

INDEPENDENT CITIES FINANCE AUTHORITY  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2010

# INDEPENDENT CITIES FINANCE AUTHORITY

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## Management's Discussion and Analysis

The economic slowdown continues to adversely impact cities in trying to finance low and moderate income mobile home parks. The fiscal year ending June 30, 2010 saw no new mobile home parks acquired. Negotiations were in process with the County of San Bernardino regarding assisted home loans and with the cities of Fairfield and Fontana relating to mobile home parks. In 2010 a proposal was made for mobile home park financing in the City of Salinas. A new mobile home park was approved by the City of Salinas, ownership is provided by Millennium Housing of California. The transaction closed on July 3, 2010. In addition, there were several proposals for participating in federally assisted first time home buying financing. To date, nothing has been finalized.

ICFA's source of revenue continued to be mobile home park financing. The Authority is now providing financing to mobile home parks throughout California with parks in San Diego, Orange, Los Angeles, Fresno, Santa Clara, San Mateo and Sonoma Counties. With the Salinas closing we are now in Monterey County.

The Board's decision in 2008 to initiate advocacy services in both Sacramento and Los Angeles continued in 2009 and 2010 to assist in developing opportunities for ICFA. There is a need for low and moderate income housing and ICFA provides an effective vehicle.

Outstanding conduit debt issued by the Authority stood at \$187,745,092 at June 30, 2010. Cash and cash equivalents decreased by \$105,816 over the year resulting in balances consisting of \$542,899 of cash and near cash and net assets \$520,233. An additional \$24,925,000 of subordinate bonds was issued in July 2010 as a part of the Salinas transaction previously referred to. In July 2010 the Authority loaned Millennium Housing of California \$250,000, interest at 6 percent, to be repaid beginning in July, 2014 to assist in the cost of bond issuance for the Salinas project.

Deborah J. Smith  
Executive Director

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, 2009 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, 2010, 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*

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**INDEPENDENT CITIES FINANCE AUTHORITY**  
**BALANCE SHEET**  
**June 30, 2010**

ASSETS

Cash and cash equivalents (Note 2)	\$ 560,200
Receivables-	
Accounts (Note 3)	18,500
Accrued interest	<u>331</u>
Total assets	<u>\$ 579,031</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 47,702
Deferred revenues (Note 3)	<u>11,096</u>
Total liabilities	58,798
Net Assets	<u>520,233</u>
Total liabilities and net assets	<u>\$ 579,031</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, 2010**

Program fees		\$ 296,607
Operating expenses		160,479
Management fees		59,418
Advocacy		
Other Professional Services		39,414
Auditing		18,000
Accounting		5,335
Communications and promotion		3,500
Fees, other		36,950
Legal		3,000
Insurance		3,810
Directors' fees and related expenses		1,518
Other		<u>331,424</u>
Total operating expenses		<u>331,424</u>
Net loss from operations		-34,817
Investment income		<u>2,209</u>
Net loss for the period		-32,608
Net assets beginning of the year		<u>552,841</u>
Net assets end of year		<u><u>\$ 520,233</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, 2010**

Cash flows from operating activities		
Cash received from program fees	\$	298,180
Cash paid to suppliers of services		<u>283,648</u>
Cash receipts from operating activities		14,532
Interest received		<u>2,769</u>
Net increase in cash for the year		17,301
Cash and cash equivalents beginning of the year		<u>542,899</u>
Cash and cash equivalents end of the year:	\$	<u><u>560,200</u></u>
Cash and cash equivalents defined:		
As reported on the balance sheet	\$	560,200

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

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements  
June 30, 2010

(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 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. The joint venture with the California Rural Home Mortgage Finance Authority ended in 2008.

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.

(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 basis 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.

Expenses consist primarily of management and other professional fees. Due to the inability of cities to obtain financing for low and moderate income mobile home parks 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.

(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.

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(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 has been used for audited financial presentations beginning in 2006.

(2) Cash and Cash Equivalents

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Balance sheet:

Cash in bank:	\$321,076
Investments with Local Agencies Investment Fund (LAIF), an agency of the State of California:	<u>239,124</u>
	<u>\$560,200</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.

(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, Coach of San Diego, Inc. and Caritas Affordable Housing, Inc.

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

(4) 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.

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 payments in the event of default. Accordingly, the bonds are not recorded as a liability of the Authority in the in the accompanying financial statements. The facility is located in San Mateo County.

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. This facility is located in Los Angeles County.

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

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

Hacienda Valley Mobile Estates, Morgan Hill

On November 23, 2004 the Authority issued \$11,290,000 Series A and \$945,000 Series B subordinate bonds to purchase the Hacienda Valley Mobile Estates, consisting of 166 units on 20 acres. The borrower is Millennium Housing of California. The facility is located in Santa Clara County.

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. The facility is located in Orange County.

Santa Rosa Leisure Mobile Home Park

The Authority entered into an agreement with Millennium Housing of California to finance and renovate a mobile home park of 182 spaces on 24.7 acres in the City of Santa Rosa. Bonds were issued in November of 2007 in the principal amount of \$10,720,000. The facility is located in Sonoma County.

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.

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

(4) Conduit Debt and Related Mobile Home Parks (continued)

Projects financed through "Caritas" are as followings:

2003

- Friendly Village Mobile Home Park, Lancaster, CA, Los Angeles County
- Hacienda Mobile Estates, Lancaster, CA, Los Angeles County
- Rancho Brea Mobile Home Estates, Brea, CA, Orange County
- Estrella del Oro, Vista, CA, San Diego County
- Vista Manor Mobile Home Park, Vista, CA, San Diego County

2005

- Valley Village Mobile Home Park, Rohnert Park, CA, Sonoma County

Outstanding Conduit Debt as of June 30, 2010:

Millennium Housing of California	\$54,035,092
Coach of San Diego, Inc.	30,425,000
Millennium Housing Corporation	37,815,000
Caritas Affordable Housing, Inc.	<u>65,470,000</u>
Total	<u>\$ 187,745,092</u>

(5) Subsequent Events

- a. Closing of the Lamplighter Salinas Mobile Home Park. The transaction closed July 2010 and the project is located in the City of Salinas, Monterey County consisting of 250 sites and contains a club house, 2 parking spaces per unit. The property was acquired by Millennium Housing of California through the issuance of \$22,925,000 of tax exempt subordinate bonds.
- b. Loan to Millennium Housing of California effective July 8, 2010. ICFA loaned to Millennium Housing of California \$250,000, interest at 6 percent on a non-recourse basis to assist in the cost of issuance of the bonds of the previously mentioned Lamplighter Salinas Mobile Home Park. Repayment commences July 15, 2014 with full repayment July 15, 2020.