

INDEPENDENT CITY FINANCE AUTHORITY  
Financial Statements and  
Independent Auditor's Report  
June 30, 2011

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# INDEPENDENT CITIES FINANCE AUTHORITY

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MEMBER CITIES

- Alhambra
- Apple Valley
- Azusa
- Baldwin Park
- Bartlett
- Bell
- Bellflower
- Brea
- Capitola
- Carson
- Chino
- Claremont
- Colton
- Commerce
- Compton
- Covina
- Downey
- Duarte
- El Monte
- Fairfield
- Fontana
- Fresno
- Gardena
- Garden Grove
- Glendale
- Glendora
- Hawaiian Gardens
- Hawthorne
- Hermosa Beach
- Huntington Park
- Indio
- Inglewood
- La Habra
- La Puente
- Lakewood
- Lancaster
- Lawndale
- Long Beach
- Los Angeles
- Lynwood
- Manteca
- Monterey Park
- Monterey Park
- Morgan Hill
- Norwalk
- Palmdale
- Paramount
- Pico Rivera
- Pomona
- Rancho Cucamonga
- Rialto
- Riverside
- Robbent Park
- Salt Lake
- San Bernardino
- San Bernardino County
- San Diego County
- San Fernando
- San Juan Capistrano
- San Mateo County
- Santa Clarita
- Santa Rosa
- Signal Hill
- South Gate
- Vernon
- Vista
- West Covina
- Whittier
- Yucaipa

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Vernon

Mario Gomez, Vice President  
Huntington Park

Stephan Ajobiewe, Treasurer  
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(Vacant), Compton  
(Vacant), Hawthorne  
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Jim Morton, Lynwood  
Mario Hernandez, San Fernando  
Gil Hurtado, South Gate

Secretary/Program Administrator  
Debbie Smith

General Legal Counsel  
Scott Campbell  
Best Best & Krieger, LLP

### Management's Discussion and Analysis

The year ended June 30, 2011 was more active than the year ended June 30, 2010. The Lamplighter Mobile Home Park was acquired in July, 2010 by Millennium Housing Corporation, one of the Millennium affiliated companies. Conduit bonds issued amount to \$25,070,000. In July of 2011 Castle Mobile Home Estates was purchased in the City of Capitola, Santa Cruz County, by Millennium Housing LLC, a Millennium affiliated company, financed by a bond issue of \$9,455,000 conduit bonds and a City loan of \$1,000,000. In between, negotiations were underway to re-organize from the bankruptcy court the Downey Regional Medical Center. The transaction was supposed to close in the autumn of 2011 but now is expected to close in February, 2012.

ICFA's source of revenue continued to be mobile home park financing. That might change somewhat if the Downey transaction, previously referred to, closes. The Authority is now providing financing for mobile home parks throughout much of California. Our only central valley location is in Fresno, but we have financed locations in coastal California from San Diego County to Sonoma County.

Outside advocacy activity has been discontinued. Based upon 2011 and early fiscal year 2012 events, there appears to be a continuing need for low and moderate income housing. Traditional sources, such as Redevelopment Agencies, if they are permitted to continue to exist, may not be able to provide the funds.

Outstanding conduit debt issued by the Authority stood at \$209,510,000 at June 30, 2011 with an additional \$9,455,000 issued in the Capitola transaction. Cash and cash equivalents declined by \$98,087, primarily due to loaning Millennium Housing Corporation \$250,000 to assist in the Lamplighter transaction. Cash and near cash (equivalents) amounted to \$462,163 at June 30, 2011. Net income for the year was \$54,866 versus a loss of \$32,688 the previous year. Net assets (assets minus liabilities) amounted to \$575,099.

  
Deborah J. Smith  
Program Administrator

**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, 2011 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, 2011, 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.



