u>	<u>75,212</u>

General revenues (expenses)
Unrestricted interest
Gain on disposition of fixed assets
Total general revenues
Change in net assets

9,038
6,287
15,325
90,537

Net assets - beginning of the year, as originally stated
Prior period adjustment (Note 11)
Net assets - beginning of the year, as restated
Net assets - end of the year

12,800,283
(138,800)
12,661,483
12,752,020

The accompanying notes are an integral part of this statement

**YOLO COUNTY HOUSING
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2008**

<u>ASSETS</u>	<u>Housing</u>
Current assets	
Cash and investments (Note 2)	\$ 1,636,743
Due from other funds (Note 4)	1,751,929
Due from other agencies	567,943
Tenant accounts receivable	40,137
Allowance for doubtful accounts	(15,000)
Inventory (net of allowance for obsolete inventory of \$9,141) (Note 1.I)	82,270
Prepaid expenses	<u>91,139</u>
Total current assets	<u>4,155,161</u>
Restricted assets:	
Restricted cash (Note 2 and 3)	<u>2,569,445</u>
Fixed assets (Note 5):	
Land	3,921,298
Buildings	29,976,825
Furniture and equipment	758,672
Construction in progress	368,496
Accumulated depreciation	<u>(17,249,986)</u>
Total fixed assets	<u>17,775,305</u>
Loan costs - net of amortization (Note 6)	<u>45,280</u>
Total assets	<u><u>\$ 24,545,191</u></u>

**YOLO COUNTY HOUSING
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2008**

(Continued)

	<u>Housing</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 177,744
Due to other funds (Note 4)	1,751,929
Due to other agencies (Note 7)	1,337,223
Accrued interest (Note 6)	5,568
Unearned revenue (Note 8)	740,240
Current portion of compensated absences (Note 1.J.)	30,826
Current portion of long-term debt (Note 6)	183,932
Other current liabilities	373,085
Total current liabilities	4,600,547
Payable from restricted assets:	
Tenant security deposits	183,590
Family self sufficiency escrows	163,044
Total payable from restricted assets	346,634
Other noncurrent liabilities:	
Long-term portion of compensated absences (Note 1.J.)	92,480
Long-term debt (Note 6)	4,821,130
Other noncurrent liabilities (Note 9)	1,932,380
Total noncurrent liabilities	6,845,990
Total liabilities	11,793,171
<u>NET ASSETS</u> (Note 10)	
Investment in capital assets, net of related debt	12,764,675
Restricted net assets	2,290,989
Unrestricted net assets	(2,303,644)
Total net assets	12,752,020
Total liabilities and net assets	\$ 24,545,191

The accompanying notes are an integral part of this statement

**YOLO COUNTY HOUSING
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Housing
Operating revenue:	
Rents and other tenant revenue	\$ 2,291,689
Interfund fees	1,041,785
Other	93,890
Total operating revenue	3,427,364
Operating expenses:	
Administration	3,211,433
Tenant services	99,699
Utilities	710,153
Maintenance	1,071,269
General	564,309
Housing assistance payments	7,852,625
Depreciation (Note 5)	1,061,372
Total operating expenses	14,570,860
Operating income (loss)	(11,143,496)
Nonoperating revenue (expenses):	
Grants	12,690,491
Unrestricted interest	9,038
Restricted interest	49,382
Gain on disposition of fixed assets	6,287
Debt service - interest (Note 6)	(435,749)
Extraordinary maintenance	(1,227,765)
Amortization on loan costs	(23,887)
Net income (loss) before contributions and transfers	(75,699)
Capital contributions	166,236
Net income (loss)	90,537
Net assets - beginning of year, as originally stated	12,800,283
Prior period adjustments (Note 11)	(138,800)
Net assets - beginning of year, as restated	12,661,483
Net assets - end of year	\$ 12,752,020

The accompanying notes are an integral part of this statement.

**YOLO COUNTY HOUSING
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Housing
Cash flows from operating activities:	
Tenant receipts	\$ 2,275,437
Other receipts	134,861
Migrant receipts collected in excess of disbursements to HCD	415,299
Payroll and benefit expenditures	(2,171,642)
Administration expenditures	(894,373)
Tenant services expenditures	(8,633)
Utilities expenditures	(710,153)
Maintenance expenditures	(1,784,857)
General expenditures	(420,490)
Housing assistance payment expenditures	(7,800,774)
Net cash provided used operating activities	(10,965,325)
Cash flows from noncapital financing activities:	
Operating grants received	12,619,197
Net cash provided by noncapital financing activities	12,619,197
Cash flows from capital financing activities:	
Proceeds from the sale of capital assets	1,614,318
Grants received to acquire capital assets	700,000
Principal paid on debt	(1,547,800)
Interest paid on debt	(457,160)
Acquisition of capital assets	(10,241)
Net cash provided used capital financing activities	299,116
Cash flows from investing activities:	
Interest receipts	9,038
Interest on restricted cash	49,382
Net cash provided by investing activities	58,420
Net increase to cash	2,011,409
Cash at beginning of year	2,194,779
Cash at end of year	\$ 4,206,188
Cash and investments	\$ 1,636,743
Restricted cash	2,569,445
Total cash at year end	\$ 4,206,188

**YOLO COUNTY HOUSING
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

(Continued)

	Housing
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (11,143,496)
Adjustments to reconcile operating loss to Net cash used by operating activities:	
Depreciation expense	1,061,372
Extraordinary maintenance	(1,227,765)
Prior period adjustments	(37,379)
(Increase) Decrease in:	
Due from other agencies	(166)
Tenants accounts receivable	19,359
Other receivable	464
Prepaid expenses	(66,435)
Inventory	(2)
Increase (Decrease) in:	
Accounts payable	(293,318)
Due to other agencies	642,969
Tenant security deposits	(872)
Unearned revenues	-
Compensated absences	27,926
FSS escrow	52,018
Other noncurrent liabilities	-
Net cash used by operating activities	\$ (10,965,325)

Noncash transactions:

- Capital assets of \$6,272,202 were transferred from Public Housing and Business Enterprise Funds to Central Office, Housing Choice Vouchers, and Capital Fund. The majority of this transfer was to establish the Central Office Cost Center. A small portion of the transfer was done to correct capital costs in the Capital Fund Enterprise Fund.
- Liabilities in the amount of \$4,648,538 were transferred from the Public Housing Enterprise Fund into the Central Office Cost Center. These liabilities are associated with the capital assets that were transferred as noted previously.

The accompanying notes are an integral part of this statement.

YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Yolo County Housing have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Organization

Yolo County Housing (YCH), formally known as the Housing Authority of the County of Yolo, was established pursuant to the State Health and Safety Code in 1950 by the Yolo County Board of Supervisors. YCH is a public entity organized under the laws of the State of California's Health and Safety Code to provide housing assistance to low and moderate income families at rents they can afford. Eligibility is determined by family composition and income in areas served by YCH. To accomplish this purpose, YCH has entered into Annual Contributions Contracts with the U.S. Department of Housing and Urban Development (HUD) to operate assisted housing programs.

On June 20, 2006, the County's Board of Supervisors exercised its authority under Health and Safety Code section 34290, due to the resignation of the independent housing commission, and declared itself to be the commissioners of YCH for a temporary period. The County's Board of Supervisors has indicated that the Board is acting as the Commissioners of YCH for only a temporary time period. In accordance with Government Accounting Standards Board Statement No 14, footnote 3, YCH is considered to have retained its independent status and is not considered to be a component unit of the County. The current governing board of YCH consists of the five members of the County Board of Supervisors plus two tenant Commissioners appointed by the Commission.

B. Financial Reporting Entity

YCH's financial statements include the accounts of all YCH's operations. The criteria for including organizations as component units within YCH's 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)
- * YCH holds the corporate powers of the organization
- * YCH appoints a voting majority of the organization's board
- * YCH is able to impose its will on the organization
- * The organization has the potential to impose a financial benefit/burden on YCH
- * There is financial dependency by the organization on YCH

Based on the aforementioned criteria, YCH has a blended component unit. The accompanying financial statements present YCH and its component unit, an entity for

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 1 (continued)

which YCH is considered to be financially accountable. The blended component unit, although a legally separate entity, is, in substance, part of YCH's operations. The component unit is known as the New Hope Community Development Corporation (NHCDC). NHCDC owns and operates a State RHCP project.

YCH has entered into an agreement with the Housing Authority of the City of Dixon to administer their only program - a Migrant Center funded by the California Department of Housing and Community Development. This program owns no real property and carries no long-term debt. YCH used its staff and other resources to operate this program during the current fiscal year. The operations of this program are considered by management to be, in substance, part of YCH's and as such are reported as part of this Agency-wide financial statement.

C. Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about YCH as a whole. They include all funds of YCH and a column for discretely presented component units. YCH has no fiduciary funds. The statements distinguish between governmental 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. YCH's activities are strictly business-type.

Fund Financial Statements:

Fund financial statements of YCH are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses/expenditures as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. YCH considers all of its funds to be proprietary. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of YCH or if total assets, liabilities, revenue, or expenses/expenditures of the individual fund are at least 10 percent of YCH-wide total. Beginning July 1, 2006, YCH considers all the activity of YCH to be housing related and therefore, considers all the financial activity of YCH to be one major fund, titled *Housing*. As such, YCH has no non-major funds.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 1 (continued)

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 revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. Measurement Focus and 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, YCH applies (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 YCH incurs an expense for which both restricted and unrestricted resources may be used, it is YCH's policy to use restricted resources first and then unrestricted resources as needed.

