

DRAFT

INDEPENDENT CITIES FINANCE AUTHORITY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2012

INDEPENDENT CITIES FINANCE AUTHORITY

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ICFA

INDEPENDENT CITIES
FINANCE AUTHORITY

MEMBER CITIES

Alhambra
Apple Valley
Azusa
Baldwin Park
Bartow
Bell
Bellflower
Brea
Capitola
Carpinteria
Carson
Chino
Claremont
Colton
Commerce
Compton
Covina
Downey
Duarte
El Monte
Fairfield
Fontana
Fresno
Garden
Garden Grove
Glendale
Glendora
Hawthorn Gardens
Hawthorne
Hunting Beach
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
Plano 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 Marino
San Mateo County
Santa Clara
Santa Rosa
Signal Hill
South Gate
Vernon
Visalia
West Covina
Whittier
Yucaipa

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Vernon
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Huntington Park
Stephen Ajibiewe, Treasurer
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Secretary/Executive Director

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

September 27, 2013

Honorable W. Michael McCormick, President
And Members of the Board of Directors
Independent Cities Finance Authority
Post Office Box 6740
Lancaster, California 93539-6740

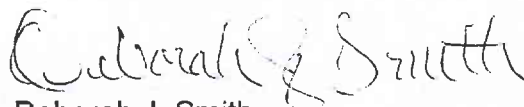
Dear President McCormick and Members of the Board:

Fiscal Year July 1, 2011 through June 30, 2012 was a good year for the Independent Cities Finance Authority (ICFA). The organization benefitted from the addition of mobile home parks in the cities of Yucaipa and Palm Springs, as well as diversification during the fiscal year. The Downey Regional Medical Center financing closed in February, in addition to the financing for the construction of a charter school for Alliance For College-Ready Public Schools, and the purchase of land for the construction of a wastewater treatment plant for the Planada Community Services District.

Financial results for the year were favorable. Net income from operations was \$160,902 on gross revenues of \$516,038. Cash flows were positive (\$69,073) and the net working capital increased to \$479,956 (cash and cash equivalents less payables) vs. \$366,546 at June 30, 2011.

With ICFA's focus on affordable housing, it is believed that ICFA may be at a unique place for further expansion due to the abolishment of redevelopment agencies and given that fact that ICFA is a Joint Powers Authority managed by elected officials.

Respectfully,



Deborah J. Smith
Program Administrator

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, 2012 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, 2012, 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 Eichel & Associates

Pasadena, California

August 31, 2013

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INDEPENDENT CITIES FINANCE AUTHORITY
BALANCE SHEET
June 30, 2012

ASSETS

Cash and cash equivalents (Note 2)	\$ 531,236
Receivables-	
Accounts	3,696
Accrued interest	37,338
Long term loan secured by subordinated trust deed , net of present value discount (Note 5)	<u>210,328</u>
Total assets	<u>\$ 782,598</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 51,280
Deferred revenues (Notes 3)	<u>10,872</u>
Total liabilities	62,152
Net Assets	<u>720,446</u>
Total liabilities and net assets	<u>\$ 782,598</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, 2012

Program fees	\$	516,038
Operating expenses		
Management fees		200,000
Public Relations		9,067
Other Professional Services		
Auditing		20,550
Accounting		5,200
Settlement deposit		2,000
Fees, other		78,333
Legal		22,887
Directors' fees		4,800
Conferences		5,688
Other		6,611
Total operating expenses		<u>355,136</u>
Net income from operations		160,902
Investment income		<u>30,989</u>
Net income for the period		191,891
Net assets beginning of the year		<u>575,099</u>
Restatement relating to present value discount of Millennium note, net of one year's amortization (Note 5)		<u>46,544</u>
As restated		<u>528,555</u>
Net assets end of year	\$	<u><u>720,446</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, 2012

