

INDEPENDENT CITIES FINANCE AUTHORITY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2015

ICFA

INDEPENDENT CITIES FINANCE AUTHORITY

June 7, 2016

MEMBER CITIES

Alhambra
Apple Valley
Azusa
Baldwin Park
Barstow
Bell
Bellflower
Brea
Calaveras County Water District
Capitola
Carpinteria
Carson
Chino
Claremont
Colton
Commerce
Compton
Covina
Downey
Duarte
El Monte
Fairfield
Fontana
Fresno
Gardena
Garden Grove
Glendale
Glendora
Hawaiian Gardens
Hawthorne
Huntington Park
Indio
Inglewood
La Habra
La Puente
Lakewood
Lancaster
Lawndale
Long Beach
Los Angeles
Lynwood
Monrovia
Montclair
Montebello
Monterey Park
Morgan Hill
Norwalk
Oceanside
Palmdale
Palm Springs
Paramount
Pico Rivera
Planada Community Services District
Pomona
Rancho Cucamonga
Rialto
Riverside
Rohnert Park
Salinas
San Bernardino
San Bernardino County
San Diego County
San Fernando
San Juan Capistrano
San Marcos
San Mateo County
Santa Clarita
Santa Rosa
Signal Hill
South Gate
Vernon
Visalia
Visita
West Covina
Whittier
Yucaipa

BOARD MEMBERS

OFFICERS

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South Gate
Sylvia Ballin, Vice President
San Fernando
Jose Solache, Treasurer
Lynwood

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Ricardo Pacheco, Baldwin Park
Emima Sharif, Compton
Marilyn Sanabria, Huntington Park
Edwin Hernandez, Lynwood
Leticia Lopez, Vernon

Secretary/Executive Director

Debbie Smith
General Legal Counsel
Scott Campbell
Best Best & Krieger, LLP

Honorable Gil Hurtado, President
And Members of the Board of Directors
Independent Cities Finance Authority
Post Office Box 6740
Lancaster, California 93539-6740

Dear President Hurtado and Members of the Board:

Within this section of the Independent Cities Finance Authority's (ICFA) Financial Report For The Year Ended June 30, 2015 management provides a narrative discussion and analysis of the entity for the year reported on.

ICFA's net assets exceeded its liabilities by \$45,474 at June 30, 2015 but that amount reflects a decline between years of \$195,578 attributable to the net loss for the year. There has been considerable discussion and efforts made to enter into programs for financing low and moderate income housing, but none of those programs affected operations for the year ended June 30, 2015. Condensed financial comparison years are as follows:

Major components of assets and liabilities between years are as follows:

ASSETS:	2015	2014	CHANGE
Cash and cash equivalents	\$222,689	\$337,644	\$(114,955)
Accrued interest receivable	16,674	68,458	(51,784)
Long-term loan (net of discount allowances)	302,035	278,614	23,421
LIABILITIES:			
Accounts Payable	54,563	38,042	16,521

Details of operations are as follows:

SIGNIFICANT INCOME:	2015	2014	CHANGE
Program Fees	\$371,321	\$425,971	\$(54,650)
Investment Income	39,122	17,114	22,008
SIGNIFICANT EXPENSES:			
Management Fees	225,000	225,000	-0-
Advocacy	82,652	82,500	(152)
Community Outreach	27,288	37,000	9,712
Conferences And Related Travel	6,531	25,729	19,198
Public Relations	22,074	24,802	2,728
Auditing	30,011	47,293	17,282
Legal	52,925	59,115	6,190
Other Financial Services	58,999	24,332	(34,667)

Honorable Gil Hurtado, President
And Members Of The Board of Directors
Independent Cities Finance Authority
June 7, 2016
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We look forward to improved operating results for the 2015-16 fiscal year and to becoming a considerable force in the public low and moderate income housing community.

Respectfully,

A handwritten signature in blue ink that reads "Deborah J. Smith". The signature is written in a cursive style with a large, stylized initial 'D'.

Deborah J. Smith
Executive Director

ds

ROBERT EICHEL & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Independent Cities Finance Authority

We have audited the accompanying financial statements of the business type activities of the Independent Cities Finance Authority, as of and for the year ended June 30, 2015 which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Independent Cities Finance Authority management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, of the Independent Cities Finance Authority, as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis 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 procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required information. However, we did not audit the information and express no opinion on it.