E. Interfund Transactions

Interfund assets/liabilities:

Short-term amounts due between funds are classified as "Due from/to other funds". For the purpose of the Agency-Wide Statement of Net Assets, due from/to other funds, totaling \$1,751,929, have been eliminated. See also Note 4.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 1 (continued)

Interfund revenue/expenses:

For the purpose of the Agency-wide Statement of Activities, the following interfund revenue and expenses have been eliminated. All interfund revenue was credited to the Central Office Cost Center. Expenses were debited to the following funds:

Public Housing:		
Management fees	\$	266,523
Bookkeeping fees		39,573
Asset management fees		49,432
Maintenance fees		81,143
Housing Choice Voucher:		
Management fees		184,752
Bookkeeping fees		115,470
Office rent		60,000
Maintenance fees		94
USDA:		
Maintenance fees		4,911
Central Office Cost Center		
Maintenance fees		1,750
Migrant (all three funds, including rehabilitation):		
Management fees		201,031
Maintenance fees		153
NHDCDC - Cottonwood - RHCP		
Management fees		31,320
Maintenance fees		<u>5,633</u>
Total interfund revenue/expense	\$	<u>1,041,785</u>

Interfund transfers:

Interfund transfers were made to close out programs and grants, to fund the Public Housing Program operations, and to establish the Central Office Cost Center. An operating transfer of \$158,654 was made from the Capital Fund Program to the Public Housing Fund. To facilitate the establishment of the Central Office Cost Center (COCC), operating and equity transfers were recorded. Office buildings and the liabilities associated with these assets were transferred from the Public Housing and Business Enterprise Funds to the COCC. Interfund transfers of \$9,935,120 have been eliminated from the Agency-Wide Statement of Activities.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 1 (continued)

F. Cash and Investments

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

G. Capital Assets

Capital assets are valued at historical cost. Contributed fixed 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 fixed assets used by Proprietary Funds is charged as an expense against operations, and accumulated depreciation is reported on the Proprietary Funds' Statement of Net Assets. 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 forty years, modernization and site improvements over fifteen years, and dwelling and other equipment over three to seven years, depending on the type of equipment.

H. Accounts Receivable

Receivables are principally amounts due from HUD, the State of California, and tenants. Allowance for doubtful accounts has been provided based on the likelihood of the recovery.

I. Inventory

Inventory is valued at the lower of cost or market on an average cost 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 June 30, 2008, is \$82,270, net of an allowance for obsolete inventory of \$9,141.

J. Compensated Absences

It is YCH's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with YCH. All vacation pay is accrued when incurred and allocated to the appropriate proprietary fund. Total liability for YCH is \$123,306 based on year-end hourly rates. Of this amount \$30,826 is considered by YCH to be a current liability.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 1 (continued)

K. Net Assets

Net assets represents the differences between assets and liabilities. Net Assets consist of investment in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowing used for acquisition, construction, or improvement of those assets (excluding interfund borrowing and including accrued interest). Net assets are reported as restricted when there are limitations imposed on their use through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

L. Operating Revenue and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of YCH's enterprise funds is dwelling rental income. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

M. Income Taxes

YCH is exempt from federal and state income taxes. YCH is also exempt from property taxes but normally and historically made payments in lieu of taxes on owned housing. See also Note 7.

N. Budgets and Budgetary Accounting

The Board of Commissioners adopts an operating budget no later than July 1. This budget is revised by the Board of Commissioners during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption.

O. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 1 (continued)

P. Encumbrances

Encumbrance accounting is not employed by YCH.

Q. Grant Restrictions

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

R. Operating Leases

YCH has leased several administrative office machines, the majority of which are copiers. The machines are usually leased for 5 years. The leasing costs during the current fiscal year were:

Housing Choice Vouchers	\$ 11,474
Public Housing	11,319
Central Office Cost Center	2,290
NHCDC - Cottonwood Meadows	<u>278</u>
Total leasing costs	<u>\$ 25,361</u>

S. Related Party Transactions

YCH received legal services from the County of Yolo, Office of the County Counsel free of charge during the fiscal year ended June 30, 2008. Beginning July 1, 2008, the County began charging YCH for these services at a rate of \$10,000 per quarter.

Note 2 - CASH AND INVESTMENT

Cash and investments as of June 30, 2008 are classified in the accompanying financial statement as follows:

Statement of net assets:	
Cash and investments	\$ 1,636,743
Restricted cash	<u>2,569,445</u>
Total Cash & Investments	<u>\$ 4,206,188</u>

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 2 (continued)

Demand deposits	\$ 3,693,210
California LAIF	512,843
Cash on hand	<u>135</u>
Total Cash & Investments	<u>\$ 4,206,188</u>

Investments Authorized by YCH's Investment Policy

Investments authorized by YCH are empowered by the HUD Notice 99-48 and its own investment policy to invest HUD funds in the following:

- United States Treasury Bills, Notes and Bonds;
- Obligations issued by Agencies or Instrumentalities of the U.S. Government;
- State or Municipal Depository Funds, such as the Local Agency Investment Fund (LAIF) or pooled cash investment funds managed by County treasurers;
- Insured Demand and Savings Deposits, provided that deposits in excess of the insured amounts must be 100% collateralized by federal securities;
- Insured Money Market Deposit Accounts;
- Insured SUPER NOW accounts, provided that deposits in excess of the insured amount must be 100% collateralized by federal securities;
- Negotiable Certificates of Deposit issued by federally or state chartered banks or associations, limited to no more than 30% of surplus funds;
- Repurchase/Reverse Repurchase Agreements of any securities authorized by this section; securities purchased under purchase agreements shall be no less than 102% of market value;
- Sweep Accounts that are 100% collateralized by federal securities;
- Shares of beneficial interest issued by diversified management companies investing in the securities and obligations authorized by this Section (Money Market Mutual Funds); Funds must carry the highest rating of at least two national rating agencies and are limited to not more than 20% of surplus funds;
- Funds held under the terms of a Trust Indenture or other contract or agreement including the HUD/PHA Annual Contributions Contract, may be invested according to the provisions of those indentures or contracts; and
- Any other investment security authorized under the provisions of HUD Notice PIH 97-41.

YCH is empowered by the California Government Code (CGC) Sections 5922 and 53601 et seq to invest non-HUD funds in the following:

- Bonds issued by the local entity with a maximum maturity of five years;
- United States Treasury Bills, Notes and Bonds;
- Registered state warrants or treasury notes or bonds issued by the State of California;

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 2 (continued)

- Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurer, other local agencies or Joint Powers Agencies;
- Obligations issued by Agencies or Instrumentalities of the U.S. Government;
- Bankers Acceptances with a term not to exceed 270 days, limited to 40% of surplus funds; no more than 30% of surplus funds can be invested in Bankers Acceptances of any single commercial bank;
- Prime Commercial Paper with a term not to exceed 180 days and the highest ranking issued by Moody's Investors Service or Standard & Poor's Corp., limited to 15% of surplus funds; provided that if the average total maturity of all commercial papers does not exceed 31 days up to 30% of surplus funds can be invested in commercial papers.
- Negotiable Certificates of Deposit issued by federally or state chartered banks or associations, limited to not more than 30% of surplus funds;
- Repurchase/Reverse Repurchase Agreements of any securities authorized by this Section, securities purchased under these agreements shall be no less than 102% of market value. Securities purchased under reverse repurchase agreements shall be for temporary and unanticipated cash flow needs only.
- Medium term notes (not to exceed two years) of U.S. corporations rated "AAA" or better by Moody's or Standard & Poor's limited to not more than 30% of surplus funds;
- Shares of beneficial interest issued by diversified management companies investing in the securities and obligations authorized by this Section (Money Market Mutual Funds), limited to not more than 15% of surplus funds;
- Funds held under the terms of a Trust Indenture or other contract or agreement may be invested according to the provisions of those indentures or agreements;
- Collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations;
- Any mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment least-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum maturity of five years, securities in this category must be rated AA or better by a national rating service and are limited to not more than 30% of surplus funds;
- Any other investment security authorized under the provisions of California Government Code Sections 5922 and 53601.

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. Since essentially all of YCH's funds are in demand deposits, YCH has no exposure to interest rate risk.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 2 (continued)

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. LAIF is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and YCH's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires California banks and savings and loan associations to secure YCH's deposits not covered by federal deposit insurance by pledging mortgages or government securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure YCH deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral must be held in the pledging bank's trust department in a separate depository in an account for YCH.

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

YCH has executed "General Depository Agreement" with the First Northern Bank. It states that "any portion of PHA funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD."

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 2 (continued)

YCH's exposure to custodial credit risk is as follows:

Demand deposits with banks, fully insured by FDIC	\$ 250,000
Demand deposits with banks, covered by depository agreements	3,443,210
California Local Agency Investment Fund	<u>512,843</u>
Total demand deposits	<u>\$ 4,206,053</u>

Investments in State Investment Pool

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

At June 30, 2008, an account was maintained in the name of the Yolo County Housing Authority for \$512,843. The total cost value of investment in LAIF was \$512,843. The total fair value of investments in LAIF was \$512,817. The fair value total includes an unrealized loss on investments of \$26. The unrealized loss was based on a fair value adjustment factor of 0.999950219 that was calculated by the State of California Treasurer's Office.

LAIF is a part of the State of California Pooled Money Investment Account (PMIA). At June 30, 2008, the fair value of the State of California Pooled Money Investment Account (PMIA), including accrued interest, was \$70,154,701,610. The PMIA portfolio had securities in the form of structured notes totaling \$6,113,006,000 and asset-backed securities totaling \$4,188,272,000. The PMIA has policies, goals and objectives for the portfolio to make certain that the goals of safety, liquidity, and yield are not jeopardized. These policies are formulated by investment staff and reviewed by both the PMIA and LAIF Advisory Boards on an annual basis.

