

Housing Successor Annual Report Regarding the
Low and Moderate Income Housing Asset Fund
For Fiscal Year (FY) 2014-15

Pursuant to California Health and Safety Code Section 34176.1 (f)

This Housing Successor Annual Report (Report) regarding the Low and Moderate Income Housing Asset Fund (LMIHAF) has been prepared pursuant to California Health and Safety Code Section 34176.1 (f) and is dated December 15, 2015.

This Report sets forth certain details of the activities of the Housing Authority of the City of Vallejo (Authority) acting as Housing Successor during Fiscal Year 2014-15 (Fiscal Year).

The purpose of this Report is to provide the governing body of the Authority an annual report on the LMIHAF housing assets and activities of the Authority under Part 1.85, Division 24 of the California Health and Safety Code, in particular section 34176 and 34176.1 (Dissolution Law).

The following Report is based upon the information prepared by the City of Vallejo's Finance Department, and Housing and Community Development Division staff and information contained within the independent audit of the Low and Moderate Income Housing Asset Fund included in the City of Vallejo Comprehensive Annual Financial Report for Fiscal Year 2014-15 (Audit). Further, this Report conforms with and is organized into sections I. through XI. Pursuant to Section 34176.1 (f) of the Dissolution Law:

- I. **Amount Deposited into LMIHAF:** This section provides that total amount of funds deposited in the LMIHAF during the Fiscal Year. Any amounts deposited for the items listed on the Recognized Obligation Payment Schedule (ROPS) must be distinguished from the other amounts deposited.

A total of \$357,645 was deposited into LMIHAF during the Fiscal Year. Of the total funds deposited into the LMIHAF, \$0 was held for items listed on the ROPS.

II. Ending Balance of LMIHAF: This section provides a statement of balance in the LMIHAF as of the close of the Fiscal Year. Any amounts deposited for the items listed on the ROPS must be distinguished from the other amounts deposited.

At the close of the Fiscal Year, the ending balance in the LMIHAF was \$1,044,601, of which \$0 is held for items listed on the ROPS.

III. Description of Expenditures from LMIHAF: This section provides a description of the expenditures made from the LMIHAF during the Fiscal Year. There was one expenditure made (\$60.46) from the LMIHAF during the Fiscal Year.

Monitoring and Administration Expenditures	\$60.46
Homeless Prevention and Rapid Rehousing Services Expenditures	\$0
Loan Repayment to CalHFA – RDLP Loan (Loan funds received and invested in project prior to 1-10-12)	\$0
Housing Development Expenditures	
- For Low Income Units	\$0
- For Very Low Income Units	\$0
- For Extremely Low Income Units	\$0
Total LMIHAF Expenditures in Fiscal Year	\$60.46

IV. Statutory Value of LMIHAF Assets Owned by the Authority: This section provides the statutory value of LMIHAF real property owned by the Authority, the value of loans and grants receivables, and the sum of these two amounts.

Statutory Value of LMIHAF Real Property Owned by Housing Authority	\$0
Value of the LMIHAF Loans and Grants Receivables	\$12,677,209
Total Value of Authority LMIHAF Assets	\$12,677,209

V. Description of Transfer: This section describes transfer, if any, to another housing successor agency made in previous Fiscal Year(s), including whether the funds are unencumbered and the status of the projects, if any for which the

transferred LMIHAF will be used. The sole purpose of the transfer must be for the development of transit priority projects, permanent supportive housing, housing for agricultural employees, or special needs housing.

The Authority did not make any LMIHAF transfers to other Housing Successor(s) under Section 34176.1 (c) (2) during the Fiscal Year.

- VI. Project Descriptions:** This section describes any project for which the Authority receives or holds property tax revenue pursuant to the ROPS and the status of that project.

The Authority did not receive or hold property tax revenue pursuant to the ROPS during the Fiscal Year.

However this Report presents an information only status update as of the date of the report on LMIHAF housing projects that were not yet complete on or after February 1, 2012, whose completion activities were facilitated with ROPS funds paid by the Successor Agency of the City of Vallejo.

The Authority did not initiate or conclude any housing projects during the Fiscal Year.

- VII. Status of Compliance with the California Health & Safety Code Section 33334.16:** This section provides a status on compliance with Section 33334.16 for interest in LMIHAF real property acquired by the former redevelopment agency *prior* to February 1, 2012, and for LMIHAF real property acquired on or *after* February 1, 2012.

With respect to interests in real property acquired by the former redevelopment agency prior to February 1, 2012, the time periods described in Section 33334.16 shall be deemed to have commenced on the date that the Department of Finance (DOF) approved the property as a housing asset in the LMIHAF; thus, as the real property acquired by the former redevelopment agency now held by the Authority in the LMIHAF, the Authority must initiate activities consistent with the development of the real property for the purpose for which it was acquired within five years of the date of the DOF approved such property as a housing asset.

Section 34176.1 provides that Section 33334.16 does not apply to interests in the LMIHAF real property acquired by the Authority on or after February 1, 2012; however, this Report presents an information only status update on the LMIHAF projects related to such real property.

