

INDEPENDENT CITIES FINANCE AUTHORITY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2014

INDEPENDENT CITIES FINANCE AUTHORITY

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ICFA

INDEPENDENT CITIES FINANCE AUTHORITY

MEMBER CITIES

Alhambra
 Apple Valley
 Azusa
 Baldwin Park
 Barstow
 Bell
 Bellflower
 Brea
 Capitola
 Carpinteria
 Carson
 Chino
 Claremont
 Colton
 Commerce
 Compton
 Covina
 Downey
 Duarte
 El Monte
 Fairfield
 Fontana
 Fresno
 Gardena
 Garden Grove
 Glendale
 Glendora
 Hawaiian Gardens
 Hawthorne
 Huntington Park
 Indio
 Inglewood
 La Habra
 La Puente
 Lakewood
 Lancaster
 Levittale
 Long Beach
 Los Angeles
 Lynwood
 Monrovia
 Montclair
 Montebello
 Monterey Park
 Morgan Hill
 Norwalk
 Oceanside
 Palmdale
 Palm Springs
 Paramount
 Pico Rivera
 Placada 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 Marcos
 San Mateo County
 Santa Clarita
 Santa Rosa
 Signal Hill
 South Gate
 Vernon
 Vista
 West Covina
 Whittier
 Yucaipa

BOARD MEMBERS

OFFICERS
 Mike McCormick, President
 Vernon
 Stephen Ajibowe, Treasurer
 Compton

DIRECTORS

Ricardo Pacheco, Baldwin Park
 Willie Jones, Compton
 City of Huntington Park
 Edwin Hernandez, Lynwood
 Sylvia Ballin, San Fernando
 Gil Hurtado, South Gate

Secretary/Executive Director

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

March 23, 2015

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, 2014 management provides a narrative discussion and analysis of the entity for the year reported on.

ICFA's net assets exceeded its liabilities at June 30, 2014 by \$639,974, a decline of \$125,278 (the net loss for the year). Revenues declined \$37,725. A major factor was the loss of the six mobile home parks controlled by Caritas Affordable Housing, Inc. refinanced by another group. In FY 2013, Caritas provided revenues of \$75,513 vs. \$46,202 in FY 2014. Operating expenses increased by \$101,171. Community outreach increased to \$37,000, which resulted in a \$12,000 increase. Professional fees increased substantially, partially due to catching up on fees owed from prior periods.

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

ASSETS:	2014	2013	CHANGE
Cash and cash equivalents	\$337,644	\$520,344	(\$182,700)
Accrued interest receivable	68,458	52,124	16,334
Long-term loan (net)	272,014	216,059	55,955
LIABILITIES:			
Accounts Payable	38,142	16,029	(22,113)
Deferred Revenues	--	10,746	10,746
SIGNIFICANT INCOME:			
Program Fees	425,971	456,459	(30,488)
Investment Income	(17,114)	21,311	(38,425)
SIGNIFICANT EXPENSES:			
Management Fees	225,000	200,000	(25,000)
Advocacy	82,500	82,705	205
Community Outreach	37,000	25,000	(12,000)
Conferences	25,729	16,921	(8,808)
Auditing	47,293	17,700	(29,593)
Legal	59,115	36,123	(22,992)
Other Financial Services	24,332	--	(24,332)

Honorable W. Michael McCormick, President
And Members Of The Board of Directors
Independent Cities Finance Authority
March 23, 2015
Page Two

We look forward to improved operating results for the 2014-15 fiscal year. The loss of Caritas Affordable Housing, Inc. has had a major impact which was not completely made up for by new bond issues. The cash deficit of \$182,730 was more dramatic than the operating loss, but it should be noted that a little less than half is the \$90,000 loaned to Augusta Communities, LLC.

We continue to move forward toward becoming a force in the low and moderate income housing community.

Respectfully,


Deborah J. Smith
Executive Director

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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, 2014 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, 2014, 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.