During 2002, California Government code was added to the LAIF's enabling legislation stating that "the right of a city, county...special district...to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any state official or state agency based upon the State's failure to adopt a State Budget by July 1 of each new fiscal year." In addition, it has been determined that the State of California cannot declare bankruptcy under Federal regulations. This allows other government code stating that "money placed with the state treasurer for deposit in the LAIF shall not be subject to ...transfer or loan...or impound or seizure by any state official or state agency" to stand.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 3 - RESTRICTED CASH

Restricted cash consists of funds that are held in escrow, replacement reserves required by the lender, and funds being held by YCH on behalf of its clients. The balances are as follows:

HUD funds restricted in use for HAP payments	\$ 1,248,218
Replacement reserves:	
Madison Migrant Center	398,001
Davis Migrant Center	200,197
Cottonwood (RHCP)	142,594
Rural Rental USDA Davis	52,256
Tenant security deposits	184,034
Family Self Sufficiency Program participant's escrow funds	163,044
Migrant Centers (all 3) operations	<u>181,101</u>
Total restricted cash	<u>\$ 2,569,445</u>

The amounts held for the replacement of the USDA and the California Department of Housing and Community Development (RHCP and Migrant) Programs cannot be disbursed without the approval of the USDA Rural Economic and Community Development or the California Department of Housing and Community Development. These amounts are offset by restricted net assets. The RHCP replacement reserves are not fully funded and will therefore vary from the amount of restricted net assets. See also Note 10.

The amounts held for the operations of the Migrant programs can be disbursed only on expenditures that have been pre-approved by the California Department of Housing and Community Development, Office of Migrant Services. These amounts are offset by restricted net assets; however, they are not fully funded due to outstanding receivables from the State of California. See also Note 10.

The amounts held by YCH on behalf of Family Self Sufficiency Program participants and tenants are reported as payable from restricted assets. These liabilities have been fully funded as of June 30, 2008.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 4 - INTERFUND BALANCES

YCH utilizes a few cash accounts to make payments to vendors and for payroll. Costs are accrued to appropriate funds, which necessitates the use of interfund accounts. Costs are reimbursed on a periodic basis. The interfund receivable/payable balance of \$1,751,929 was eliminated in Agency-Wide Statement of Net Assets.

The interfund receivable balances are as follows:

Public Housing		\$ 829,903
Housing Choice Vouchers		899,428
Business Activities		8,284
Davis Migrant Housing Center (HCD)	\$ 119,715	
Madison Migrant Housing Center (HCD)	(423,984)	
Dixon Migrant Housing Center (HCD)	386,798	
Migrant Housing Rehabilitation (HCD)	(6,077)	
Esparto (Joe Serna Grant)	<u>(62,138)</u>	
Total State and Local programs		<u>14,314</u>
Total interfund receivable		<u>\$ 1,751,929</u>

The interfund payables are as follows:

Central Office Cost Center		\$ 1,375,309
Capital Fund Program		195,960
Rental Rural Davis Housing (USDA)		23,636
NHCDC - Kentucky Commercial Building	1,004,167	
NHCDC - Cottonwood RHCP	<u>(847,143)</u>	
Total blended component unit NHCDC		<u>157,024</u>
Total interfund payables		<u>\$ 1,751,929</u>

These interfund payables/receivables have been recorded as current assets and liabilities on YCH's Statement of Net Assets-Proprietary funds. A number of YCH's program general ledgers have significant liabilities, but few liquid assets. This may make the repayment of these interfund liabilities on a timely basis problematic.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 5 - CAPITAL ASSETS

Capital asset activity for the year ending June 30, 2008.

	June 30, 2007	Prior Period Adjustment	Additions	Deletions	Transfers	June 30, 2008
Capital assets, not being depreciated:						
Land	\$ 4,626,298	\$ -		\$ (705,000)	\$ -	\$ 3,921,298
Construction In Progress	42,391	-	10,241	-	315,864	368,496
Total	4,668,689	-	10,241	(705,000)	315,864	4,289,794
Capital assets depreciated:						
Buildings and improvements	32,272,181	-	-	(2,122,191)	(173,165)	29,976,825
Equipment	1,093,171	-	-	(334,499)	-	758,672
Construction In Progress	175,431	(32,732)	-	-	(142,699)	-
Total capital assets being depreciated	33,540,783	(32,732)	-	(2,456,690)	(315,864)	30,735,497
Grand total capital assets	38,209,472	(32,732)	10,241	(3,161,690)	-	35,025,291
Accumulated depreciation:						
Total accumulated depn	(17,485,708)	29,163	(1,061,372)	1,267,931	-	(17,249,986)
Total capital assets depn, net	16,055,075	(3,569)	(1,061,372)	(1,188,759)	-	13,485,511
Total capital assets, net	\$ 20,723,764	\$ (3,569)	\$ (1,051,131)	\$ (1,893,759)	\$ -	\$ 17,775,305

The changes by project are as follows:

	June 30, 2007	Prior Period Adjustment	Additions	Deletions	Transfers	June 30, 2008
TOTAL CAPITAL ASSETS:						
Public Housing	\$ 33,680,721	\$ -	\$ -	\$ (1,311,010)	\$ (5,897,327)	\$ 26,472,384
Capital Fund Grant	42,391	-	10,241	-	173,165	225,797
Housing Choice Voucher	28,800	-	-	-	7,794	36,594
Rural Rental	340,939	-	-	-	-	340,939
Esparto	352,651	(32,732)	-	-	-	319,919
Business Activity	374,875	-	-	-	(374,875)	-
Central Office Cost Center	-	-	-	(150,680)	6,091,243	5,940,563
Cottonwood (RHCP)	1,689,095	-	-	-	-	1,689,095
Kentucky Commercial	1,700,000	-	-	(1,700,000)	-	-
Total capital assets	38,209,472	(32,732)	10,241	(3,161,690)	-	35,025,291
DEPRECIATION:						
Public Housing	(16,653,513)	-	(761,050)	1,117,251	1,171,729	(15,125,583)
Capital Fund Grant	-	-	-	-	-	-
Housing Choice Voucher	(28,800)	-	(653)	-	(7,141)	(36,594)
Business Activity	(314,875)	-	-	-	314,875	-
Central Office Cost Center	-	-	(246,836)	150,680	(1,479,463)	(1,575,619)
Cottonwood (RHCP)	(249,308)	-	(45,329)	-	-	(294,637)
Esparto	(29,162)	29,162	-	-	-	-
Rural Rental	(210,050)	-	(7,503)	-	-	(217,553)
Total depreciation	(17,485,708)	29,162	(1,061,371)	1,267,931	-	(17,249,986)
Net	\$ 20,723,764	\$ (3,570)	\$ (1,051,130)	\$ (1,893,759)	\$ -	\$ 17,775,305

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 6 - LONG TERM DEBT

The following is a schedule of the changes in long-term debt for the current fiscal year:

	Balance 6/30/07	Loans Issued	Payments	Balance 6/30/08	Short-term Portion	Long-term Portion
Office Mortgage 1	\$ 2,174,835	\$ -	\$ (46,139)	\$ 2,128,696	\$ 48,819	\$ 2,079,877
Office Mortgage 2	180,000	-	-	180,000	90,000	90,000
Office Mortgage 3	320,000	-	(160,000)	160,000	-	160,000
Esparto FWHsg	331,269	-	-	331,269	-	331,269
Esparto CDBG	32,209	-	(2,322)	29,887	2,393	27,494
USDA Davis Note	4,058	-	(893)	3,165	896	2,269
NHCDC:						
Cottonwood RHCP	368,800	-	-	368,800	-	368,800
Cottonwood Mortg	1,842,509	-	(39,264)	1,803,245	41,824	1,761,421
Kentucky Mortgage	1,299,182	-	(1,299,182)	-	-	-
Totals	<u>\$ 6,552,862</u>	<u>\$ -</u>	<u>\$(1,547,800)</u>	<u>\$ 5,005,062</u>	<u>\$183,932</u>	<u>\$ 4,821,130</u>

Following is a schedule of debt payment requirements to maturity for the mortgages and loans noted above except for the two deferred loans (RHCP and FWHsg):

Year ending	Office Mortgages		Government Loans		NHCDC Mortgages		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2009	\$ 138,820	\$ 130,261	\$ 3,289	\$ 904	\$ 41,824	\$ 100,589	\$ 415,687
2010	141,652	123,683	3,377	816	44,243	98,170	411,941
2011	104,648	118,120	3,461	732	46,803	95,610	369,374
2012	107,819	113,200	3,048	647	49,510	92,903	367,127
2013	111,173	108,096	2,697	566	52,375	90,038	364,945
2014-2018	373,401	476,293	14,763	1,552	310,985	401,082	1,578,076
2019-2023	481,774	357,715	2,417	36	411,968	300,099	1,554,009
2024-2028	638,707	200,783	-	-	545,742	166,325	1,551,557
2029-2031	370,702	26,202	-	-	299,795	20,099	716,798
	<u>\$ 2,468,696</u>	<u>\$1,654,353</u>	<u>\$ 33,052</u>	<u>\$ 5,253</u>	<u>\$ 1,803,245</u>	<u>\$ 1,364,915</u>	<u>\$ 7,329,514</u>

On November 23, 2005, YCH obtained three loans as follows:

- Office Mortgage 1 - \$2,240,000 borrowed at an initial rate of 5.560% per annum from the First Northern Bank. This note is collateralized by YCH's main office building at 147 Main Street, Woodland, California. The loan matures on December 15, 2030 and requires monthly payments of \$13,991.
- Office Mortgage 2 - \$180,000 borrowed at a variable interest rate of 1.25% below the First Northern Bank Base Commercial Loan Rate, from the First Northern Bank. The note is collateralized by YCH's facility at 1212 L Street, Davis, California. The note requires monthly interest only payments. The interest rates for the year ranged from 4% to 7%. Loan principal payments of \$90,000 are due on January 15, 2009 and 2010.
- Office Mortgage 3 - \$480,000 borrowed at a variable rate of 1.25% below the First Northern Bank Base Commercial Loan Rate, from the First Northern Bank. This note is collateralized by YCH's main office building at 147 Main Street in Woodland. The note requires monthly interest only payments. The interest rates for the year ranged from 4% to 7%. Loan principal payments of \$160,000 were due and paid on January 15, 2007 and 2008. The remaining \$160,000 owed has

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 6 (continued)

been restructured with annual payments of \$50,000 due January 2011, 2012, and 2013. The final \$10,000 is due January 2014. Interest only payments continue to be due monthly on the balance owed.