No property or properties have been acquired by the Authority using LMIFAH on or after February 1, 2012.

VIII. Description of Outstanding Obligations under Section 33413: This section describes the outstanding inclusionary and replacement housing obligations, if any, under Section 33413 that remained outstanding prior to dissolution of the former redevelopment agency as of February 1, 2012, along with the Authority's progress in meeting those prior obligations of the former redevelopment agency.

Replacement Housing Obligation: According to the Five-Year Implementation Plan for Fiscal Year 2009-10 through 2013-14 for the former redevelopment agency, there were no replacement housing obligations that were outstanding that were transferred to the Authority. However, as the result of the Buchongo Settlement Agreement executed in July 1999, the former redevelopment agency agreed to provide 425 affordable housing units to low and moderate income residents. The Implementation Plan reflected that although the obligation had been substantially met, the former redevelopment agency was required to produce an additional eight units. The final eight units were completed through the rehabilitation of the Temple Art Lofts prior to the transfer of housing obligations to the Authority. As such, the Authority met the obligations for the production of affordable housing.

As noted in the Plan, these replacement housing obligations were met (in terms of the number of bedrooms and by affordability levels) either through onsite replacement of units or through relaying on the excess affordable residential units constructed within the required time frame.

There were no additional project that incurred replacement obligations between the date the Plan was written July 27, 2010 - Resolution 10-011 and the

dissolution of the Redevelopment Agency of the City of Vallejo (i.e., January 10, 2012 - Resolution 12-001) on February 1, 2012.

Inclusionary/Production Housing Obligation: According to the 2010-14 Implementation Plan for the former redevelopment agency, no Section 33413 (b) inclusionary/production housing obligations were transferred to the Authority.

As noted, the Authority met the obligations for the production of affordable housing that had resulted from construction of new residential units listed in the Plan.

Production housing obligations were met (in terms of the number of units and by affordability levels) either through onsite replacement of units or through relying on the excess affordable residential units of appropriate affordability levels that were constructed within the required time frames.

There were no additional projects that incurred housing production obligations between the date that report was written and the dissolution of the former Redevelopment Agency of the City of Vallejo on February 1, 2012

The former redevelopment agency's Implementation Plans are posted on the City's website at www.cityofvallejo.net.

- IX. **Extremely Low Income Test:** This section provides the information required by Section 34176.1 (a) (3) (B) requires that the Authority must require at least 30 percent of the LMIHAF to be expended for development of rental housing affordable to and occupied by households earning 30 percent or less of the area median income (AMI). If the Authority fails to comply with the Extremely-Low Income requirement in any five-year report, then the Authority must ensure that at least 50 percent of the funds remaining in the LMIHAF be expended in each fiscal year following the latest fiscal year following the report on households earning 30 percent or less of the AMI until the Authority demonstrates compliance with the Extremely-Low Income requirement. This information is not required to be reported until 2019 for the 2014–19 period.

- X. **Senior Housing Test:** This section provides the percentage of units of deed restricted rental housing restricted to seniors and assisted individuals or jointly by the Authority, its former redevelopment agency, and its host jurisdiction within the previous ten years in relation to the aggregate number of units of deed-restricted rental housing assisted individually or jointly by the Authority, its former redevelopment agency and its host jurisdiction within the same period.

For this Report the ten year period is January 1, 2004 to January 1, 2014.

The Authority is to calculate the percentage of units of deed-restricted rental housing restricted to seniors and assisted by the Authority, the former redevelopment agency and/or the City within the previous ten years in relation to the aggregate number of units of deed-restricted rental housing assisted by the Authority, the former redevelopment agency, and/or City within the same time period. If this percentage exceed 50%, then the Authority cannot expend future funds in the LMIHAF to assist additional senior housing units until the Authority or City assists and construction has commenced on a number of restricted rental units that is equal to 50 percent of the total amount of deed-restricted rental units.

Vallejo Senior Housing Test	January 1, 2004 through January 1, 2014
Number of Assisted Senior Rental	443
Number of Total Assisted Rental Units	683
Senior Housing Percentage	64.8

- XI. **Excess Surplus Test:** This section provides the amount of excess surplus in the LMIHAF, if any, and the length of time that the Authority has had excess surplus, and the Authority’s plan for eliminating the excess surplus.

Excess Surplus is defined in Section 34176.1(d) as an unencumbered amount in the account that exceeds the greater of one million dollars (\$1,000,000) or the aggregate amount deposited in to the account during the Authority’s preceding four Fiscal Years, whichever is greater.

Excess Surplus Test for FY 2014-15:

Unencumbered Fund Balance as of 6-30-14 \$686,956

Deposits:		
Principal payments	\$51,805	
Interest payments	\$305,840	\$357,645
Less:		
Expenditures	0	
Unencumbered Fund Balance as of 6-30-15		\$1,044,541
Deposits for the preceding four Fiscal Years:		
FY 2011-12		4214,380
FY 2012-13		\$211,077
FY 2013-14		\$352,781
FY 2014-15		\$357,645
Total		\$1,135,883

The Housing Successor has been in existence for four years. Based upon the deposits received during the preceding four years, the LMIHAF has an Excess Surplus of \$135,883. The Housing Successor may choose to allocate a portion of its Excess Surplus as non-federal HOME Program match in FY 2015-16.

