

**HOUSING AUTHORITY
OF THE COUNTY OF MARIN
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006
(Including Auditors' Report Thereon)**

HOUSING AUTHORITY OF THE COUNTY OF MARIN
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Housing Authority of the
County of Marin
San Rafael, California

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Housing Authority of the County of Marin, California (the Authority), as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Authority of the County of Marin, California's, management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Marin, California, as of December 31, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September XX, 2007, on our consideration of the Housing Authority of the County of Marin, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 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 limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the County of Marin, California's, basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Housing and Urban Development, Real Estate Assessment Center and is not a required part of the basic financial statements. Finally, the accompanying Statement of Completed Capital Fund Project is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is not a required part of the basic financial statements. These statements, schedules, and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

September XX, 2007

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

As management of the Housing Authority of the County of Marin (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2006.

Financial Highlights

- C The assets of the Authority exceeded its liabilities at the close of the year by \$27.2 million. Of that amount, \$2.8 million was considered unrestricted net assets and may be used to meet the Authority' ongoing obligations.
- C Total expenses for all programs were more than \$34 million for the year. Rental, investment and other income generated approximately \$2.6 million towards this amount, with the balance consisting of HUD grants and subsidies.
- C Net assets of the Authority decreased \$709,319. These results included a non-cash transaction for depreciation expense in the amount of \$1,114,172.
- C The Authority's cash and cash equivalents decreased \$487,398. This decrease is attributable mainly to funds returned to HUD in the Housing Choice Voucher Program.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the government-wide financial statements - statements of net assets and statement of activities; and the fund financial statements - statements of net assets-proprietary funds, statement of revenues, expenses and changes in fund net assets - proprietary funds, and statement of cash flows - proprietary funds. This report also includes notes to the financial statements and supplementary information.

Government-Wide Financial Statements

The government-wide financial statements report information on the Authority as a whole, net of interfund activity.

The *Statement of Net Assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Interfund receivable and payables of \$800,147 have been eliminated for this presentation.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

(Continued)

The *Statement of Activities* measures net revenue (expense) for each of the Authority's functions and reports revenue by program. General revenue is reported separately. The activities for the enterprise funds are presented by federal program administered by the Authority. Interfund revenue and expenses of \$184,615 have been eliminated for this presentation.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The United States Department of Housing and Urban Development (HUD) require that certain funds be established. However, the Authority established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using grants and other moneys. All of the funds of the Authority are categorized as enterprise funds. The minimum criteria for the determination of major funds as required by GASB 34 is that total assets, liabilities, revenue, or expenses of that individual fund are at least 10% of the corresponding total for all funds of the same category. The Authority's major enterprise funds for the 2006 fiscal year are the Public Housing, Housing Choice Voucher, HCD Projects, Local and Revolving Loan Funds.

Enterprise funds account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. They are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The focus of enterprise funds is on income measurement, which together with the maintenance of equity, is an important financial indicator.

The *Statement of Net Assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents the change in the Authority's cash and cash equivalents during the most recent fiscal year.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

(Continued)

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Supplemental Information

Various federal agencies require certain information to be included in this report. This information is included after the notes to the financial statements under the title "Supplemental Information".

Financial Analysis

As noted earlier, the Authority uses funds to help it control and manage money for particular purposes. Our analysis below focuses on the net assets (Table 1) and the changes in the net assets (Table 2) of the Authority as a whole. The largest portion of the Authority's net assets (68.96%) reflects its investment in capital assets, net of related debt (e.g. land, buildings and improvements, furniture, equipment and machinery, less notes payable used to purchase these assets). The Authority uses these capital assets to provide services to clients; consequently, these assets are not available for future spending.