- Loan costs of \$44,303 were paid to obtain these three loans. The entire amount is being amortized over 20 years. The unamortized amount of \$22,323 is reported as noncurrent assets.

On October 2, 2003, YCH received a Joe Serna Jr. Farmworker Housing Grant from the State of California. The grant, totaling \$600,000, was issued by the State to assist in the acquisition and development of real property located in Esparto, California. Between March 2004 and October 2005, YCH requisitioned and received \$331,269 of this grant. The property was purchased and the building permits pulled. No further activity has occurred. YCH has reported this grant as a long-term liability. This presentation is the most conservative, until the project is complete and the State is satisfied with the manner in which their funds were spent. No interest has been paid or accrued in relation to this grant.

On May 25, 2004, the County of Yolo, Planning and Public Works Department loaned YCH \$38,250. The loan was made from the County's Community Development Block Grant (CDBG) to aid in the funding of the development located in Esparto, California. The loan earns interest at a rate of 3% per annum and requires quarterly payments of \$816.

The USDA note accrues interest at a rate of 1% per annum and requires monthly payments of \$77.50. YCH made payments totaling \$930 during the fiscal year ended June 30, 2008.

YCH administers three Migrant Housing Centers on behalf of the State of California, Department of Housing and Community Development (HCD). These Migrant Centers typically sit on land owned by the County, but the buildings are owned by the State. On an annual basis, YCH receives operating and rehabilitation grants to operate and maintain these centers. Two of the centers have been extensively remodeled using grants and loans from the U.S. Department of Agriculture (USDA). These loans are obligations of the State. However, the annual operating grant contains a value for the servicing of this debt. This amount is requisitioned from HCD, paid to USDA and posted as interest expense in YCH's books of accounts. Neither the capital assets nor the long-term debt is reported in YCH's financial statements.

On October 23, 2001, the New Hope Community Development Corporation (NHCDC), a California non-profit public benefit corporation, purchased property known as the Cottonwood Meadows Apartments (47 units). These apartments were originally built with funding from the California Department of Housing and Community Development (HCD) under the Rental Housing Construction Program (RHCP). To acquire this property, YCH was required to assume the RHCP regulatory agreement and a \$368,800 note with HCD. Among other things, the regulatory agreement restricts the occupancy of 14 of the apartments to tenants

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 6 (continued)

with certain specified income levels and requires the establishment and maintenance of replacement and operating reserves, including annual deposits into each. The HCD note is deferred until 2017 at which time the principal balance of \$368,800 is due.

On December 22, 2005, NHCDC refinanced the property known as Cottonwood Meadows Apartments. NHCDC borrowed \$1,900,000 from First Northern Bank and paid off the \$1.2 million loan with Yolo Community Bank. This loan is amortized over 25 years, requires monthly payments of \$11,868 and earns interest at a rate of 5.56% per annum. Loan fees of \$29,437 were paid to acquire this loan. These fees are being amortized over the life of the loan. The unamortized amount of \$22,957 is reported as noncurrent assets.

On November 30, 2004, NHCDC borrowed \$1,350,000 to purchase commercial property located in Woodland, California. This loan required monthly payments of \$9,861 and earned interest at a rate of 7.25% per annum. On November 30, 2007, this property was sold and the loan paid off.

During the fiscal year ended June 30, 1999, HUD directed YCH to remove all HUD-guaranteed debt from their books of accounts. This debt included \$6,847,600 of HUD permanent notes and \$6,590,186 of interest accrued on these notes, \$103,720 of outstanding Federal Financing Bank notes, and \$205,000 of outstanding New Housing Bonds. These HUD-guaranteed notes and bonds have not been forgiven by HUD. The Public Housing Program's Annual Contributions Contract (ACC) states that all debt service requirements related to these notes will be HUD's responsibility. Therefore, it is management's opinion that YCH is not liable for this debt unless the federal government fails to honor the ACC. Accordingly, these amounts have been removed from YCH's books of accounts.

Interest activity for the loans are as follows:

	<u>Expensed</u>	<u>Paid</u>	<u>Payable Current</u>
Mortgage 1	\$ 113,348	\$ 121,759	\$ -
Mortgage 2	9,812	10,675	-
Mortgage 3	14,280	15,814	-
USDA Davis Note	37	37	-
Esparto CDBG	940	940	-
Migrant - Davis Housing Center	59,779	59,779	-
Migrant - Madison Housing Center	88,136	88,136	-
NHCDC - Cottonwood Mortgage	101,689	103,149	5,568
NHCDC - Kentucky Mortgage	47,728	47,728	-
Totals	<u>\$ 435,749</u>	<u>\$ 448,017</u>	<u>\$ 5,568</u>

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 7 - DUE TO OTHER AGENCIES

Due to other agencies consist of the following:

County of Yolo - PILOT	\$ 714,453
State of California - Migrant rent collection:	
Davis Center	99,821
Madison Center	271,490
Dixon Center	246,380
State of California - HCD	5,079
Total due to other agencies	\$ 1,337,223

In connection with the Public Housing Program, YCH is obligated to make annual payments in lieu of property taxes (PILOT) to the County of Yolo based on the lesser of the assessable value of owned housing, times the current tax rate; or 10% of the dwelling rents collected, net of utilities expense.

During the year ended June 30, 2008, \$147,805 was expensed for payment in lieu of taxes, bringing the total owed for PILOT to \$714,453. At the January 16, 2007, meeting of the Yolo County Board of Supervisors, the Supervisors agreed to allow YCH to defer payment of this obligation until at least July 1, 2008. Since this date, YCH has not made any PILOT payments to the County. YCH is currently in negotiations with the County to discuss how best to dispose of this obligation. YCH anticipates that \$256,435 of the liability will be forgiven, while \$229,009 of the liability will be deferred until July 1, 2009. However, since YCH has no formal agreement with the County deferring this liability, the entire amount is reported as current as of June 30, 2008, as part of "Due to Other Governments."

The State of California, Department of Housing and Community Development (HCD), provides YCH with grants to operate each of the three migrant centers. In general, all rents and other charges collected from the tenants of these centers are payable to HCD. The above represents collections retained, but not yet forwarded to HCD as of June 30, 2008 for each center.

The Cottonwood Meadows Apartments, owned by the New Hope Community Development Corporation (NHCCDC) and administered under a regulatory agreement with the California Department of Housing and Community Development (HCD), owes HCD \$5,079 in excess program payments. Excess program payments are generated by the project when project revenues exceed the lesser of approved or actual project expenses for assisted units. These excess program payments were generated by the project during the fiscal year June 30, 2008.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 8 - UNEARNED REVENUE

Unearned revenue consist of the following:

Capital grant from the Yolo County Department of Alcohol, Drug, and Mental Health	\$ 700,000
Grant from the Sierra Health Foundation	10,000
Current portion of office space lease	<u>30,240</u>
Total unearned rent	<u>\$ 740,240</u>

In June 2008, YCH entered into an agreement with the Yolo County Department of Alcohol, Drug and Mental Health to assist with the acquisition and rehabilitation of one to two facilities for full service mental health clients. The County advanced \$700,000 for this project which is expected to be completed by the end of the next fiscal year.

YCH received a \$10,000 grant from the Sierra Health Foundation for the purpose of providing low-cost onsite recreation and to aid in the foundation of a soccer league. These activities were expected to be complete within a few months of fiscal year end.

In August 2006, YCH executed a lease with a chiropractic practice (the tenant). Under the terms of this 10 year lease, YCH has agreed to rent approximately 2,800 square feet of YCH's office building located at 147 West Main Street in Woodland. The stated rent in the lease is \$2,520 per month. YCH has agreed to credit the tenant for \$220,300 of tenant improvements in the form of free rent. YCH's acceptance of these tenant improvements resulted in a \$220,300 increase in book value of the building in the Public Housing Program and a \$220,300 credit to unearned revenue. As of June 30, 2008, \$197,620 of unearned revenues still exists, including \$30,240 of unearned revenue classified as a current liability.

Note 9 - OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist of:

Unearned rent - lease (Note 8)	\$ 167,380
Funds due HUD-Capital Fund Program	<u>1,765,000</u>
Total Noncurrent Liabilities	<u>\$ 1,932,380</u>

During the year ended June 30, 2006, YCH recorded a \$1,765,000 liability to HUD. The \$1,765,000 was YCH's best estimate of the amount of ineligible costs funded by HUD as part of YCH's Capital Fund Program (CFA # 14.872). Currently, HUD is withholding certain additional Capital Fund Program revenues that would normally accrue to YCH. YCH's current management is actively working with HUD to resolve this matter.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 10 - NET ASSETS

A. Investment in Capital Assets, Net of Related Debt

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

Fixed assets, net of depreciation (Note 5)	\$ 17,775,305
Long term debt (Note 6)	(4,821,130)
Current portion of long term debt (Note 6)	(183,932)
Accrued interest on long term debt (Note 6)	(5,568)
Investment in capital assets, net of related debt	<u>\$ 12,764,675</u>

B. Restricted Net Assets

Net assets are reported as restricted when constraints placed on the net asset 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. YCH has reported the following as restricted net assets:

Excess HAP funding - Housing Choice Voucher	\$ 1,248,218
Madison Migrant Center Replacement Reserve	398,001
Davis Migrant Center Replacement Reserve	200,197
Cottonwood RHCP Replacement Reserves	159,044
Migrant program operating reserve	233,273
USDA Davis Replacement Reserve	52,256
	<u>\$ 2,290,989</u>

C. Deficit Net Assets

Several of YCH's programs have either deficit net assets or deficit unrestricted net assets. A schedule of all YCH's programs' net assets is as follows:

	<u>Capital assets, Net of debt</u>	<u>Restricted Net assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
Public Housing	\$11,346,801	\$ -	\$ 621,777	\$ 11,968,578
Housing Choice Vouchers	-	1,248,218	293,064	1,541,282
Capital Fund	225,797	-	-	225,797
USDA - Davis Solar	120,221	52,257	(6,633)	165,845
Business	-	-	8,284	8,284
Central Office Cost Center	1,896,247	-	(2,611,141)	(714,894)
Migrant -Madison Housing Center	-	432,443	(443,446)	(11,003)
Davis Housing Center	-	275,157	-	275,157
Dixon Housing Center	-	123,870	-	123,870
Esparto Development	(41,236)	-	(62,139)	(103,375)
NHCDC - RHCP - Cottonwood	(783,155)	159,044	900,757	276,646
Kentucky Commercial Bldg	-	-	(1,004,167)	(1,004,167)
Totals	<u>\$12,764,675</u>	<u>\$2,290,989</u>	<u>\$ (2,303,644)</u>	<u>\$ 12,752,020</u>

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 11 - PRIOR PERIOD ADJUSTMENTS

During the current fiscal year, YCH conducted a review of their capital assets in an attempt to attach costs associated with all identified land, structures and equipment. YCH identified \$196,296 of costs that could not be associated with any known capital assets. These costs were written off as of July 1, 2007.