Robert Eichl & Associates

Pasadena, California

June 7, 2016

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INDEPENDENT CITIES FINANCE AUTHORITY
BALANCE SHEET
June 30, 2015

ASSETS

Cash and cash equivalents (Note 2)	\$ 222,689
Accounts receivable and prepaid expenses	22,156
Accrued interest receivable	16,679
	<u>302,036</u>
Long term loans secured by subordinated trust deeds, net of present value discounts (Notes 4 & 5)	<u>\$ 563,560</u>
Total assets	<u><u>563,560</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 54,563
	<u>508,997</u>
Net Assets	<u>508,997</u>
Total liabilities and net assets	<u><u>\$ 563,560</u></u>

The accompanying notes are an integral part of these financial statements

INDEPENDENT CITIES FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES TO NET ASSETS
Year ended June 30, 2015

Program fees	\$	371,321
Operating expenses		
Management fees		225,000
Public Relations		22,074
Other Professional Services		
Auditing		30,111
Accounting		6,630
Community Outreach		27,288
Advocacy		82,652
Other financial services		58,999
Legal		52,925
Directors' fees and expenses		5,088
Education		16,496
Conferences and related travel		6,531
Subscriptions and memberships		6,450
Other		1,176
Total operating expenses		<u>541,420</u>
Net loss from operations		(170,099)
Investment gain		<u>39,122</u>
Net loss for year		(130,977)
Net assets beginning of the year		<u>639,974</u>
Net assets at the end of the year	\$	<u><u>508,997</u></u>

The accompanying notes are an integral part of these financial statements

INDEPENDENT CITIES FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2015

Cash flows from operating activities	
Cash received from program fees	\$ 386,962
Cash paid to suppliers of services	539,998
Cash deficit from operating activities	<u>(153,036)</u>
Cash received investing activities	
Interest income	39,122
Add accrued interest beginning of year	68,453
	<u>107,575</u>
Less-non cash transfer from Milleninum and Augusta Reserves	(52,815)
Accrued interest end of year	(16,679)
Cash increases for the year	<u>38,081</u>
Cash and cash equivalents beginning of the year	<u>337,644</u>
Cash and cash equivalents at the end of the year:	<u><u>\$ 222,689</u></u>

The accompanying notes are an integral part of these financial statements

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
June 30, 2015

(1) Summary of Significant Accounting Policies

(a) The Reporting Entity

The Independent Cities Finance Authority (Authority) is a joint exercise of Powers authority originally set up in 1988 to provide lease financing of capital improvements by member cities. As the objectives of the Authority changed from facilities leasing for cities to affordable housing and other financing activities the original joint powers agreement was modified to provide for associate membership to cities in which projects were located. By 2007 the Authority was completely out of the equipment leasing business, having completed the 'Fresh Rate' program.

In fiscal year ended June 30, 2003, the Authority changed its focus to begin working with non-profit entities to provide affordable housing through mobile home parks. The principal strategy was to provide conduit financing for affordable housing mobile home projects. This strategy would provide for affordable housing while not obligating the Authority to the liabilities, servicing of substantial lease obligations nor payment of interest and principal on the bonded debt. In 2011/2012 the Authority expanded its activities to a community hospital, a charter school and bridge financing for a waste water treatment facility. There have been discussions about housing and down payment assistance. Approvals have been received from Federal agencies but the program is not yet in operation. Lease/purchase of affordable housing is also under consideration.

(b) Basis of Accounting

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of the enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Authority utilizes the accrual method of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
(Continued)

(1) Summary of Significant Accounting policies, (Continued)

(b) Basis of Accounting

The Authority applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedures of the American Institute of Certified Public Accountants.

(c) Classifications of Revenues and Expenses

Operating revenues consist of fees relating to the origination and continuance of the bond issues set up for the purpose of purchasing and equipping the mobile home parks by the non-profit agencies and more recently, other activities. In 2011 a fee of \$75,000 was received to offset costs involved in the reopening of the Downey Regional Medical center. The financing transaction was completed in February, 2012.

Expenses consist primarily of management, professional fees and more recently, marketing. Due to the inability of cities to obtain financing for low and moderate income housing during the recent economic slowdown, and ICFA's ability to do so , ICFA management entered into contracts for representation in both Sacramento and Los Angeles to assist in interfacing with governing bodies. New contracts were entered into for the current year. New for year ended June 30, 2013 was Community Outreach which continued in 2014 and 2015.

(d) Cash and Cash Equivalents

Cash equivalents are defined as cash and short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(e) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Income Taxes

The Authority is not subject to income taxes pursuant to Section 115 of the Internal Revenue Code and the corresponding section of the California Revenue and Taxation Code.

(g) Name Changed

The Authority's name was changed from the Independent Cities Lease Finance Authority to the Independent Cities Finance Authority executed on May 21, 2008 to better reflect the nature of the Authority's operations. For the sake of clarity the changed name was used for audited financial presentations beginning in 2006.

(2) Cash and Cash Equivalents

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Balance sheet:

Cash in bank:	\$ 4,397
Investments with Local Agencies Investment Fund (LAIF), an agency of the State of California:	<u>218,292</u>
	<u>\$222,689</u>

LAIF funds are readily available, interest rates are variable and credit risk is not classified. Bank deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000.