**Table 1
Net Assets**

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Variance</u>	<u>%</u>
Current Assets	\$ 3,127,040	\$ 3,892,396	\$ (765,356)	5.95%
Restricted Assets	3,658,783	2,557,601	1,101,182	11.88%
Capital assets (net of depreciation)	23,385,090	23,404,847	(19,757)	3.07%
Notes Receivable	<u>4,280,630</u>	<u>4,126,355</u>	<u>154,275</u>	1.66%
Total Assets	<u>\$ 34,451,543</u>	<u>\$ 33,981,199</u>	<u>\$ 470,344</u>	
3.59%				
Current Liabilities	\$ 1,059,726	\$ 1,137,094	(77,368)	40.18%
Payable from Restricted Assets	845,032	881,501	(36,469)	26.35%
Long Term Liabilities	<u>4,729,593</u>	<u>4,751,252</u>	<u>(21,659)</u>	0.50%
Total Liabilities	<u>\$ 6,634,351</u>	<u>\$ 6,769,847</u>	<u>\$ (135,496)</u>	7.59%
Net Assets:				
Invested in Capital Assets	\$ 18,723,856	\$ 18,765,336	(41,480)	3.91%
Restricted net assets	6,625,570	5,667,329	958,241	12.72%
Unrestricted Net Assets	<u>2,467,766</u>	<u>2,778,687</u>	<u>(310,921)</u>	17.40%
Total Net Assets	<u>\$ 27,817,192</u>	<u>\$ 27,211,352</u>	<u>\$ 605,840</u>	2.54%

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

(Continued)

The following is an explanation of the significant changes between fiscal years as shown in Table 1 above.

- C Restricted Assets are those assets which can not be disbursed by the Authority unless approval is obtained from another government agency. The amount held by the Authority for the CDBG revolving loan fund decreased \$522,259. The amount held by the Authority on behalf of a non-profit agency for the possible issuance of bonds increased restricted assets by \$110,903.
- C Capital Assets (net of depreciation) decreased \$741,883. For the current fiscal year, fixed asset additions totaled \$372,289 and depreciation totaled \$1,114,172.
- C The Current Liabilities decrease of \$763,948 is mainly attributable to funds returned to HUD in the amount of \$905,000 during the current fiscal year for the Housing Choice Voucher Program.
- C At the end of the 2006 fiscal year, the Authority as a whole is able to report positive balances in all categories of Net Assets. Unrestricted net assets decreased by \$585,387 (17.4%) from the prior year.

CHANGE IN UNRESTRICTED NET ASSETS

	<u>2006</u>	<u>2005</u>
Unrestricted Net Assets - beginning of the year	\$ 2,778,686	\$ 3,364,074
Prior period adjustment	278,545	(50,574)
Net income (loss) before capital contribution	(741,150)	(1,017,381)
Adjustments:		
Depreciation (1)	1,125,965	1,114,172
Loss on disposition of capital assets (1)	2,758	-
Change in interest payable on long-term debt (1)	61,535	58,584
Interest on restricted funds (2)	(36,206)	(10,237)
Receipts of other restricted funds -DPAP (2)	(77,923)	(82,857)
Other revenue that is restricted (2)	(15,013)	-
Capital asset additions not funded by capital grants	(40,521)	(13,653)
Principle paid on debt	(39,811)	(37,132)
Excess HAP funding (3)	(632,541)	(454,112)
Net receipt of restricted CDBG loan funds	(181,974)	(99,332)
Use of restricted funds to cover expenses	-	22,764
Funding of reserves	(14,584)	(15,630)
Unrestricted Net Assets - end of the year	<u>\$ 2,467,766</u>	<u>\$ 2,778,686</u>

- (1) Reported as an expense and effects net income, but does not have an impact on unrestricted net assets.
- (2) Reported as revenue and effects net income, but does not have an impact on unrestricted net assets.
- (3) Grants received from HUD in excess of HAP are restricted for future HAP expense.

While results of operations is a significant measure of the Authority's activities, the analysis of the changes in unrestricted net assets provides a clearer change in financial well-being.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

(Continued)