Pasadena, California

April 3, 2015

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Independent Cities Finance Authority

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Robert Eichel & Associates

Pasadena, California

April 3, 2015

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INDEPENDENT CITIES FINANCE AUTHORITY
BALANCE SHEET
June 30, 2014

ASSETS

Cash and cash equivalents (Note 2)	\$ 337,644
Accrued interest receivable	68,458
Long term loans secured by subordinated trust deeds, net of present value discounts (Notes 4 & 5)	<u>272,014</u>
Total assets	<u><u>\$ 678,116</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 38,142
Net Assets	<u>639,974</u>
Total liabilities and net assets	<u><u>\$ 678,116</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, 2014

Program fees	\$	425,971
Operating expenses		
Management fees		225,000
Public Relations		24,802
Other Professional Services		
Auditing		47,293
Accounting		3,910
Community Outreach		37,000
Advocacy		82,500
Other financial services		24,332
Legal		59,115
Directors' fees		3,150
Conferences and related travel		25,729
Other:		1,304
Total operating expenses		534,135
Net loss from operations		(108,164)
Investment loss		(17,114)
Net loss for year		(125,278)
Net assets beginning of the year		765,252
Net assets at the end of the year	\$	639,974

The accompanying notes are an integral part of these financial statements

INDEPENDENT CITIES FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2014

Cash flows from operating activities

Cash received from program fees	\$ 418,684
Cash paid to suppliers of services	<u>512,012</u>
Cash deficit from operating activities	(93,328)

Cash used by investing activities

Interest income	5,826
Less non-cash amotization of subordinated loan	<u>5,228</u>
	598

Non recourse loan to Augusta Communities

Cash deficiency from investing activities	<u>(90,000)</u>
Net cash deficit for the period	(89,402)
	<u>(182,730)</u>

Cash and cash equivalents beginning of the year	<u>520,374</u>
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Cash and cash equivalents at the end of the year:	<u><u>\$ 337,644</u></u>
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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, 2014

(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. Approvals have been received from Federal agencies but the program is not yet in operation.

(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, expanded to \$39,000 in 2014.

(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, 2014 are classified in the accompanying financial statements as follows:

Balance sheet:

Cash in bank:	\$ 94,938
Investments with Local Agencies Investment	
Fund (LAIF), an agency of the State of California:	<u>242,706</u>
	<u>\$337,644</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) 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 2014 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- refinanced in 2014
Location: Moss Beach, California
Issuance of \$29,865,000 of Revenue Bonds
- C) Marineland Mobile Home Park-transferred out in 2014
Location: Hermosa Beach, California
Issuance of \$7,270,000 of Revenue Bonds
- D) Hacienda Valley Mobile Estates -refinanced in 2014
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)

- (3) 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
 - O) Vista de Santa Barbara Mobile Home Park
Location: Carpinteria, California
Issuance of \$8,430,000 of Revenue Bonds
 - P) 2 Mobile Home Parks Palomar East and Palomar West-approved in March 2015
Location: San Marcos, California
Issuance of \$ 38,500,000 of Revenue Bonds

In 2012 the Authority entered into an agreement with Augusta Communities, LLC to finance four mobile home parks in San Bernardino County, three in Montclair, one in Yucaipa. Together with an authorization for \$30,000,000 in Revenue Bonds, they are as follows:

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

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

Valley View Mobile Home Park-Yucaipa
Villa Montclair Mobile Home Park-Montclair
Monterey Manor Mobile Home Park-Montclair
Hacienda Mobile Home Park-Montclair

Outstanding conduit debt as of June 30, 2014:

Mobile Home Parks

➤ Millennium group of companies	\$187,495,000
➤ Augusta Communities, LLC	\$ 20,010,000

Other:

➤ Alliance Charter Schools	\$ 15,012,675
➤ Planada Community Service District Bridge Loan	<u>\$ 3,175,000</u>
Total:	\$225,692,675

(4) 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 commenced August of 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.

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

- (5) 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.

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