

INDEPENDENT CITIES FINANCE AUTHORITY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2007

INDEPENDENT CITIES FINANCE AUTHORITY

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Management's Discussion and Analysis

The fiscal year ending June 30, 2007 reflected a continuation of activities initiated in 2003 relating to the financing of mobile home parks. There were no new facilities brought on line in fiscal 2007 (Santa Rosa was initiated in November 2007, for 2008). Westlake Mobile Home Park in Fresno was refinanced in June, 2007.

Income consisted principally of fees earned from the mobile home park financing with a minimum amount received from the joint venture with California Rural Home Mortgage Finance Authority. Expenses consisted of management fees, insurance and directors' fees. No audit fees were incurred until Robert Eichel & Associates was engaged in 2010.

Cash and cash equivalents increased by \$79,552 resulting in a balance sheet total assets of cash and near cash of \$538,548, liabilities of \$41,051, including \$11,357 of unearned income and net assets of \$497,497.

Deborah J. Smith
Executive Director

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, 2007 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, 2007, 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 inquires 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 Eichel & Associates

Pasadena, California

July 2, 2010

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INDEPENDENT CITIES FINANCE AUTHORITY
BALANCE SHEET
June 30, 2007

ASSETS

Cash and cash equivalents (Note 2)	\$ 464,012
Undeposited receipts	25,958
Receivables	
Accounts (Note 3)	45,715
Accrued interest	2,863
	<hr/>
Total Assets	<u>\$ 538,548</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 29,694
Deferred revenues (Note 3)	11,357
	<hr/>
Total Liabilities	41,051
Net Assets	497,497
	<hr/>
Total liabilities and net assets	<u>\$ 538,548</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, 2007

Program fees	\$ 245,082
Operating expenses	
Management fees	153,534
Insurance	1,972
Directors' fees	<u>750</u>
Total operating expenses	<u>156,256</u>
Net income from operations	88,826
Investment income	<u>11,016</u>
Net income for the period	99,842
Net assets beginning of the year	<u>397,655</u>
Net assets end of year	<u><u>\$ 497,497</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, 2007

Cash flows from operating activities	
Cash received from program fees	\$ 310,696
Cash paid to suppliers of services	241,658
Cash flows from operating activities	<u>69,038</u>
Interest received	<u>10,514</u>
Net increase in cash for the year	79,552
Cash and cash equivalents beginning of the year	<u>410,418</u>
Cash and cash equivalents end of the year:	<u>\$ 489,970</u>
Cash and cash equivalents defined:	
As reported on the balance sheet	\$ 464,012
Undeposited receipts, checks received prior to June 30, 2007, deposited later	<u>25,958</u>
	<u>\$ 489,970</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
June 30, 2007

(1) Summary of Significant Accounting Policies

(a) The Reporting Entity

The Independent Cities Finance Authority (Authority) is a joint exercise of Powers authority set up originally in 1989 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 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, as with having completed the 'Fresh Rate' program and the joint venture with the California Rural Home Mortgage Finance Authority.

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.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting, (Continued)

(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 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 basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

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

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.

Expenses consist primarily of management and professional fees.

INDEPENDENT CITIES LEASE AUTHORITY
Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(d) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash equivalents are defined as 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 month or less.

(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 and Arbitrage

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 is used beginning in 2006.

(2) Cash and Cash Equivalents

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash in bank:	\$243,991
Investments with Local Agencies Investment Fund (LAIF), an agency of the State of California:	<u>220,021</u>
	\$464,012
Undeposited receipts:	<u>25,958</u>
	<u>\$489,970</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.

Undeposited receipts relates to earned income where the checks clearly were received over to June 30, 2007 but not deposited until July or August.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements

(Continued)

(3) Accounts Receivable, Deferred Revenues

Accounts receivable and deferred revenues interrelate to timing issues on payments from the non-profit agencies, Millennium Housing Corporation, Millennium Housing of California and Caritas Affordable Housing, Inc.