During the current fiscal year, YCH conducted a review of the Migrant rental receipts for the 2007 season. The review concluded that additional amounts (\$121,253) were owed to HCD and the liability increased. For the Davis and Dixon Centers this adjustment did not affect net assets. For the Madison Center, net assets were effected by \$49,614 and a prior period adjustment was posted for the increased amount owed to HCD.

The New Hope Community Development Corporation's RHCP project held receivables as of July 1, 2007, in the amount of \$12,081 that YCH determined to be stale. These receivables were removed and posted as a prior period adjustment.

Recently, YCH researched the difference between the general ledger and the subsidiary ledger in the accounts payable vendors account. It was determined that an adjustment of \$106,956 was needed to bring the two into agreement as of July 1, 2007. No specific issue could be identified to explain the difference. It is assumed by management that the difference occurred during the initial set-up of the general ledger in 2005. Since the difference could not be identified to a specific issue or fund, an allocation was made to all active funds (omitting grant funds such as Capital Fund and Migrant Rehabilitation). The allocation was based on expenses that were run through payables during the current fiscal year. Using this rationale, the majority of the costs were credited to Public Housing (41%), Migrant Operations (30%), and Central Office Cost Center (16%).

Payment in Lieu of Taxes (PILOT) had been calculated and accrued on the USDA property for the past several years. YCH has determined that the USDA project is not subject to PILOT and has removed \$12,235 costs accrued prior to July 1, 2007, from liabilities.

These five events caused YCH to recognize prior period adjustments totaling \$138,800, as of July 1, 2007. The first three events listed above decreased net assets, while the last two increased net assets.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 12 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

YCH contributes 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. YCH makes 50% of the contribution required of the employees on their behalf and for their account. YCH is 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 for the fiscal year ended June 30, 2008 was 8.464% of annual covered payroll. The current contribution rate is 8.917%, while the contribution rate for the fiscal year ending June 30, 2010, is expected to increase to 9.157%. The contribution requirements of plan members and YCH are established and may be amended by PERS.

C. Annual Pension Cost

For the fiscal year ended June 30, 2008, YCH's annual pension cost of \$107,785 for PERS was equal to YCH's required contributions. YCH made payments to PERS totaling \$193,377. These payments consisted of \$32,469 contributions made by employees and \$160,908 contributions made by YCH on behalf of its employees. The required contribution for the fiscal year ended June 30, 2008, was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, 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). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 12 (continued)

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</u>
6/30/05	\$ 45,892	100%	\$ 0
6/30/06	118,155	100%	0
6/30/07	135,599	100%	0

E. Required Supplementary Information

YCH is a participant in the PERS 2% at 55 Risk Pool. PERS makes certain annual valuations for the Risk Pool as a whole rather than valuations for YCH specifically. The required supplementary information for YCH's Risk Pool in thousands is as follows:

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess) Assets</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>URAL As a % of Payroll</u>
6/30/05	\$2,891,460	\$2,588,713	\$ 302,747	89.5%	\$ 755,046	40.1%
6/30/06	2,754,396	2,492,226	262,170	90.5%	699,897	37.5%
6/30/07	2,611,747	2,391,434	220,312	91.6%	665,523	33.1%

F. YCH's Side Fund With PERS

YCH is a participant in the PERS 2% at 55 Risk Pool. At the time YCH joined the Risk Pool, a Side Fund was created to account for the difference between the funded status of the Risk Pool and the funded status of YCH's plan. As of June 30, 2007, YCH's Side Fund had a negative balance of \$329,003, which will cause YCH's required employer's contribution rate to be increased by the amortization of the Side Fund. PERS intends to amortize the negative balance in the Side Fund over the next 28 years.

Note 13 - RETIREE'S BENEFITS

YCH offers its retired employees health insurance through CALPERS. To be eligible for this benefit, the former employee must be fifty years of age and have five years of credited service. YCH expended \$45,823 on health insurance for ten retired employees during the fiscal year ended June 30, 2008.

Also, YCH offers health insurance coverage for its commissioners who have been on the Board of Commissioners for at least five years. The benefit is extended to retired commissioners as well as current commissioners who are at least fifty-five years of age. Sixty percent of the health insurance paid by YCH is reimbursed by each covered commissioner. YCH expended \$4,504 on commissioners health insurance premiums during the fiscal year ended June 30, 2008.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 14 - DEFERRED COMPENSATION PLAN

YCH offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the ICMA Retirement Corporation. The plan, available to all regular employees, permits them to defer a portion of their 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 benefits of participants and their beneficiaries.

A total of \$248,614 is being held by the ICMA Retirement Corporation on behalf of YCH's employees. These funds are not recorded as assets of YCH since they are held in trust for the exclusive benefit of participants and their beneficiaries and are not subject to claims of YCH's general creditors.

Note 15 - CONTINGENT LIABILITIES

A. Grants

YCH has received funds from various federal, state and local grant programs. It is possible that at some future date it may be determined that YCH was not in compliance with applicable grant requirements. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although YCH does not expect such disallowed amounts, if any, to materially affect the financial statements.

B. Prior Year Single Audit Report

In a letter dated May 15, 2007, the HUD Regional Office in San Francisco informed YCH that YCH's Single Audit for the year ended June 30, 2006, will remain "open" until further notice. The letter from HUD stated that, "We also have concerns regarding the quality of the audit and will bring these concerns to the attention of the Quality Audit Assurance Division in Headquarters for review." Further, the letter stated that YCH's Single Audit for the year ending June 30, 2005, also remained "open." Although the ultimate resolution of this matter is not determinable at this time, YCH does not expect this matter to have a material affect on the financial statements.

C. Litigation

YCH is a defendant in a matter of litigation with two former employees. The two former employees complaint alleged retaliation, wrongful termination, whistle blower retaliation, and First Amendment retaliation. Three of the four causes of action have been dismissed by the Federal Court. The remaining allegation is the First Amendment

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 15 (continued)

retaliation claim. Although, the outcome of this litigation cannot be determined at this time it is the opinion of YCH's management that the ultimate resolution of this matter will not have a material affect on the financial statements.

D. Grant Close-Out Reporting

Each year, YCH receives a Capital Fund Grant from HUD. Once all the grant funds have been expended and received, YCH is required to submit an *Actual Modernization Cost Certificate*. The cost certificates for the grants received during the federal fiscal year 2002 through 2005 were filed with HUD in December 2008. The costs certificates for 2003 and 2004 were acknowledged by HUD in January 2009. HUD requires an audit of these cost certificates before these grant years can be officially closed. YCH has not yet been able to locate the accounting records for this time period to satisfy an audit of these grants. YCH continues to research this matter. The outcome of this issue is uncertain at this time.

Note 16 - RISK MANAGEMENT

Workers Compensation Insurance: YCH participates 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, 2007, there were thirty-one members. The relationship between YCH and CHWCA is such that CHWCA is not a component unit of YCH for financial reporting purposes.

Condensed CHWCA audited financial information for the year ended December 31, 2006 and 2007 are as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Total assets	\$ 20,827,232	\$ 21,069,317
Total liabilities	<u>(11,838,302)</u>	<u>(11,427,502)</u>
Net assets	<u>\$ 8,988,930</u>	<u>\$ 9,641,815</u>
Total revenues	\$ 5,886,727	\$ 6,571,113
Total expenses	<u>(6,539,612)</u>	<u>(2,325,756)</u>
Net change in net assets	<u>\$ (652,885)</u>	<u>\$ 4,245,357</u>

CHWCA had no long-term debt outstanding at December 31, 2007. YCH's share of year end assets, liabilities, or retained earnings has not been calculated. YCH's annual premium is based on covered payroll. Premium paid for the fiscal year ended June 30, 2008, was

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 16 (continued)

\$99,166. The premium for the calendar year 2009 is scheduled to decrease 41% over what was charged in the prior calendar year. 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.

Property and Liability Insurance: YCH participates in a joint venture under a Joint Powers Agreement (JPA) with the California Housing Authority Risk Management Agency (CHARMA). CHARMA was formed to provide property and liability coverage to its members. At May 31, 2007, there were six members other than YCH. YCH's property insurance deductible varies by location, however in no case is it more than \$25,000 per occurrence. YCH's liability insurance has a \$50,000 deductible per occurrence. YCH's automobile insurance has no deductible for comprehensive damage and collision damage. YCH paid premiums to CHARMA of approximately \$284,000 during the policy period June 1, 2007 through May 31, 2008. The relationship between CHARMA and YCH is such that CHARMA is not a component unit of YCH for financial reporting purposes.