**Table 2
Change in Net Assets**

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Variance</u>	<u>%</u>
Operating Revenue:				
Rental and other	\$ 2,272,298	\$ 2,289,308	\$ (17,010)	0.74%
Non-Operating Revenue				
Federal grants and subsidies	30,273,296	29,883,470	389,826	1.30%
State and local grants	1,081,095	1,384,345	(303,250)	21.91%
Other	<u>326,867</u>	<u>210,786</u>	<u>100,361</u>	47.61%
Total Revenues	<u>33,953,556</u>	<u>33,767,909</u>	<u>169,927</u>	0.50%
Operating Expenses:				
Administration	(4,123,204)	(4,238,898)	115,694	2.73%
Tenant Services	(32,989)	(150,694)	117,705	78.11%
Utilities	(951,861)	(853,661)	(98,200)	11.50%
Maintenance	(1,466,570)	(1,454,395)	(12,175)	00.84%
Extraordinary maintenance	(309,386)	(349,302)	39,916	11.43%
General	(441,261)	(454,994)	13,733	3.02%
Interest	(130,849)	(133,166)	2,317	1.74%
Housing Assistance Payments	(25,044,176)	(25,677,372)	648,916	2.53%
Depreciation	<u>(1,125,965)</u>	<u>(1,114,172)</u>	<u>(11,793)</u>	1.06%
Total Operating Expenses	<u>(33,626,261)</u>	<u>(34,426,654)</u>	<u>816,113</u>	2.37%
Prior Period Adjustments:				
Reclassification of city contributions	278,545	(50,574)		
Annual contributions earned	<u>-</u>	<u>-</u>		
Total Prior Period Adjustments	<u>278,545</u>	<u>(50,574)</u>		
Increase (decrease) in Net Assets	<u>\$ 605,840</u>	<u>\$ (709,319)</u>		

The following is an explanation of the significant changes between fiscal years as shown in Table 2 on the previous page:

- C The decrease in net assets of \$709,319 is primarily caused by a decrease in revenues. Total revenues decreased from a year ago by \$1,271,945. Federal Grant revenue decreased a total of \$998,074. The Authority experienced decreases to the federal grant revenue of each of the federal grant programs administered by the Authority except for the CDBG program. The largest reduction was in the Housing Choice Voucher Program, which decreased \$670,529. State and local grants decreased \$276,146, due primarily to the completion of a grant program June 30, 2006, funded by the County of Marin.
- C Total Expenses decreased \$1,362,144. This variance is made up primarily of decreases in Housing Assistance Payments, which decreased \$1,264,346, during the fiscal year.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

(Continued)

Fund Net Assets Analysis

Table 3 shows an analysis of balances and transactions for the individual funds making up the agency-wide financial statements that comply with Generally Accepted Accounting Principals (GAAP).

**Table 3
Fund Net Assets**

	Public Housing	Housing Choice Vouchers	HCD Projects	Local Fund	Revolving Loan Funds	Nonmajor Funds	Total
Net assets, beginning of year	\$ 19,076,207	\$ 1,396,328	\$ (818,650)	\$ 1,374,391	\$ 5,447,424	\$ 735,652	\$ 27,211,352
Operating income (loss)	(2,675,898)	(25,632,444)	(118,406)	117,544	(56,581)	(2,532,223)	(30,898,008)
Non-operating revenue (expenses):							
Grants	1,118,206	26,335,607	-	-	-	2,832,133	30,285,946
Loss on sale of capital assets	-	(2,758)	-	-	-	-	(2,758)
Restricted interest	-	19,850	16,356	-	-	-	36,206
Other restricted	-	-	-	-	77,923	-	77,923
Interest earned on notes rec	-	-	-	-	199,776	-	199,776
Extraordinary maintenance	-	-	-	-	-	(309,386)	(309,386)
Debt-service interest	-	-	(61,535)	(61,856)	-	(7,458)	(130,849)
Net income (loss) before Contributions and transfers	(1,557,692)	720,255	(163,585)	55,688	221,118	(16,934)	(741,150)
Capital contributions	-	-	-	-	-	1,068,445	1,068,445
Equity transfer	1,067,141	(750,000)	-	(9)	-	(317,132)	-
Net income (loss)	(490,551)	(29,745)	(163,585)	55,679	221,118	734,379	327,295
Prior period adjustment	-	-	-	-	-	278,545	278,545
Change in fund net assets	(490,551)	(29,745)	(163,585)	55,679	221,118	1,012,924	605,840
Net assets, end of year	<u>\$ 18,585,656</u>	<u>\$ 1,366,583</u>	<u>\$ (982,235)</u>	<u>\$ 1,430,070</u>	<u>\$ 5,688,542</u>	<u>\$ 1,748,576</u>	<u>\$ 27,817,192</u>