Cash flows from operating activities

Cash received from program fees	\$	542,680
Cash paid to suppliers of services		474,583
Cash receipts from operating activities		<u>68,097</u>
Interest received per computation		7,851
Less non-cash amortization of subordinated loan		<u>(6,875)</u>
Net cash provided by operating activities		69,073
Cash and cash equivalents beginning of the year		<u>462,163</u>
Cash and cash equivalents end of the year:	\$	<u><u>531,236</u></u>
Cash and cash equivalents defined:		
As reported on the balance sheet, short term investments readily convertible to cash and cash itself	\$	531,236

The accompanying notes are an integral part of these financial statements

INDEPENDENT CITIES FINANCE AUTHORITY
Notes to the Financial Statements
June 30, 2012

(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 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, 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. In 2011/2012 the Authority expanded its activities to a community hospital, a charter school and bridge financing for a waste water treatment facility.

(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 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.

(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 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 was used for audited financial presentations beginning in 2006.

(2) Cash and Cash Equivalents

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Balance sheet:

Cash in bank:	\$289,922
Investments with Local Agencies Investment Fund (LAIF), an agency of the State of California:	<u>241,314</u>
	<u>\$531,236</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) Deferred Revenues

Deferred revenues relate to timing issues on payments from the non-profit agency, 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. In 2012 conduit debt was allocated to purchase and equip a regional hospital and for construction a charter school.

Beginning in 2003 and continuing through 2012 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 Lodge
Location: Moss Beach, California
Issuance of \$28,585,000 of Revenue Bonds
- C) Marineland Mobile Home Park
Location: Hermosa Beach, California
Issuance of \$7,270,000 of Revenue Bonds
- D) Hacienda Valley Mobile Estates
Location: Morgan Hill, California
Issuance of \$12,235,000 of Revenue Bonds
- E) San Juan Mobile Estates
Location: San Juan Capistrano, California
Issuance of \$39,910,000 of Revenue Bonds
- F) Santa Rosa Leisure Mobile Home Park
Location: Santa Rosa, California
Issuance of \$10,270,000 of Revenue Bonds
- G) 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)

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

H) Castle Mobile Estates

Location: Capitola, California
Issuance of \$11,700,000 of Revenue Bonds

I) Rancho del Sol Mobile Home Park

Location at Yucaipa, California
Issuance of \$8,500,000 Revenue Bonds

J) Sahara Mobile Home Park

Location: Palm Springs, California
Issuance of \$16,000,000 of Revenue Bonds

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, 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

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

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

Other:

Financing with these mobile home parks:

- A. Downey Regional Medical Center Hospital, Inc.
Location: Downey, California
Issuance of not to exceed \$30,000,000 of Hospital Revenue Bonds
- B. Planada Community Service District
Location: Planada, California (Merced County)
Issuance of \$3,200,000 note bridge loan in advance of U.S. Department of Agricultural Financing
- C. Alliance College Ready Public Schools
Location: Los Angeles, California
Issuance of not to exceed \$20,000,000 Charter Schools Revenue Bonds

Outstanding conduit debt as of June 30, 2012:

Mobile Home Parks

➤ Millennium group of companies	\$216,975,139
➤ Caritas Affordable Housing, Inc.	<u>\$ 63,980,000</u>
	\$280,955,139

Other:

➤ Downey Regional Medical Center	\$21,465,000
➤ Alliance Charter Schools	\$15,012,675
➤ Planada Community Service District Bridge Loan	\$ 3,175,000
	<u>\$320,607,814</u>

(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 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 commences July 15, 2014 with full repayment July 15, 2020.

The note has limited recourse and considering its subordinated position and its payment schedule, it has been discounted at prime rate back to 2010 with annual amortization. Because it was not discounted in year ended June 30, 2011, the transaction has been recorded as a restatement of beginning net assets less year ended June 30, 2011 amortization.

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

- (6) Under the provisions of an agreement to issue not to exceed \$30,000,000 of conduit revenue Bonds to reorganize the Downey Regional Medical Center, the Authority was paid \$75,000 to help defray the costs. The plan of Reorganization was approved by the U.S. Bankruptcy Court and the securities were issued early in 2012 at a principal amount considerably less than the \$30,000,000 authorized.