- XII. Inventory of Homeownership Units:** This section provides an inventory of homeownership units assisted by the former redevelopment agency or the Housing Successor that is subject to covenants or restrictions, or to an adopted program that protects the former redevelopment agency's investment of monies from the LMIHAF pursuant to subdivision (f) of Section 33334.3.

Number of units	3
Number of units lost to the LMIHAF after February 1, 2012	0
Funds returned to LMIHAF	\$0
Contracts with outside entities for management of units	0

CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
BASIC COMPONENT UNIT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
Basic Component Unit Financial Statements
For The Year Ended June 30, 2015**

FINANCIAL SECTION:

Independent Auditor’s Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	6
Statement of Activities.....	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of Governmental Funds–Fund Balances with Governmental Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: Administration Program Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: Voucher Program Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: Operating Reserve Fund.....	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: Housing Development Fund	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: Low Income Housing and Moderate Income Housing Fund.....	21
Notes to Basic Component Unit Financial Statements	23
Required Supplementary Information:	
Schedule of the Plan’s Proportion Share of the Net Pension Liability	42
Schedule of Contributions	43

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Governing Board
of the City of Vallejo Housing Authority
City of Vallejo, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Vallejo Housing Authority (Authority), a component unit of the City of Vallejo, California, as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprise the Authority's basic component unit financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2015, and the respective changes in the financial position thereof and the respective budgetary comparisons listed as part of the basic component unit financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 that required a prior period adjustment to the financial statements and required the restatement of net position as discussed in Notes 6 and 8:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

As discussed in Note 1, the financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maye & Associates

Pleasant Hill, California
January 14, 2016

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CITY OF VALLEJO HOUSING AUTHORITY

**STATEMENT OF NET POSITION AND
STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities summarize the entire Authority's financial activities and financial position.

The Statement of Net Position reports the difference between the Authority's total assets, deferred outflow and total liabilities, deferred inflow, including all the Authority's capital assets and all its long-term debt. This format focuses the reader on the composition of the Authority's net position, by subtracting total liabilities from total assets.

The Statement of Activities reports increases and decreases in the Authority's net position. It is also prepared on the full accrual basis, which means it includes all the Authority's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets and current liabilities.

The Statement of Activities presents the Authority's expenses that are listed by program first. Program revenues, that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Authority's general revenues are then listed in the Governmental Activities column and the Change in Net Position is computed and reconciled with the Statement of Net Position.

VALLEJO HOUSING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 3)	\$4,598,551
Accounts receivable	88,041
Interest	962
Loans receivable (Note 4)	12,988,546
Capital assets (Note 5):	
Nondepreciable	134,000
Depreciable, net of accumulated depreciation	<u>507,681</u>
Total Assets	<u>18,317,781</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions (Note 8)	<u>219,395</u>
Total Deferred Outflows of Resources	<u>219,395</u>
LIABILITIES	
Accounts payable and accrued liabilities	91,652
Deposits payable	75,496
Employee benefits payable - current (Note 7)	87,422
Net pension liability (Note 8)	<u>3,426,461</u>
Total Liabilities	<u>3,681,031</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions (Note 8)	<u>469,117</u>
NET POSITION (Note 6)	
Net investment in capital assets	641,681
Restricted for:	
Section 8 voucher program	101,224
Low and Moderate income housing program	13,721,750
Unrestricted	<u>(77,627)</u>
Total Net Position	<u><u>\$14,387,028</u></u>

See accompanying notes to financial statements

VALLEJO HOUSING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Community development	\$97,089		\$303,481	\$206,392
Section 8 - Voucher	17,587,971		15,857,335	(1,730,636)
Section 8 - Administration	2,331,094	\$63,086	2,563,021	295,013
Total Governmental Activities	\$20,016,154	\$63,086	\$18,723,837	(1,229,231)
General revenues:				
Use of money and property				48,074
Total general revenues and transfers				48,074
Change in Net Position				(1,181,157)
Net Position-Beginning, as restated (Note 6)				15,568,185
Net Position-Ending				\$14,387,028

See accompanying notes to financial statements

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**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
For The Year Ended June 30, 2015**

FUND FINANCIAL STATEMENTS

The **Section 8 Administration and Voucher Program Funds** are used to provide separate accountability for the HUD Housing Choice Voucher program and its administrative grant allocations.

The **Section 8 Operating Reserve Fund** is used to track pre-2004 administrative grant funds that can be used for any general housing purposes.

The **Housing Development Fund** reports the status of non-federal, unrestricted Housing Authority resources.

The **Low Income Housing and Moderate Income Housing Asset Fund** accounts for the activities related to the housing assets assumed by the Authority as Housing Successor to the former Redevelopment Agency. The activities are governed by California redevelopment law and must be used to provide housing for low and moderate income households.