Table 3 demonstrates the changes in net assets by program for the year ended December 31, 2006. The capital assets of a closed Capital Fund Grant in the amount of \$748,710 were transferred from the Capital Fund to the Public Housing Program. The HCD Programs' net assets are in deficit. This is due to the fact that the buildings are depreciated on a straight line basis over a useful life of 30 years, while the loans associated with the acquisition of the properties are deferred. Therefore, assets decrease on an annual basis; while the liabilities increase, due to the deferred interest on the loans. This creates a situation whereby the net assets are in deficit.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006**

(Continued)

Debt

Our long term debt includes mortgage loans and notes payable. See the table below for the current year's activity.

**Table 4
Outstanding Debt at Year End**

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Payments</u>
HCD loans:			
Isabel Cook RHCP Project	\$ 810,158	\$ 810,158	\$ -
Fairfax Vest Pocket FHDP Project	2,051,161	2,051,161	-
Mortgages:			
4020 Civic Drive	1,047,134	1,072,612	25,478
Rental Acquisition Program units	<u>89,104</u>	<u>103,437</u>	<u>14,333</u>
Total long-term debt	3,997,557	4,037,368	<u>\$ 39,811</u>
Short-term portion	<u>(42,300)</u>	<u>(39,749)</u>	
Long-term portion	<u>\$ 3,955,257</u>	<u>\$ 3,997,619</u>	

Economic Factors

Significant economic factors affecting the Authority are as follows:

- C Federal funding from the Department of Housing and Urban Development is unpredictable
- C State funding for our Supportive Services programs will be eliminated June 30, 2006
- C Local labor supply and demand, which can affect salary and wage rates
- C Inflationary pressure on utility rates, supplies and other costs
- C Insurance industry's premium increases

Requests for Information

The financial report is designed to provide citizens, taxpayers and creditors with an overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Marilyn Carreras, Chief Financial Officer of the Housing Authority of the County of Marin, 4020 Civic Center Drive, San Rafael, CA 94903.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

<u>ASSETS</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets		
Cash and investments (Note 2)	\$ 2,098,649	\$ 2,098,649
Due from other agencies	591,744	591,744
Due from related parties (Note 14)	209,251	209,251
Tenant accounts receivable	78,252	78,252
Allowance for doubtful accounts	(47,386)	(47,386)
Other accounts receivable	63,365	63,365
Prepaid expenses	132,048	132,048
Short- term notes receivable (Note 5)	<u>1,117</u>	<u>1,117</u>
Total current assets	<u>3,127,040</u>	<u>3,127,040</u>
Restricted assets:		
Restricted cash (Note 3)	<u>3,658,783</u>	<u>3,658,783</u>
Capital assets (Note 6):		
Land	2,782,426	2,782,426
Buildings	35,295,685	35,295,685
Furniture and equipment	892,569	892,569
Construction in progress	1,303,073	1,303,073
Accumulated depreciation	<u>(16,888,663)</u>	<u>(16,888,663)</u>
Total capital assets	<u>23,385,090</u>	<u>23,385,090</u>
Other noncurrent assets:		
Long-term notes receivable (Note 5)	<u>4,280,630</u>	<u>4,280,630</u>
Total assets	<u>\$ 34,451,543</u>	<u>\$ 34,451,543</u>

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

(Continued)