INDEPENDENT CITIES FINANCE AUTHORITY

Notes to the Financial Statements

(Continued)

(3) Conduit Debt Issued and Related Mobile Home Parks

As noted in Note 1 beginning in 2003 a program was initiated for the issuance of conduit debt for the payment of purchase cost and development of locations to be used as low and moderate income mobile home parks. The Authority became the issuer, as previously mentioned, and had no financial or managerial responsibilities. In 2012 conduit debt was allocated to purchase and equip a regional hospital and for construction of a charter school.

Beginning in 2003 and continuing through 2014 the Authority entered into agreements with Millennium Housing Corporation and its affiliates, Millennium Housing of California and Coach of San Diego, Inc. to finance its acquisition of mobile home parks throughout California as follows:

- A) Westlake Mobile Home Park
Location: Fresno, California
Issuance of \$15,180,000 of Revenue Bonds in 2003, refunded and refinanced at \$16,700,000 in June 2007.
- B) El Granada Mobile Home Park, now called Pillar Ridge-refinanced in 2014
Location: Moss Beach, California
Issuance of \$29,865,000 of Revenue Bonds
- C) Hacienda Valley Mobile Estates -refinanced in 2014
Location: Morgan Hill, California
Issuance of \$12,235,000 of Revenue Bonds
- D) San Juan Mobile Estates
Location: San Juan Capistrano, California
Issuance of \$39,910,000 of Revenue Bonds
- E) Santa Rosa Leisure Mobile Home Park
Location: Santa Rosa, California
Issuance of \$10,270,000 of Revenue Bonds
- F) Lamplighter Salinas Mobile Home Park
Location: Salinas, California
Issuance of \$22,925,000 of Revenue Bonds

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
(Continued)

(3) Conduit Debt Issued and Related Mobile Home Parks (Continued)

G) Castle Mobile Estates

Location: Capitola, California

Issuance of \$11,700,000 of Revenue Bonds

H) Rancho del Sol Mobile Home Park

Location at Yucaipa, California

Issuance of \$8,500,000 Revenue Bonds

I) Sahara Mobile Home Park

Location: Palm Springs, California

Issuance of \$16,000,000 of Revenue Bonds

J) Rancho Feliz Mobile Home Park

Location: Rohnert Park, California

K) Las Casitas de Sonoma

Location: Rohnert Park, California

Combined: \$25,000,000 of Revenue Bonds issued, both Rohnert Park locations

L) Millbrook Mobile Home Park

Location: Fresno, California

Issuance of \$7,500,000 of Revenue Bonds

M) Rancho Vallecitos Mobile Home Park

Location: San Marcos, California

Issuance of \$28,000,000 of Revenue Bonds

N) Vista de Santa Barbara Mobile Home Park

Location: Carpinteria, California

Issuance of \$8,430,000 of Revenue Bonds

O) 2 Mobile Home Parks Palomar East and Palomar West-approved in March 2015

Location: San Marcos, California

Issuance of \$ 38,500,000 of Revenue Bonds

In 2012 the Authority entered into an agreement with Augusta Communities, LLC to finance four mobile home parks in San Bernardino County, three in Montclair, one in Yucaipa. Together with an authorization for \$30,000,000 in Revenue Bonds, they are as follows:

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
(Continued)

(3) Conduit Debt Issued and Related Mobile Home Parks (Continued)

Valley View Mobile Home Park-Yucaipa
Villa Montclair Mobile Home Park-Montclair
Monterey Manor Mobile Home Park-Montclair
Hacienda Mobile Home Park-Montclair

Outstanding conduit debt as of June 30, 2015:

Mobile Home Parks

➤ Millennium group of companies	\$262,905,173
➤ Augusta Communities, LLC	\$ 19,655,000

Other:

➤ Alliance Charter Schools	\$ 15,012,675
➤ Planada Community Service District Bridge Loan	<u>\$ 3,755,811</u>

Total: \$301,328,659

Subsequent Event:

In the late Autumn of 2015 a mobile home park in the City of Visalia was approved to be financed by the issuance of conduit bonds by ICFA. (The City of Visalia was approved as an associate member of ICFA). Augusta Communities, LLC is the sponsor.

(4) Subordinated secured note to Millennium Housing Corporation, effective July 8, 2010

ICFA loaned to Millennium Housing Corporation \$250,000, interest at 6 percent, secured by a Trust deed subordinated to existing bonded indebtedness to assist in the cost of issuance of the bonds of the Lamplighter Salinas Mobile Home Park. Repayment of interest commenced August of 2014 with full repayment July 15, 2020. Due its interest provisions, which were paid in full in August 2014, the note is no longer discounted.

The note has limited recourse and is subordinated in position.

- (5) Effective November 1, 2013, Augusta Communities, LLC borrowed \$90,000.00 from the authority subject to a residual receipts Promissory Note, interest at 2 per cent per annum subject to partial assignment of gross receipts of a mobile home park in Yucaipa, California. The note, because of its sub-par rate, is discounted.