CHARMA's governing board controls the operations of the JPA, including selection of management and approval of operating budgets independent of any influence by member authorities beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested, and shares surpluses and deficits proportionately to its participation in CHARMA. At the annual CHARMA Board of Directors meeting, held in March 2009, the Directors discussed the dissolution of CHARMA effective May 31, 2010. CHARMA will cease to provide its members with insurance as of May 31, 2009.

Condensed CHARMA audited financial information for the year ended May 31, 2007 and 2008, are as follows:

	<u>May 31, 2008</u>	<u>May 31, 2007</u>
Total assets	\$ 6,818,736	\$ 5,982,160
Total liabilities	<u>(1,041,290)</u>	<u>(862,486)</u>
Retained earnings	<u>\$ 5,777,446</u>	<u>\$ 5,119,674</u>
Total revenues	\$ 3,340,975	\$ 3,504,525
Total expenses	<u>(2,683,203)</u>	<u>(2,559,432)</u>
Net increase in retained earnings	<u>\$ 657,772</u>	<u>\$ 945,093</u>

CHARMA has no long term debt outstanding at May 31, 2008. YCH's share of year-end assets, liabilities, or retained earnings has not been calculated.

**YOLO COUNTY HOUSING
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(Continued)

Note 17 - ADVERSE FINANCIAL CONDITION

The following are indications of adverse financial conditions of YCH:

- Over the past three fiscal years YCH's Net Assets have dropped a total of \$4,530,064 (26%). Specifically, Net Assets dropped \$2 million during the fiscal year ended June 30, 2006, \$2.5 million during 2007, and another \$48,000 during the current fiscal year.
- YCH's Unrestricted Net Assets were in deficit by \$2,303,644 and \$3,082,621, as of June 30, 2008 and 2007, respectively. This is an improvement of \$778,978.
- As reported to the YCH Board of Commissioners on March 5, 2009, management of YCH anticipates that the excess housing assistance payment (HAP) reserve will be exhausted by July 2009. As of June 30, 2008, YCH had an excess HAP reserve balance of \$1,248,218, see also Note 10 to the basic financial statements. During the fiscal year ended June 30, 2009, YCH has incurred more in HAP costs than the current funding levels from HUD. The effect being the depletion of the excess HAP reserves.
- In June 2007, HUD issued a report on YCH's Public Housing Assessment Systems indicators for the fiscal year ended June 30, 2006. HUD's report stated that YCH "is now considered financially troubled" and that due to cash liquidity issues YCH "is not considered financially viable." A copy of HUD's report, which was issued on June 29, 2007, can be obtained at the Yolo County Housing administrative offices. On March 6, 2009, YCH was notified by HUD that the corrective actions taken by YCH to address the deficiencies identified in the report had been reviewed and approved. Although HUD will continue to monitor YCH, the review is considered closed. Due to changes in the financial reporting to HUD through REAC, the PHAS score for the current fiscal year is not yet available.
- YCH's blended component unit known as New Hope Community Development Corporation (NHCDC) closed escrow on the Kentucky Commercial Building sale on November 30, 2007. This sale netted cash in the amount of \$291,026. NHCDC also owns the RHCP project known as Cottonwood Meadows. Together, these two projects owe YCH \$157,024. The Cottonwood Meadows RHCP project has limited unrestricted cash. Therefore, it is unlikely that YCH will be repaid the \$157,024, on a timely basis.

SUPPLEMENTAL INFORMATION

**YOLO COUNTY HOUSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor</u>	<u>CFA Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development (HUD):		
Direct Programs:		
Public and Indian Housing	14.850	449,738 *
Housing Choice Voucher Program	14.871	8,746,012 *
Public Housing - Capital Fund Program	14.872	<u>349,642 *</u>
Total federal expenditures (HUD)		<u>\$ 9,545,392</u>

* Major federal program.

Notes to the schedule of expenditures of federal awards:

1. The above schedule of expenditures of federal awards includes the federal grant activity of Yolo County Housing, 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 Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Public and Indian Housing Program expenditures reported above consist only of the operating subsidy amount received from HUD for the fiscal year ended June 30, 2008.
3. The expenditures reported above for the Housing Choice Voucher Program represent HUD funding to the extent that the funding has been expended by YCH. For the current fiscal year, the expenditures of federal awards agrees with the program's expenditures, less depreciation. The program's expenditures are less than the awards received from HUD. All excess HAP funds are shown as restricted net assets.
4. Expenditures for the Public Housing Capital Fund Program reported above agree with actual revenues and expenditures, including expenditures made for capital assets, for the fiscal year.
5. YCH also administers a USDA, Rural Economic and Community Development project. YCH received no rental subsidy for this project during the fiscal year ended June 30, 2008. Therefore no expenditures of federal awards are reported above.

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

Harn & Dolan

Certified Public Accountants

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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 Board of Commissioners
Yolo County Housing
Woodland, California

We have audited the financial statements of the business-type activities and the major fund of Yolo County Housing (formally known as the Housing Authority of the County of Yolo, California), as of and for the year ended June 30, 2008, which collectively comprise Yolo County Housing's basic financial statements and have issued our report thereon dated March 25, 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 Yolo County Housing'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 Yolo County Housing's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Yolo County Housing's internal control over financial reporting.

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

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 Yolo County Housing'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 Yolo County Housing's financial statements that is more than inconsequential will not be prevented or detected by Yolo County Housing's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The items are numbered II-2008-1 and II-2008-2.

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 Yolo County Housing'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider both items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yolo County Housing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items II-2008-1 and II-2008-2.

Yolo County Housing's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit these responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2009

Harn & Dolan

Certified Public Accountants

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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 Board of Commissioners
Yolo County Housing
Woodland, California

Compliance

We have audited the compliance of Yolo County Housing (formally known as the Housing Authority of the County of Yolo, 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 June 30, 2008. Yolo County Housing'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 Yolo County Housing's management. Our responsibility is to express an opinion on Yolo County Housing'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 Yolo County Housing'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 on Yolo County Housing's compliance with those requirements.

In our opinion, Yolo County Housing, 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 June 30, 2008. However, the results of our auditing procedures disclosed instances 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 items III-2008-A and III-2008-B.

Internal Control Over Compliance

The management of Yolo County Housing 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 Yolo County Housing'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 Yolo County Housing'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 Yolo County Housing's 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 others that we considered 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-A and III-2008-B 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-A to be a material weakness.

Yolo County Housing's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Yolo County Housing's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2009

**YOLO COUNTY HOUSING
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

The previous audit report for the year ended June 30, 2007, contained the following audit findings. A brief description of the prior year audit findings and their resolution are as follows:

Section II - Financial Statement Findings:

II-2007-1 Financial Status of YCH - Troubled (Agency-Wide)

As of the date of the prior audit report, HUD considered YCH to be financially troubled. As of the date of our current audit report, YCH remains financially troubled due to the fact that:

- YCH continues to carry a deficit unrestricted net assets account balance.
- YCH continues to carry a \$1.7 million liability on the books to offset capital fund monies that were thought to be spent in violation of HUD requirements.
- YCH continues to hold Migrant rental income funds due back to the State of California.

- YCH continues to accrue unpaid PILOT owed to the County of Yolo.

However, YCH has made strides to improve this status as follows:

- HUD performed an on-site confirmatory review of YCH's Section Eight Management Assessment Program for the year ended June 30, 2008. Based on this review, HUD improved YCH's rating from "troubled" to "low-standard".
- HUD performed a consolidated review April 24-26, 2007. The review covered both the Public Housing and Housing Choice Voucher Programs. This review resulted in the preparation of a Memorandum of Agreement (MOA) between HUD and YCH. This agreement required actions by YCH and monitoring by HUD. As of March 6, 2009, HUD "has reviewed and approved the corrective actions taken by YCHA to address the deficiencies identified in the review report." HUD has closed the review, but will continue to monitor YCH.
- YCH continues to carry a significant deficit in unrestricted net assets. However, this deficit improved \$778,978 from a deficit of \$3,082,621 as of June 30, 2007, to \$2,303,643 as of June 30, 2008.
- PERS payments were made on a more timely basis during the current fiscal year.
- Subsequent to June 30, 2008, YCH paid a significant portion of the Migrant rental funds back to the State of California
- As of the date of this report, YCH is in negotiations with the County of Yolo over the extinguishment (partial payment, partial forgiveness) of its PILOT obligations.

**YOLO COUNTY HOUSING
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2008
(Continued)**

II-2007-2 Migrant Housing Programs Accounting (State Grants)

For the past several years, the internal controls over the Migrant Housing Programs have not ensured that these programs have been accounted for in accordance with grant requirements. There appear to be several account balances that require research and possible adjustment. Since these issues were inherited by the current staff, any decisions made should be communicated with, and agreed to by, the State of California, Office of Migrant Services staff. YCH has opened a line of communication with the Office of Migrant Services with regards to these issues. However, no resolution has been made at this time.

II-2007-3 Segregation of Duties - Cash Receipts Handling (CFA #14.850)

During our prior audit we noted significant deficiencies in internal controls over the maintenance of tenant ledgers due to the lack of segregation of duties. This condition continues to exist. See finding II-2008-2.

Section III - Federal Award Findings:

III-2007-1 Administration of Family Self Sufficiency Escrow Accounts (CFA #14.871)

During our prior audit we noted that YCH had been administering this program significantly out of compliance with HUD regulations for many years. This condition was mitigated by the fact that no escrow balances were paid to participants during the prior fiscal year. During our current audit, we noted that this finding continues to exist. See Finding III-2008-A.

III-2007-2 Public Housing Operating Subsidy (CFA #14.850)

In June 2007, HUD's Recovery and Protection Corps completed a Public Housing Assessment System report which stated, "We reviewed YCHA subsidy payments for the past few years and noted that its 2004-2006 operating subsidy had decreased considerably. Upon further examination, it was determined that the entire subsidy had not been properly applied for and that, with further application, YCHA may be able to recoup some of these lost funds." YCH believes that "any operating subsidy missed would be immaterial and unrecoverable." This issue has not been pursued further.