VALLEJO HOUSING AUTHORITY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	Section 8			Housing Development Fund #124
	Administration Program Fund #121	Voucher Program Fund #123	Operating Reserve Fund #122	
ASSETS				
Cash and investments (Note 3)	\$878,963	\$200,155	\$1,796,057	\$678,775
Receivables:				
Accounts	78,101	144	1,000	8,796
Interest			962	
Loans (Note 4)			311,337	
Total Assets	<u>\$957,064</u>	<u>\$200,299</u>	<u>\$2,109,356</u>	<u>\$687,571</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$67,213	\$23,579	\$800	
Deposits payable		75,496		
Total Liabilities	<u>67,213</u>	<u>99,075</u>	<u>800</u>	
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - loans receivable				
Total Deferred Inflows of Resources				
FUND BALANCE (Note 6)				
Restricted	<u>889,851</u>	<u>101,224</u>	<u>2,108,556</u>	<u>\$687,571</u>
Total Fund Balances	<u>889,851</u>	<u>101,224</u>	<u>2,108,556</u>	<u>687,571</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$957,064</u>	<u>\$200,299</u>	<u>\$2,109,356</u>	<u>\$687,571</u>

See accompanying notes to financial statements

<u>Low Income Housing and Moderate Income Housing Asset Fund # - 126</u>	<u>Total Governmental Funds</u>
\$1,044,601	\$4,598,551
	88,041
	962
<u>12,677,209</u>	<u>12,988,546</u>
<u>\$13,721,810</u>	<u>\$17,676,100</u>
\$60	\$91,652
	75,496
<u>60</u>	<u>167,148</u>
<u>2,693,958</u>	<u>2,693,958</u>
<u>2,693,958</u>	<u>2,693,958</u>
<u>11,027,792</u>	<u>14,814,994</u>
<u>11,027,792</u>	<u>14,814,994</u>
<u>\$13,721,810</u>	<u>\$17,676,100</u>

VALLEJO HOUSING AUTHORITY
 Reconciliation of
 GOVERNMENTAL FUNDS -- FUND BALANCES
 with
 GOVERNMENTAL NET POSITION
 JUNE 30, 2015

Fund balances, as reported on Governmental Funds Balance Sheet	\$14,814,994
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
<p>Capital assets:</p>	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	641,681
<p>Accrual of non-current revenues and expenses:</p>	
Revenues which are unavailable on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	2,693,958
<p>Long -term liabilities:</p>	
Compensated absences	(87,422)
Net pension liability and pension-related deferred outflows/inflows of resources	<u>(3,676,183)</u>
Net position of Governmental Activities, as reported on the Statement of Net Position	<u><u>\$14,387,028</u></u>

See accompanying notes to financial statements

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VALLEJO HOUSING AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	Section 8			Housing Development Fund #124
	Administration Program Fund #121	Voucher Program Fund #123	Operating Reserve Fund #122	
REVENUES				
Intergovernmental	\$2,563,021	\$15,857,335		
Use of money and property	2,447		\$5,643	\$2,089
Other	3,999	15,145		43,942
Total Revenues	2,569,467	15,872,480	5,643	46,031
EXPENDITURES				
Current:				
Community development				69,305
Section 8 - Voucher		17,587,971		
Section 8 - Administration	2,272,305		42,054	
Total Expenditures	2,272,305	17,587,971	42,054	69,305
NET CHANGE IN FUND BALANCES	297,162	(1,715,491)	(36,411)	(23,274)
FUND BALANCES, JULY 1	592,689	1,816,715	2,144,967	710,845
FUND BALANCES, JUNE 30	\$889,851	\$101,224	\$2,108,556	\$687,571

See accompanying notes to financial statements

Low Income Housing and Moderate Income Housing Asset Fund # 126	Total Governmental Funds
\$305,840	\$18,420,356 316,019 63,086
<u>305,840</u>	<u>18,799,461</u>
60	69,365 17,587,971 2,314,359
<u>60</u>	<u>19,971,695</u>
305,780	(1,172,234)
<u>10,722,012</u>	<u>15,987,228</u>
<u>\$11,027,792</u>	<u>\$14,814,994</u>

VALLEJO HOUSING AUTHORITY
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2015

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

Net change in fund balances, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	(\$1,172,234)
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Capital asset transactions:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense is deducted from the fund balance	(27,724)
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Accrual of non-current items:

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Unavailable revenue	35,536
Net pension liability and pension-related deferred outflows/inflows of resources	(30,289)
Compensated absences	13,554
	13,554

Change in net position of governmental activities, as reported on the Statement of Activities	(\$1,181,157)
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See accompanying notes to financial statements

