

INDEPENDENT CITIES FINANCE AUTHORITY  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2013

# ICFA

INDEPENDENT CITIES  
FINANCE AUTHORITY

February 14, 2014

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:

Within this section of the Independent Cities Finance Authority's (ICFA) Financial Report For The Year Ended June 30, 2013 management provides a narrative discussion and analysis of the entity for the year reported on.

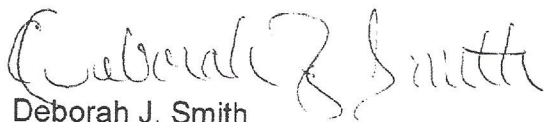
ICFA's net assets exceeded its liabilities by \$765,252 at June 30, 2013 versus \$720,446 at June 30, 2012 due to control on expenditures, even though for the first time \$25,000 was contributed to communities charities. Gross revenues declined by \$59,579, primarily because there was no big event as the Downey Community Hospital financing that occurred ended June 30, 2012. Permanent progress was achieved, however. Four new mobile home parks were financed through the Millennium group of companies, and subsequent to year end four more were added in conjunction with Augusta Communities, LLC.

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

<b>ASSETS:</b>	<b>2013</b>	<b>2012</b>	<b>CHANGE</b>
Cash and cash equivalents	\$520,344	\$531,236	(\$10,892)
Accrued interest receivable	52,124	37,338	14,786
Long-term loan (net)	216,059	210,328	5,731
<b>LIABILITIES:</b>			
Accounts Payable	16,029	51,280	35,251
Deferred Revenues	10,746	10,872	126
<b>SIGNIFICANT INCOME:</b>			
Program Fees	456,459	516,038	(59,579)
Investment Income	21,311	30,989	(9,678)
<b>SIGNIFICANT EXPENSES:</b>			
Management Fees	200,000	200,000	-0-
Advocacy	82,705	78,333	4,372
Community Outreach	25,000	-0-	25,000
Conferences	16,921	5,688	11,233

We look forward to continued successful operations in 2013-14 and to becoming a considerable force in the public low and moderate income housing community.

Respectfully,

A handwritten signature in cursive script that reads "Deborah J. Smith". The signature is written in dark ink and is positioned above the printed name.

Deborah J. Smith  
Program Administrator

# INDEPENDENT CITIES FINANCE AUTHORITY

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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, 2013 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, 2013, 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

February 14, 2014

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**INDEPENDENT CITIES FINANCE AUTHORITY**  
**BALANCE SHEET**  
**June 30, 2013**

ASSETS

Cash and cash equivalents (Note 2)	\$ 520,344
Receivables-	
Accounts	3,500
Accrued interest	52,124
Long term loan secured by subordinated trust deed, net of present value discount (Note 5)	<u>216,059</u>
Total assets	<u><u>\$ 792,027</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 16,029
Deferred revenues (Note 3)	<u>10,746</u>
Total liabilities	26,775
Net Assets	<u>765,252</u>
Total liabilities and net assets	<u><u>\$ 792,027</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, 2013**

Program fees	\$ 456,459
Operating expenses	
Management fees	200,000
Public Relations	46,177
Other Professional Services	
Auditing	17,770
Accounting	3,520
Community Outreach	25,000
Advocacy	82,705
Legal	36,123
Directors' fees	3,600
Conferences	16,921
Other: ( a/c #5750 subscriptions \$1000 - a/c #5900 bank charges 147.83)	1,148
Total operating expenses	432,964
Net income from operations	23,495
Investment income	21,311
Net income for the period	44,806
Net assets beginning of the year	720,446
Net assets at the end of the year	\$ 765,252

The accompanying notes are an integral part of these financial statements

**INDEPENDENT CITIES FINANCE AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**Year ended June 30, 2013**

Cash flows from operating activities	
Cash received from program fees	\$ 452,833
Cash paid to suppliers of services	464,305
Cash deficit from operating activities	<u>(11,472)</u>
Interest income	21,311
Less non-cash amortization of subordinated loan	<u>20,731</u>
Net cash used by operating activities	(10,892)
Cash and cash equivalents beginning of the year	<u>531,236</u>
Cash and cash equivalents end of the year:	<u>\$ 520,344</u>
Cash and cash equivalents defined:	
As reported on the balance sheet, short term investments readily convertible to cash and cash itself	<u>\$ 520,344</u>

The accompanying notes are an integral part of these financial statements



INDEPENDENT CITIES FINANCE AUTHORITY

Notes to the Financial Statements

June 30, 2013

(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, as with 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 but no action has been taken to date.

(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. New for year ended June 30, 2013 was Community Outreach of \$25,000.

(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.

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, 2013 are classified in the accompanying financial statements as follows:

Balance sheet:

Cash in bank:	\$278,236
Investments with Local Agencies Investment Fund (LAIF), an agency of the State of California:	<u>242,108</u>
	<u>\$520,344</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) Deferred Revenues

Deferred revenues relate to timing issues on payments from the non-profit agency, Caritas Affordable Housing, Inc.

(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 of 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

k) Rancho Feliz Mobile Home Park

Location: Rohnert Park, California

l) Las Casitas de Sonoma

Location: Rohnert Park, California

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

m) Millbrook Mobile Home Park

Location: Fresno, California

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

n) Rancho Vallecitos Mobile Home Park

Location: San Marcos, California

Issuance of \$28,000,000 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.

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

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

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

New to ICFA in 2013 was Augusta Communities, LLC

Financing of four mobile home parks, two in Montclair, San Bernardino County, California, two in Yucaipa, San Bernardino County, California. Issuance of \$20,335,000 conduit revenue bonds.

Other financing activities in addition to 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

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

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

Outstanding conduit debt as of June 30, 2013:

Mobile Home Parks		
➤ Millennium group of companies		\$203,522,437
➤ Caritas Affordable Housing, Inc.		\$ 63,175,000
➤ Augusta Communities, LLC		<u>\$ 20,335,000</u>
		\$287,032,437
Other:		
➤ Downey Regional Medical Center		\$ 20,370,000
➤ Alliance Charter Schools		\$ 15,012,975
➤ Planada Community Service District Bridge Loan		<u>\$ 3,175,000</u>
		<u>\$325,590,412</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 in 2012 as a restatement of beginning net assets less year ended June 30, 2011 amortization.

(6) 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.

(7) 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. Effective October 1, 2013 the bonds were redeemed at par. Outstanding balance at that time was \$20,370,000.