**YOLO COUNTY HOUSING
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2008
(Continued)**

III-2007-3 Public Housing Tenant File Review (CFA #14.850)

During our prior audit, we reviewed a sample of Public Housing tenant files and determined that rent was not accurately posted to the tenant ledger in 16% of the population and rent was not accurately calculated in 6% of the population. Our current audit revealed similar results. See Finding III-2008-B.

III-2007-4 Public Housing Capital Fund Reporting (CFA #14.872)

During our prior audit, YCH was unable to provide us with copies of the required reports for the Capital Fund Program. Specifically, *Actual Modernization Cost Certificates* for the 2002-2006 grants could not be located. In a report issued by HUD, it was verified that these reports had not been received for the 2002-2006 grants.

During our current review, the *Actual Modernization Cost Certificate* for the 2002 through 2005 grant years were prepared and submitted to HUD. Neither the 2006 nor 2007 grant years have been completed as of June 30, 2008; therefore, an *Actual Modernization Cost Certificate* is not yet required.

III-2007-5 Section 8 Management Assessment Program (SEMAP) (CFA #14.871)

During our prior audit, we noted that considerable raw data had been collected and used to determine compliance with HUD regulations and to complete the SEMAP certification. However, this information did not contain narratives to explain the method for selecting the quality control sample for several indicators. The working papers lacked explanation of the sample selection procedures, explanation of audit procedures, and documentation summarizing the conclusions made.

On October 26, 2007, HUD gave YCH a SEMAP rating of "Troubled". By regulation, this "Troubled" rating can not be changed until HUD performs an on-site confirmatory review. HUD performed this review on the June 30, 2008 SEMAP submission and notified YCH, by electronic mail dated January 28, 2009, that they had earned a score of 62% or a rating of "Low-Standard".

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 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?	yes
Significant deficiencies identified also considered to be material weaknesses?	yes
Noncompliance material to financial statements noted?	no

Federal Awards

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	no
Identification of major programs:	
Public Housing Program	14.850
Housing Choice Voucher Program	14.871
Public Housing - Capital Fund Program	14.872
Type of auditors' report issued on compliance for major programs:	unqualified
Internal control over major programs:	
Significant deficiencies identified?	yes
Significant deficiencies identified also considered to be material weaknesses?	yes
Any known questioned costs?	yes
Were prior audit findings related to direct funding shown in the Summary of Prior Audit Findings?	yes

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

Section II - Financial Statement Findings

II-2008- 1 General Ledger Maintenance

Criteria - The general ledger is the collection of accounts and funds that represent the financial activity of Yolo County Housing (YCH). The general ledger represents YCH's financial picture at any given point in time. Several accounts, such as *Tenant Accounts Receivable*, are made up of smaller balances and are supported by subsidiary ledgers. Financial statements are required to be produced from time to time and shared with various readers. These readers include the Board of Commissioners, the U.S. Department of Housing and Urban Development, the State of California, the County of Yolo, and the public.

Condition - YCH has recently undertaken the reorganization of its Finance Department. In doing so, the Department has experienced personnel changes and other pressures from a variety of sources that have taken its focus off of the accurate maintenance of a general ledger. Of major concern during the current fiscal year was cash flow. This issue was resolved, in part, by instituting a reduced work week; thereby adding to the pressures of the Finance Department.

Our review of YCH's general ledger has revealed the following:

- Several permanent general ledger accounts did not agree to, or reconcile with, supporting documentation. The supporting documentation included third party verification, subsidiary ledgers, or client prepared documentation. Errors were noted in the following accounts:
 - Cash
 - Tenant accounts receivable
 - Tenant security deposits
 - Accounts payable vendors
 - Due to HCD (Migrant Operations)
 - Payment in Lieu of Taxes
 - Grant revenue and expenses (Capital Fund and Migrant Rehabilitation)
- Several posting were made directly to fund balance/net assets. These postings make the creation of accurate financial statements difficult.
- Not all of the temporary accounts were closed into permanent accounts at the end of the fiscal year.
- Interfund revenue and expenses, and transfers-in and transfers-out, were not in agreement. Some of ths interfund activity was commingled with non-interfund activity.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

II-2008-1 (continued)

- The New Hope Community Development Corporation's (NHCDC), Rental Housing Construction Program was not accounted for in accordance with State requirements.
 - Excess program payments were not calculated and accrued as of June 30, 2008.
 - Replacement reserves were not accurately accrued.
 - The required replacement reserves for the year were not funded.

- The Capital Fund Program is not being accounted for in accordance with the requirements of the grant. YCH staff retain records of amounts requisitioned on these federal grants outside the general ledger software. The general ledger for these grants does not include all expenses requisitioned and includes expenses disallowed by HUD. The general ledger for these grants cannot be relied upon to prepare financial statements that accurately reflect the activity of these grants.

Questioned Costs - None, adjustments were made for all material differences. Interfund revenue and expense was researched and brought into balance.

Cause - Adequate controls have not been established to ensure the accurate maintenance of the general ledger.

Effect - Accurate financial statements can not be consistently produced by the general ledger for every fund maintained by YCH and/or for YCH as a whole. A material weakness in internal controls exists.

Recommendation - We recommend that YCH develop controls to ensure the accurate maintenance of the general ledger with the final goal being the accurate production of financial statements on a periodic basis. Analysis should be done periodically to determine the accuracy of each general ledger account. YCH may wish to consider additional training for their accounting staff to increase their knowledge of the specialized accounting aspects of the many Federal and State programs administered.

YCH's Response - YCH concurs with the audit finding and appreciates the guidance and direction that Harn & Dolan has provided.

New staff has now been in place in excess of one year and is making significant headway in maintaining a current and accurate general ledger. The reduced work week has been eliminated. The disparate regulations of the many funding sources are becoming clearer as staff experience increases. Procedures have been or are being developed to strengthen internal controls not only in the Finance Department but also in the Public Housing, HCV and Migrant Departments. Training opportunities to better meet compliance requirements are being evaluated and staff attendance will be scheduled.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

II-2008-2 Segregation of Duties - Cash Receipts Handling (All Programs)

Criteria - YCH maintains housing offices in Winters, Woodland, and West Sacramento. Each office is staffed with a Housing Specialist/Property Manager. During the migrant season, YCH maintains housing offices in the Dixon, Davis, and Madison Migrant Housing Centers. Each Migrant offices is staffed with Program Assistant or Seasonal Office Assistant. The Housing Specialist/Program Manager or Program Assistant/Seasonal Office Assistant accepts rents from the tenants of the housing units. This same staff member also posts the rents to the tenant ledgers, monitors the collection of the security deposits, prepares the bank deposits, and has the ability to post non-cash credits to the tenant ledgers. This appear to be a long standing practice.

Condition - During our audit we noted the following with regards to YCH's controls over cash receipts and the maintenance of tenant ledgers:

- Rent collected is not being deposited on a daily basis. Although YCH does have a policy covering "Rent Collection", it does not address the frequency of deposits. USDA rental receipts are deposited monthly and routinely held for up to 20 days prior to deposit. Public Housing rental receipts are deposited more frequently. However, we noted that these receipts are routinely held for one week prior to deposit.
- Security deposit are not being collected routinely at lease-up. YCH's admin policies state that security deposits will be collected "at the time of admission". It also allows for installment payments in instances of financial hardship, "with the remainder paid within 90 days". However, we noted instances in which security deposits were not being collected at admission, nor were they collected within several months of admission. In two instances, the security deposit had not been collected two years after admission.
- Rent is not being charged to all tenants in possession of a unit, on a consistent basis. We noted two instances in which recently admitted tenants were not charged rent for two months each.
- Support for deposits, non-cash credits, and other tenant ledger adjustments are not always maintained in a well organized manner. Support for Migrant deposits is not retained by the Finance Department.
- The posting of non-cash credits to the tenant accounts could, until just recently, have been posted by any member of the Rental Housing Department staff. The current procedure requires that all requests to adjust tenant accounts be approved by the Public Housing Supervisor and posted by the Finance Department only. Many of the adjustment slips that we reviewed did not have this approval.
- Requests to write-off stale tenant accounts receivable are initiated by the Public Housing Supervisor. On a quarterly basis, YCH requests the Board's approval to write

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

II-2008-2 (continued)

off an approximate amount of tenants accounts receivable. No one other than the Public Housing Supervisor reviews or approves the specific accounts to be written off or the rationale and need for the write offs.

- The Migrant Program does not refund tenant security deposits using checks. These centers are open for approximately 6 months each year. It is YCH's policy to ask tenants to delay their last month's rental payment until move-out. On the last day of occupancy, YCH performs a walk through of the unit, calculates rent and maintenance fees owed, nets these with the security deposit collected, and asks the tenant to pay the final netted amount. These transactions are handled primarily by the Program Assistant or Seasonal Office Assistant.

Questioned Costs - None

Cause - YCH has not established effective internal controls over the collection of tenant rents, including the segregation of duties, to ensure that tenant ledgers are being maintained accurately and in an unbiased manner. Controls have not been designed and implemented that allow management or employees, in the normal course of performing their assigned duties, to prevent or detect misstatements or noncompliance on a timely basis.

Effect - A material weakness in internal control weakness exists in YCH's system of collecting tenant rents, security deposits, and the maintenance of tenant ledgers.

Recommendation - We recommend that YCH establish effective controls over the collection of cash receipts and the maintenance of tenant ledgers and segregate duties to the extent practical under the circumstances.