VALLEJO HOUSING AUTHORITY
ADMINISTRATION PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$2,511,107	\$2,550,254	\$2,563,021	\$12,767
Use of money and property	309	309	2,447	2,138
Other	25,000	10,000	3,999	(6,001)
Total Revenues	<u>2,536,416</u>	<u>2,560,563</u>	<u>2,569,467</u>	<u>8,904</u>
EXPENDITURES:				
Current:				
Community development				
Section 8 - Administration	<u>2,484,423</u>	<u>2,481,423</u>	<u>2,272,305</u>	<u>209,118</u>
Total Expenditures	<u>2,484,423</u>	<u>2,481,423</u>	<u>2,272,305</u>	<u>209,118</u>
NET CHANGE IN FUND BALANCE	<u>\$51,993</u>	<u>\$79,140</u>	297,162	<u>\$218,022</u>
Fund balance, July 1			<u>592,689</u>	
Fund balance, June 30			<u>\$889,851</u>	

See accompanying notes to financial statements

VALLEJO HOUSING AUTHORITY
VOUCHER PROGRAM FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$22,670,472	\$22,670,472	\$15,857,335	(\$6,813,137)
Use of money and property	1,698	1,698		(1,698)
Other	21,625	17,000	15,145	(1,855)
Total Revenues	<u>22,693,795</u>	<u>22,689,170</u>	<u>15,872,480</u>	<u>(6,816,690)</u>
EXPENDITURES:				
Current:				
Community development				
Section 8 - Voucher	22,775,000	22,775,000	17,587,971	5,187,029
Total Expenditures	<u>22,775,000</u>	<u>22,775,000</u>	<u>17,587,971</u>	<u>5,187,029</u>
NET CHANGE IN FUND BALANCE	<u>(\$81,205)</u>	<u>(\$85,830)</u>	<u>(1,715,491)</u>	<u>(\$1,629,661)</u>
Fund balance, July 1			<u>1,816,715</u>	
Fund balance, June 30			<u>\$101,224</u>	

See accompanying notes to financial statements

VALLEJO HOUSING AUTHORITY
 OPERATING RESERVE FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	<u>\$1,129</u>	<u>\$1,129</u>	<u>\$5,643</u>	<u>\$4,514</u>
Total Revenues	<u>1,129</u>	<u>1,129</u>	<u>5,643</u>	<u>4,514</u>
EXPENDITURES:				
Current:				
Community development				
Section 8 - administration	<u>70,000</u>	<u>71,000</u>	<u>42,054</u>	<u>28,946</u>
Total Expenditures	<u>70,000</u>	<u>71,000</u>	<u>42,054</u>	<u>28,946</u>
NET CHANGE IN FUND BALANCE	<u>(\$68,871)</u>	<u>(\$69,871)</u>	<u>(36,411)</u>	<u>\$33,460</u>
Fund balance, July 1			<u>2,144,967</u>	
Fund balance, June 30			<u>\$2,108,556</u>	

See accompanying notes to financial statements

VALLEJO HOUSING AUTHORITY
HOUSING DEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	\$2,154	\$2,154	\$2,089	(\$65)
Other	<u>14,900</u>	<u>36,300</u>	<u>43,942</u>	<u>7,642</u>
Total Revenues	<u>17,054</u>	<u>38,454</u>	<u>46,031</u>	<u>7,577</u>
EXPENDITURES:				
Current:				
Community development	<u>75,446</u>	<u>75,446</u>	<u>69,305</u>	<u>6,141</u>
Total Expenditures	<u>75,446</u>	<u>75,446</u>	<u>69,305</u>	<u>6,141</u>
NET CHANGE IN FUND BALANCE	<u><u>(\$58,392)</u></u>	<u><u>(\$36,992)</u></u>	<u>(23,274)</u>	<u><u>\$13,718</u></u>
Fund balance, July 1			<u>710,845</u>	
Fund balance, June 30			<u><u>\$687,571</u></u>	

See accompanying notes to financial statements

VALLEJO HOUSING AUTHORITY
LOW INCOME HOUSING AND MODERATE INCOME HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	<u>\$11,740</u>	<u>\$11,740</u>	<u>\$305,840</u>	<u>\$294,100</u>
Total Revenues	<u>11,740</u>	<u>11,740</u>	<u>305,840</u>	<u>294,100</u>
EXPENDITURES:				
Current:				
Community development	<u>240</u>	<u>240</u>	<u>60</u>	<u>180</u>
Total Expenditures	<u>240</u>	<u>240</u>	<u>60</u>	<u>180</u>
NET CHANGE IN FUND BALANCE	<u><u>\$11,500</u></u>	<u><u>\$11,500</u></u>	<u>305,780</u>	<u><u>\$294,280</u></u>
Fund balance, July 1			<u>10,722,012</u>	
Fund balance, June 30			<u><u>\$11,027,792</u></u>	

See accompanying notes to financial statements

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**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Financial Reporting Entity*

The Vallejo Housing Authority was formed in June 1942 and is organized under the California Health and Safety Code. The objectives of the Housing Authority are to aid low-income families in obtaining decent, safe, and sanitary housing through federal assistance programs and a mortgage revenue bond program. The Housing Authority is governed by a Board of Commissioners composed of all the members of the City Council of Vallejo and two tenants of the Housing Authority.