(4) Joint Venture

The Authority entered into the agreement with California Rural Home Mortgage Finance Authority in order to provide low and moderate income homebuyers with low interest loans and closing cost assistance. The Authority earned an annual fee and a fee per loan placed in the member cities area. The Authority had no responsibility for the mortgages placed or the liabilities created; rather that was the responsibility of the California Rural Home Mortgage Finance Authority. The program was amended in 2007 to eliminate the \$10,000 annual administration fee. In 2008 the California Debt Limit Allocation Commission reduced the ability of Joint Powers Authorities to participate in loan organizations. There were no fees earned in 2009.

(5) 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.

Westlake Mobile Home Park Revenue Bonds

The Authority entered into an agreement with Millennium Housing of California to issue conduit financing in the amount of \$15,180,000 on May 8, 2003 with an additional issue of \$16,700,000 in June, 2007 to refund the original issue. Westlake is a mobile home park that provides low and very low-income housing. The Authority would earn certain fees and maintain certain cash and investment accounts as set forth in the bond issue. The Authority is not liable for repayment in the event of default. Accordingly, the bonds are not recorded as a liability of the Authority in the accompanying financial statements. The mobile home park is located in Fresno, California.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements

(Continued)

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

Caritas Affordable Housing Mobile Home Park Revenue Bonds

On October 2, 2003, the Authority issued \$29,750,000 Series 2003A, \$6,350,000 Series Sub 2003b \$3,835,000 Series 2003B to fund loans to Caritas Affordable Housing, Inc. to finance and refinance the acquisition and improvement of five mobile home parks. The Authority is not liable for repayment in the event of default. Accordingly, the bonds are not recorded as a liability of the Authority in the accompanying financial statements. In August, 2005 an additional series of bonds were issued, Series 2005A, \$22,025,000, 2nd 2005CT \$1,245,000, 2nd 2005 C \$5,370,000.

Projects financed through Caritas are as followings:

2003

Friendly Village Mobile Home Park, Lancaster, CA
Hacienda Mobile Estates, Lancaster, CA
Rancho Brea Mobile Home Estates, Brea, CA
Estrella del Oro, Vista, CA
Vista Manor Mobile Home Park, Vista, CA

2005

Valley Village Mobile Home Park, Rohnert Park, CA

El Granada Mobile Home Park Revenue Bonds-Moss Beach, CA

On April 29, 2004, the Authority issued \$28,585,000 Series 3A to fund a loan to Coach of San Diego, Inc. to finance the acquisition of real property constituting the El Granada Mobile Home Park, now called Pillar Ridge, which consists of 227 mobile home spaces of which 198 of the spaces are double wide spaces. The Authority is not liable for repayment in the event of default. Accordingly, the bonds are not recorded as a liability of the Authority in the accompanying financial statements.

Hermosa Beach, Marineland Mobile Home Park Revenue Bonds

On June 23, 2004, the Authority issued \$7,270,000 Series 2004A to fund a loan to Millennium Housing of California to finance the acquisition of real property constituting the Marineland Mobile Home Park, which consists of 60 mobile home spaces. The Authority is not liable for repayment in the event of default. Accordingly, the bonds are not recorded as a liability of the Authority in the accompanying financial statements.

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements

(Continued)

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

San Juan Capistrano, San Juan Mobile Estate

On March 16, 2006, the Authority issued \$29,660,000 Series 2006A bonds, \$9,765,000 Series 2006 B subordinate bonds and \$485,000 Series 2006C subordinate bonds to purchase San Juan Mobile Estates mobile home park. The park comprises approximately 38.2 acres consisting of 312 mobile home spaces, a recreation center, indoor spa, pool and related facilities. It provides two parking spaces per unit and eighty additional guest parking spaces. The borrower is Millennium Housing Corporation.

Outstanding Conduit Debt as of June 30, 2007:

Millennium Housing of California	\$35,795,000
Coach of San Diego, Inc.	30,720,000
Millennium Housing Corporation	39,355,000
Caritas Affordable Housing, Inc.	<u>67,080,000</u>
Total	<u>\$ 172,950,000</u>