YCH's Response -

- YCH did not address the frequency of deposits in the Rent Collection policy. While rents are not being deposited daily, the deposits were maintained in a locked space. USDA rentals have only seven units thus, deposits were held in order to collect all of the unit's payments prior to depositing. The payments are always held in a secure, locked space. The Rent Collection Policy will be revised to include instructions regarding frequency of deposits.
- Recently, YCH has changed the policy for Security Deposit collection and is working on updating the Admissions and Continued Occupancy Policy (ACOP) with new procedures. YCH has established that all Security Deposits must be collected at time of admission and has instituted a policy that a payment agreement can be established

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

II-2008-2 (continued)

for the first month's rent. This will ensure the Security Deposits are collected at move in and will enable YCH to evict based on non-payment of rent. In the past, YCH neither was able to evict based on non-payment of Security Deposit nor could include this amount in 14 Day Notices for non-payment of rent. All AMP managers have been advised to send collection letters to residents still owing balances on Security Deposits.

- Although the data base did not reflect rent charged, rent was collected in both of these instances. The problem is due to a linking failure between the software modules Occupancy Rent Calculation (ORC) and Accounts Receivable (AR). The AMP managers and Accounting staff are aware of this problem and noticed that new admissions were not linking from ORC to Accounts Receivable. YCH has worked with our software company, Tenmast, to fix this programming glitch and avoid any future errors. Accounting has been given Adjustment slips to correct tenants account receivables.
- YCH is continuously working on maintaining all support documents in a well organized manner. The Public Housing Supervisor has requested that all AMP managers follow the same guidelines and procedures in all aspects of maintaining support documentation.
- Not all adjustment slips require approval (i.e., reverse work orders, adjustment to rent calculation due to interims). Adjustment slips that require Public Housing Supervisor's approval are for move out charges, refunds and retro rents. YCH will develop internal written procedures for adjustments outlining process and approval requirements.
- Requests for write-offs of stale tenant accounts receivables are initiated by each AMP manager. The AMP manager is required to submit written proof of attempts to collect debts from the tenants. The Public Housing Supervisor reviews the documentation of attempts and then forwards to Finance for inclusion in the Board Agenda.
- YCH will continue to strive to provide excellent tenant service while maintaining internal policies and guidelines updated and followed.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

Section III - Federal Award Findings

III-2008-A Administration of Family Self Sufficiency Escrow Accounts (CFA #14.871)

Criteria - YCH has been awarded Housing Choice Vouchers by HUD that must be used exclusively for participants in the Family Self Sufficiency (FSS) Program. Generally, FSS participants are entitled to deposits and interest on escrow accounts if the participant's earned income increases after they enter the FSS program. HUD's rules for administering FSS escrow accounts are promulgated in 24 CFR 984. HUD's rules require FSS participants to complete certain program goals within five years, although a two year extension is allowed under certain circumstances. HUD mandates one of the family's goals to be that no cash aid be received by the family within twelve months of graduation from the program.

Condition - YCH has been administering this program significantly out of compliance with HUD regulations for many years. Prior to July 1, 2006, significant and material violations of HUD, FSS program directives occurred and significant errors existed in the balances being carried forwarded in the FSS escrow accounts. Further, these erroneous escrow account balances were reported to FSS program participants. YCH's staff and two different consultants have expended hundreds of hours studying, analyzing, and attempting to correct deficiencies in FSS program participants' files. As of June 30, 2008, the liability of \$163,044 recorded on the books of accounts for the Housing Choice Voucher Program did not agree to the total in the subsidiary ledger detailing the participants' escrow balances. The difference was not significant. The subsidiary ledger contained 16 participants with balances as of June 30, 2008. We reviewed four participant's balances, making up 58% of the total liability. Subsequent to fiscal year end, all four participants were found to have completed their goals of the FSS program by YCH and were paid the balances in their escrow accounts. Our review noted the following:

- All four participants were paid an escrow that was incorrect and overstated.
- Only one of the four participants appears to have met their stated goals in a timely fashion.
- FSS contract extensions were granted after the expiration of the original contracts, without written requests from the participants, and without the specification of good cause for granting the extension. These practices are in violation of HUD regulations found in 24 CFR 984.303(d).
- Deposits were made into three of the four participant's escrow accounts after the original contract expired and into two of the four participant's escrow accounts after the seven year term, which includes the invalid extension.
- Escrow deposits were calculated incorrectly. No internal audit appears to have been conducted to test the accuracy of the escrow prior to payment.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

III-2008-A (continued)

- Check requests for the payments of these escrows were approved by no one other than the FSS Coordinator. The check amounts ranged from \$5,075 to \$41,923.

Questioned Costs - We tested payments of \$102,303 made subsequent to June 30, 2008. Three participants were paid a total of \$68,600, all of which are questioned costs. These payments were made to participants who either did not complete their goals or completed their goals after their contracts expired. In each instance, escrows were accumulated and paid after the contract had expired. The fourth participant was paid \$33,103. Due to escrow calculation errors, \$6,226 of the amount paid are questioned costs. This brings the total to \$74,826 of questioned costs paid to participants after fiscal year end. Liability for these questioned costs as of June 30, 2008 was \$70,525, or 43% of the total liability.

Cause - Due professional care was not exercised in the administration of the FSS program.

Effect - YCH has been administering this program significantly out of compliance with HUD regulations for many years.

Recommendation - We recommend that YCH conduct a comprehensive review of its FSS program and take the steps necessary to bring the program into compliance with HUD's regulations.

YCH's Response - As the auditors have stated, prior to 2007, YCH did not have FSS staff administering this program for several years and former staff were not properly trained. Because of this, there are numerous program and account issues and some extensions may have been granted that were not in compliance with HUD regulations. In addition, in some cases, escrow continued to accrue to accounts past the contract end dates. Compounding this, in 2005, there was a system conversion to a new software system, which further exacerbated these differences. A comprehensive program assessment was unable to make a final determination as to completely accurate escrow account balances.

YCH first began working to correct these issues in 2007 and continued its work in 2008 and 2009 through a technical assistance consultant provided as a result of the Corrective Action Plan (CAP) for the Voucher program. With the addition of YCH staff that began in 2008, YCH is moving towards normalizing and improving this program. Staff has received FSS certification training and the Agency expects to have its FSS Plan revision approved in April 2009.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

III-2008-A (continued)

It has been determined that former staff established final goals on the Contracts of Participation (COP) audited that were either changed (not in accordance with HUD regulations) or had stated multiple or unreasonable goals for the individuals based on circumstances and time period. Without any supportive services from YCH, the graduates continued working toward their goals. The FSS participants were not at fault and were not penalized by being dropped from the program due to these errors which would have caused forfeiture of their escrow balances.

In case of the audited clients, staff met with each participant, to review the Plan and goals. As a result it was determined by YCH and its consultant that participants had attempted to uphold their COP despite YCH failure to perform. They had met some or all of their goals stated in their COP and individualized training and service plan (ITSP). Each graduate signed a certification describing their original goal, progress made toward them, and stated that they had not received welfare assistance as defined in 24 CFR §§984.103 (Welfare assistance, for the FSS program, means income assistance from Federal or state welfare programs, and includes only cash maintenance payments designed to meet a family's ongoing basic needs) prior to expiration of their original contracts.

Based on these actions, those participants who appeared to meet these goals were graduated from the program, while those who had not worked toward meeting goals, or did not meet the criteria at 24 CFR §§ 984.103 terminated from the FSS program as ineligible and their escrow accounts were forfeited.

Once the FSS Plan revision is approved, dedicated and fully trained staff will move forward with normalizing and implementing the revised FSS program.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

III-2008-B Public Housing Tenant File Review (CFA #14.850)

Criteria - The primary activity of the Public Housing Program is the rental of owned housing to low income persons, families, and seniors. On an annual basis, or more often if necessary, YCH is required to calculate tenant rent based on a review of the family's income and composition. Therefore, the rents charged to each tenant change periodically based on each family's individual circumstances. YCH is also required to annually inspect each unit to ensure decent and safe living conditions for its tenants.

Condition - During our review of several tenant files, we noted that rent appeared to have been calculated incorrectly in a few instances. These errors understated rent. The files did not contain a clear narrative which explained how income was derived. For one of the samples reviewed, income appears to have been understated habitually. We reviewed the five most recent recertifications in this file, which spanned more than two years. The family's income, and therefore rent, appeared to be understated in each instance.

We also noted during our testing that YCH cannot effectively document that units are being inspected on an annual basis.

Questioned Costs - None

Cause - Adequate controls have not been established to ensure that rent is accurately calculated. The tenant files lack adequate documentation to support decisions and calculations made regarding the income, rent, and the recertification process. Adequate controls have not been established to ensure that unit inspections are performed, and the results documented, on an annual basis.

Effect - The result of our testing was that rent was not calculated accurately in 33% of the samples tested. All errors resulted in the loss of revenue. Unit inspections were not performed in 80% of the samples tested. However, these statistics may have been more favorable if decisions, calculations, and the results of unit inspections had been more effectively documented.

Recommendation - We recommend that YCH continue to improve controls to ensure that rent is calculated accurately. YCH should consider establishing quality assurance procedures to ensure that tenant files contain adequate documentation for all decisions and calculations made regarding tenant rent and the recertification procedures. Care should be taken to ensure that proper documentation is contained in each tenant file. Further unit inspections should be performed on an annual basis and documentation retained to prove compliance with HUD regulations.

**YOLO COUNTY HOUSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

(Continued)

III-2008-B (continued)

YCH's Response -

Rent calculation - All AMP managers are certified in Occupancy and Rent Calculation. YCH will continue to train staff regarding rent calculation. The Public Housing Supervisor has provided staff a checklist of mandatory documents that must be obtained and retained at each annual/interim certifications. The Public Housing Supervisor will continue to audit random files for Quality Control.

Unit Annual Inspections - Inspections have been performed for all units annually, unfortunately, the actual inspection form was misfiled and we were unable to provide to auditor proof on inspection for some of the files. AMP managers have been instructed to perform inspections on a quarterly basis in order to avoid the need to perform high number of inspections at year end to meet HUD requirements. The Public Housing Supervisor will continue to audit random files for Quality Control