The Authority is an integral part of the City of Vallejo and accordingly is also reported as a component unit within the basic financial statements issued by the City.

B. *Basis of Presentation*

The Authority's Basic Financial Statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Authority). These statements include the financial activities of the overall Authority.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including investment income, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate statements are presented for each governmental fund.

C. *Major Funds*

The Authority reports the following major governmental funds in the accompanying financial statements:

Section 8 – Administration and Voucher Program Funds are used to provide separate accountability for the HUD Housing Choice Voucher program and its administrative grant allocations.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Section 8 – Operating Reserve Fund is used to track pre-2004 administrative grant funds that can be used for any general housing purposes.

Housing Development Fund reports the status of non-federal, unrestricted housing authority resources.

Low Income Housing and Moderate Income Housing Asset Fund accounts for the activities related to the housing assets assumed by the Authority as Housing Successor to the former Redevelopment Agency. The activities are governed by California redevelopment law and must be used to provide housing for low and moderate income households.

D. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenues for Section 8 program is recognized in the year of the Federal Housing and Urban Development (HUD) allocation.

The Authority may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Authority's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Authority considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Authority has deferred outflows of resources related to pensions as discussed in Note 8.

In addition to liabilities, the statement of financial position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Housing Authority has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from notes and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Authority also has deferred inflows of resources related to pensions as discussed in Note 8.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

The Authority's Executive Director submits a proposed budget to the Board 45 days prior to the end of the year, per City Charter. The Board holds public hearings, modifies the Executive Director's recommendations, and adopts a final budget by resolution prior to June 30 of each year. The annual budget indicates appropriations by fund or, in some instances, by program. Supplemental appropriations were adopted by the Board during the year. The Executive Director is authorized to transfer budgeted amounts between accounts within a fund. Any revisions or transfers that alter the total appropriations of any Fund must be approved by the Board.

Budget information in the accompanying schedules is presented for all major governmental funds on the modified accrual basis of accounting and in conformity with generally accepted accounting principles.

During the year ended June 30, 2015, there were no expenditures in excess of appropriations.

B. *Encumbrance Accounting*

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end do not lapse and are included as part of the following year budget.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 3 – POOLED CASH AND INVESTMENTS

The Authority maintains its surplus cash and HUD advances in a dedicated bank sweep account and the Local Agency Investment Fund. Other cash receipts and disbursements, including payroll, are processed by City staff which administer Authority activities. These cash transactions are recorded in the City's main checking account with transactions allocated to each applicable fund of the City and its component units pending periodic reimbursement and settlement of inter-agency balances.

Cash and investments in the financial statements consist of:

Cash on hand	\$450
Deposits	3,852,541
Investments held with California Local Agency Investment Fund	745,560
Total cash and investments	<u>\$4,598,551</u>

The California Government Code requires California banks and savings and loan associations to secure cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Authority's name. The market value of pledged securities must equal at least 110% of the Authority's cash deposits. California law also allows institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the Authority's total cash deposits. The Authority has waived collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015, these investments have an average maturity of 239 days.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 3 – POOLED CASH AND INVESTMENTS (Continued)

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

The Authority's investments are controlled and managed by City staff under the City's Investment Policy and the California Government Code which permit the following investments, provided the credit ratings of the issuers are acceptable and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Investment Policy if more restrictive, that address interest rate risk, credit risk and concentration of credit risk.

The investment policy authorizes the following investments:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
U.S. Government Treasury Bills	5 Years	No Limit	No Limit	No Limit
U.S. Government Treasury Bonds and Notes	5 Years	No Limit	No Limit	No Limit
U.S. Government Agencies and Government Sponsored Enterprises	5 Years	No Limit	50%	No Limit
Repurchase Agreements	30 days	No Limit	20%	No Limit
Bankers Acceptances	180 days	No Limit	5%	\$1,000,000
Commercial Paper	270 days	Highest Rating	25%	\$1,000,000
Corporate Medium Term Notes:				
Maturing in 3 years or less	5 Years	A	30%	5%
Maturing in 3 to 5 years	5 Years	AA	30%	5%
Certificates of Deposits	5 Years	No Limit	10%	No Limit
Negotiable Certificates of Deposits	5 Years	AA	5%	No Limit
Local Agency Investment Fund State Pool	No Limit	No Limit	\$50 million per account	No Limit
State of California or Local Agency Bonds	5 Years	A	10%	No Limit
Mutual Funds	On Demand	Highest Rating	10%	10%
Asset Backed Securities	5 Years	Aaa	20%	No Limit
Mortgage Backed Securities	5 Years	Aaa	20%	No Limit
Local Government Investment Pools	On Demand	No Limit	No Limit	No Limit
Municipal Bonds of Other States	5 Years	AA	10%	5%
Equity Securities (Common and Preferred Stocks)	N/A	N/A	0%	No Limit
Supranationals	5 Years	No Limit	0%	No Limit

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 4 – LOANS RECEIVABLE

A. Summary of Loans Receivable

The following loans receivable were outstanding as of June 30, 2015:

Types of Loans	Amounts
Affordable housing (20% Set Aside):	
Avian Glen	\$3,093,750
Citizens Housing	2,500,000
Simpson/Bayview	1,700,000
Marina Towers	750,000
Simpson/Solano Vista I	500,000
Single family residential	689,501
Temple Arts Lofts	750,000
Accrued interest	2,693,958
Residential Rehabilitation	246,592
Vallejo Housing Collaborative	64,745
	\$12,988,546

B. Affordable Housing

Under the provisions of AB 1484, the City's Housing Authority elected to become the Housing Successor and retain the housing assets of the former Redevelopment Agency. On February 1, 2012 certain former Redevelopment Agency housing assets were transferred to the Housing Authority which are reported in the Low Income and Moderate Income Housing Asset Fund as the Authority has control of those assets, which are to be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

Various residential purchase and rehabilitation loan programs were offered to qualifying low- to moderate-income individuals by the former Redevelopment Agency. These loans are secured by first or second mortgages on the residential property and are insured by private guaranty mortgage insurance. The terms vary greatly depending on the ability of the property owner to repay the loan. Interest rates on these loans range from 3.0% to 8.0% and the principal maturity dates range from 5 years to 30 years. Deferred interest loans are offered as well as below-market-rate 30-year loans. Interest income is recorded as payments are received. In addition, the former Redevelopment Agency had entered into agreements with developers to assist in the development of affordable housing. The notes receivable are secured by deeds of trust and bear varying interest rates.

C. Residential Rehabilitation

The residential rehabilitation loan is a single loan to Temple Art Lofts with an agreement that the principal shall be due and payable in full upon the 55th anniversary of the date of the note which is December 15, 2011. As long as no Event of Default occurs prior to the maturity date, borrower shall not be obliged to pay periodic payments of principal and or interest on the principal amount. The outstanding balance at June 30, 2015 remains at \$246,592.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 4 – LOANS RECEIVABLE (Continued)

D. *Vallejo Housing Collaborative*

In July 2014, the Housing Authority entered into a loan agreement with Vallejo Housing Collaborative, LLC, in the amount of \$900,000. The proceeds of the loan will be used to acquire, rehabilitate and operate from ten to twelve properties that are improved with housing to provide permanent housing for extremely low income individuals and households transitioning from homelessness. The loan bears simple interest of 3% and is repayable from residual receipts as defined in the agreement. The loan will be secured by up to twelve deeds of trust on the properties and unpaid principal and interest is due on or before the thirtieth anniversary of the promissory note. As of June 30, 2015, the developer had drawn down \$64,745 of the loan proceeds.

NOTE 5 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the half year convention method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year, but only half of the full year depreciation is charged in the first year, while the other half is charged in the last year of depreciation or in the year the asset is sold or retired. The Authority has assigned the useful lives listed below to capital assets:

Building and improvements	5-50 years
Machinery and equipment	5-25 years

The Authority's capitalization threshold is \$5,000. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 5 – CAPITAL ASSETS (Continued)

Capital asset additions, retirements and balances as of June 30, 2015 are as follows:

	Balance at June 30, 2014	Additions	Balance at June 30, 2015
<i>Governmental activities</i>			
Capital assets not being depreciated:			
Land	\$134,000		\$134,000
Total capital assets not being depreciated	134,000		134,000
Capital assets being depreciated:			
Buildings and improvements	763,124		763,124
Machinery and equipment	10,034		10,034
Total capital assets being depreciated	773,158		773,158
Less accumulated depreciation for:			
Buildings and improvements	(230,730)	(\$25,717)	(256,447)
Machinery and equipment	(7,023)	(2,007)	(9,030)
Total accumulated depreciation	(237,753)	(27,724)	(265,477)
Net capital assets being depreciated	535,405	(27,724)	507,681
Governmental activity capital assets, net	<u>\$669,405</u>	<u>(\$27,724)</u>	<u>\$641,681</u>

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 6 – NET POSITION AND FUND BALANCES

A. *Net Position – Statement of Net Position*

Net Position is the excess of all the Authority's assets and deferred outflow over all its liabilities and deferred inflow, regardless of fund. Net Position are divided into the following captions on the Statement of Net Position.

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the Authority's capital assets.

Restricted for Section 8 Voucher Program describes the portion of Net Position restricted for HUD Section 8 Voucher program only.

Unrestricted describes the portion of Net Position which is not restricted as to use.

B. *Fund Balance – Governmental Funds Balance Sheet*

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The Authority's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Authority prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the Board which may be altered only by resolution of the Board. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 6 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the Authority's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board and may be changed at the discretion of the Board. This category includes encumbrances; non-spendables, when it is the Authority's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

As of June 30, 2015, the Authority's fund balances consist only of restricted balances.

C. *Net Position Restatements*

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The intension of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. The intension of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required the Authority to make prior period adjustments. As a result, the beginning net position of the Governmental Activities was restated and reduced by \$3,645,894. See Note 8 for additional information.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 7 – CITY OF VALLEJO EMPLOYEE BENEFITS

Housing Authority services are provided by City of Vallejo employees. The Authority reimburses the City for its service costs on a monthly basis. Pension and health retirement benefits liabilities are reported as City obligations in the City’s basic financial statements.