Pasadena, California

December 15, 2011

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**INDEPENDENT CITIES FINANCE AUTHORITY**  
**BALANCE SHEET**  
**June 30, 2011**

ASSETS

Cash and cash equivalents (Note 2)	\$	462,163
Receivables-		
Accounts (Note 3)		30,338
Accrued interest		14,197
Long term loan secured by subordinated trust deed (Note 5 )		250,000
Total assets	\$	756,698

LIABILITIES AND NET ASSETS

Accounts payable	\$	95,617
Deferred revenues (Notes 5 and 6)		85,982
Total liabilities		181,599
Net Assets		575,099
Total liabilities and net assets	\$	756,698

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, 2011**

Program fees	\$	331,516
Operating expenses		197,682
Management fees		380
Advocacy		18,835
Other Professional Services		6,500
Auditing		6,485
Accounting		2,310
Communications and promotion		59,409
Fees, other		1,050
Legal		862
Directors' fees		862
Other		862
Total operating expenses		293,513
Net income from operations		38,003
Investment income		16,863
Net income for the period		54,866
Net assets beginning of the year		520,233
Net assets end of year		\$ 575,099

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

**INDEPENDENT CITIES FINANCE AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**Year ended June 30, 2011**

Cash flows from operating activities		
Cash received from program fees	\$	394,564
Cash paid to suppliers of services		<u>245,598</u>
Cash receipts from operating activities		148,966
Interest received		2,997
Subordinated secured loan to Millennium Housing Corporation		<u>(250,000)</u>
Net cash used in operating activities		(98,037)
Cash and cash equivalents beginning of the year		<u>560,200</u>
Cash and cash equivalents end of the year:	\$	<u><u>462,163</u></u>
Cash and cash equivalents defined:		
As reported on the balance sheet, short term investments readily convertible to cash and cash itself	\$	462,163

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

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements  
June 30, 2011

(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. The joint venture with 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 the ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses. Enterprise funds accounts for operations that provide services on a continuous basis are substantially financed by revenues derived from user charges. The Authority utilizes the accrual basis of accounting. Revenues are recognized they are incurred.



INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting, (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. In 2011 a fee of \$75,000 was received to offset costs involved in the reopening of the Downey Regional Medical Center, which has not happened (Note 6).

Expenses consist primarily of management and 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 had entered into contracts for representation in both Sacramento and Los Angeles to assist in interfacing with governing bodies. Those expenses were substantially reduced in 2011, as contracts expired.

(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.

INDEPENDENT CITIES LEASE 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 is used beginning in 2006.

(2) Cash and Cash Equivalents

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Balance sheet:

Cash in bank: \$221,823

Investments with Local Agencies Investment

Fund (LAIF), an agency of the State of California: 240,340

\$462,163

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 repayment in the event of default. Accordingly, the bonds are not recorded as a liability of the Authority 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 Estates

On March 16, 2006, the Authority issued \$29,660,000 Series 2006A bonds, \$9,765,000 Series 2006B subordinate bonds and \$485,000 Series 2006C subordinate bonds to purchase San Juan Mobile Estates. The park comprises approximately 38.2 acres consisting of 312 mobile homes spaces, a recreation, 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. Bond were issued in November of 2007 in the principal amount of \$10,720,000. The facility is located in Sonoma County.

Lamplighter Salinas Mobile Home Park

Closing July 5, 2019 the Authority issued \$22,925,000 of tax-exempt subordinate bonds, interest varying between 5.00 percent to 6.80 percent, principal payments beginning July 15, 2015. The project is located in the City of Salinas, Monterey County. It consists of 250 sites, a club house, two parking spaces per unit. The property was acquired by Millennium Housing Corporation.

NDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

(4) 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 follows:

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, 2011:

Millennium Housing of California	\$53,460,000
Coach of San Diego, Inc.	30,160,000
Millennium Housing Corporation	62,315,000
Caritas Affordable Housing, Inc.	<u>63,575,000</u>
Total	<u>\$209,510,000</u>

INDEPENDENT CITIES FINANCE AUTHORITY  
Notes to the Financial Statements

(Continued)

- (5) 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 subordinate to the existing bonded indebtedness to assist in the cost of issuance of the bonds of the Lamplighter Salinas Mobile Home Park. Repayment commences July 15, 2014 with full repayment July 15, 2020.
- (6) Under provisions of an agreement to issue \$30,000,000 of conduit revenue bonds to reorganize The Downey Regional Medical Center, the Authority was paid \$75,000 to assist in defraying costs to be incurred. The plan of Reorganization has not yet been approved by the U.S. Bankruptcy Court. The matter is expected to be ruled upon in 2012.
- (7) Subsequent Event. Effective July 1, 2011, the Authority agreed to issue \$9,255,000 of conduit revenue bonds and receive a \$1,000,000 loan from the City of Capitola to enable the purchase of Castle Mobile Homes Estates by Millennium Housing, LLC, consisting of 108 units in Capitola, Santa Cruz County.