Compensated absences consist of vested vacation and sick leave. Compensated absences activity for the Authority for the year ended June 30, 2015 is as follows:

	Governmental Activities
Compensated Absences Activity:	
Beginning balance	\$100,976
Additions	87,422
Deletions	(100,976)
Ending balance - Current	\$87,422

NOTE 8 – PENSION PLAN

A. General Information about the Pension Plan

Plan Descriptions – All qualified regular and probationary employees are eligible to participate in the City’s Miscellaneous plan (Plan), an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 8 – PENSION PLAN (Continued)

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits for the Miscellaneous Plan. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. The Pension Reform Act of 2013 (PEPRA), Assembly Bill 340, is applicable to employees new to CalPERS and hired after December 31, 2012.

The Plan’s provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous		
	Classic Tier I	Classic Tier II	PEPRA
	Prior to October 30, 2012	On or after October 30, 2012	On or after January 1, 2013
Hire date			
Benefit formula	2.0% @ 55	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% - 2.418%	2.0% - 2.70%	1.0% - 2.5%
Required employee contribution rates	7%	8%	6.25%
Required employer contribution rates	30.228%	30.228%	30.228%

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to *finance* any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Authority were \$219,395.

CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015

NOTE 8 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Authority reported its proportionate share of the net pension liability of the City's Miscellaneous Plan of \$3,426,461.

The Authority's net pension liability is measured as the proportionate share of the net pension liability of the City's Miscellaneous Plan. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

Proportion - June 30, 2013	4.17%
Proportion - June 30, 2014	4.17%
Change - Increase (Decrease)	0.00%

For the year ended June 30, 2015, the Authority recognized pension expense of \$626,499. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$219,395	0
Differences between expected and actual experience	0	0
Changes in assumptions	0	0
Net differences between projected and actual earnings on plan investments	0	(\$469,117)
Total	\$219,395	(\$469,117)

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 8 – PENSION PLAN (Continued)

\$219,395 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Annual Amortization
2016	(\$117,279)
2017	(117,279)
2018	(117,279)
2019	(117,280)
2020	-
Thereafter	-

Actuarial Assumptions – For the measurement period ended June 30, 2014, the total pension liabilities were determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power applies, .25% thereafter
Mortality	Derived using CalPERS Membership Data for all Funds (3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 8 – PENSION PLAN (Continued)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for the Miscellaneous Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Miscellaneous plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS deemed the difference immaterial to the agent multiple-employer plans.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 8 – PENSION PLAN (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**CITY OF VALLEJO, CALIFORNIA
HOUSING AUTHORITY
NOTES TO THE BASIC COMPONENT UNIT FINANCIAL STATEMENTS
For The Year Ended June 30, 2015**

NOTE 8 – PENSION PLAN (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Housing Authority’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Housing Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (dollars in thousands):

	Miscellaneous
1% Decrease Net Pension Liability	6.50% \$4,657,623
Current Discount Rate Net Pension Liability	7.50% \$3,426,461
1% Increase Net Pension Liability	8.50% \$2,402,328

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2015, the Housing Authority reported a payable of \$32,939 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Federal Grant Programs

The Authority participates in several federal grant programs. These programs are subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Authority expects any such amounts, if any, to be immaterial.

B. State Asset Transfer Review

As discussed in Note 4B, the Housing Authority elected to become the Housing Successor and retain the assets of the former Redevelopment Agency. Certain transactions undertaken by the former Redevelopment Agency prior to the date of dissolution were subject to an asset transfer review by the State Controller’s Office. As of June 30, 2014, the State Controller’s Office had completed its asset transfer review of the Vallejo Redevelopment Agency. The final report was issued on November 26, 2014, which indicated that assets of the former Redevelopment Agency totaling \$655,000 held by the City are to be returned to the Successor Agency.

The City complied and the City’s General Fund transferred back the balance of \$655,000 to the Successor Agency in fiscal year 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Last 10 Years***
**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
AND RELATED RATIOS AS OF THE MEASUREMENT DATE**

Measurement Date	<u>6/30/2014</u>
Plan's proportion of the Net Pension Liability (Asset)	4.17000%
Plan's proportion share of the Net Pension Liability (Asset)	\$3,426,461
Plan's Covered Employee Payroll	\$818,027
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	419.36%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	67.01%

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Schedule of Contributions
Last 10 Fiscal Years***

	Fiscal Year Ended June 30, 2015
Actuarially determined contribution	\$219,395
Contributions in relation to the actuarially determined contributions	(219,395)
Contribution deficiency (excess)	\$0
 Covered-employee payroll	\$819,459
 Contributions as a percentage of covered-employee payroll	26.77%

* - Fiscal year 2015 is the first year of implementation, therefore only one year is shown.

Source: City of Vallejo's general ledger and CalPERS Actuarial Valuation

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