<u>LIABILITIES</u>	<u>Business-type Activities</u>	<u>Total</u>
Current liabilities:		
Accounts payable	\$ 277,565	\$ 277,565
Accrued salaries and related costs	142,556	142,556
Due to other agencies	168,391	168,391
Other current liabilities	381,770	381,770
Deferred revenue (Note 8)	10,256	10,256
Current portion of compensated absences (Note 9)	36,888	36,888
Current portion of long-term debt (Note 7)	<u>42,300</u>	<u>42,300</u>
Total current liabilities	<u>1,059,726</u>	<u>1,059,726</u>
Payable from restricted assets:		
Tenant security deposits	214,643	214,643
Family self sufficiency escrows	630,389	630,389
Deposits	<u>-</u>	<u>-</u>
Total payable from restricted assets	<u>845,032</u>	<u>845,032</u>
Other noncurrent liabilities:		
Long-term portion of compensated absences (Note 9)	110,659	110,659
Long-term debt (Note 7)	3,955,257	3,955,257
Deferred interest due on long-term debt (Note 7)	<u>663,677</u>	<u>663,677</u>
Total noncurrent liabilities	<u>4,729,593</u>	<u>4,729,593</u>
 Total liabilities	 <u>6,634,351</u>	 <u>6,634,351</u>
 <u>NET ASSETS (Note 10)</u>		
Investment in capital assets, net of related debt	18,723,856	18,723,856
Restricted net assets	6,625,570	6,625,570
Unrestricted net assets	<u>2,467,766</u>	<u>2,467,766</u>
 Total net assets	 <u>27,817,192</u>	 <u>27,817,192</u>
 Total liabilities and net assets	 <u>\$ 34,451,543</u>	 <u>\$ 34,451,543</u>

The accompanying notes are an integral part of this statement

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program revenues</u>			<u>Net (expenses) revenue and changes in net assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Business-type Activities</u>
BUSINESS-TYPE ACTIVITIES:					
Federal programs:					
Housing Choice Voucher	\$ 25,583,097	\$ 60,073	\$ 26,335,607	\$ -	\$ 812,583
Public Housing	4,277,411	1,620,007	1,118,206	-	(1,539,198)
Shelter Plus Care Program	1,561,297	4,744	1,559,017	-	2,464
Public Housing Capital Fund Grant	424,909	-	424,909	1,068,445	1,068,445
Housing Opportunities for Persons with AIDS	262,026	216	265,177	-	3,367
Community Development Block Grant Public Housing	175,028	8,850	182,951	-	16,773
Family Self-Sufficiency under ROSS Public Housing	50,456	-	50,456	-	-
Neighborhood Networks Program	9,027	-	15,498	-	6,471
Resident Opportunity and Supportive Services - Elderly	22,750	-	22,750	-	-
State and local programs:					
HCD projects	362,320	205,809	-	-	(156,511)
Revolving loan programs	62,327	277,899	-	-	215,572
Other programs	648,020	334,728	142,508	-	(170,784)
Total business-type activities	<u>33,438,668</u>	<u>2,512,326</u>	<u>30,117,079</u>	<u>1,068,445</u>	<u>259,182</u>
Total primary government	<u>\$ 33,438,668</u>	<u>\$ 2,512,326</u>	<u>\$ 30,117,079</u>	<u>\$ 1,068,445</u>	<u>259,182</u>
General revenues:					
					70,871
					<u>(2,758)</u>
					<u>68,113</u>
					<u>327,295</u>
					27,211,352
					<u>278,545</u>
					<u>27,489,897</u>
					<u>\$ 27,817,192</u>

The accompanying notes are an integral part of this statement

HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2006

<u>ASSETS</u>	Business-type Activities						<u>Totals</u>
	Public Housing	Housing Choice Voucher	HCD Projects	Local Fund	Revolving Loan Funds	Nonmajor Funds	
Current assets:							
Cash and investments (Note 2)	\$ 571,334	\$ 273,905	\$ -	\$ 779,569	\$ 155,789	\$ 318,052	\$ 2,098,649
Due from other funds	197,712	-	51,668	106,955	526,353	16,949	899,637
Due from other agencies	30,023	14,625	-	-	-	547,096	591,744
Due from related parties (Note 14)	-	-	-	-	-	209,251	209,251
Tenant accounts receivable	68,528	-	9,724	-	-	-	78,252
Allowance for doubtful accounts	(41,593)	-	(5,793)	-	-	-	(47,386)
Other accounts receivable	29,566	-	-	-	6,436	27,363	63,365
Prepaid expenses	95,393	21,432	8,954	-	161	6,108	132,048
Short-term notes receivable (Note 5)	-	-	-	1,117	-	-	1,117
Total current assets	<u>950,963</u>	<u>309,962</u>	<u>64,553</u>	<u>887,641</u>	<u>688,739</u>	<u>1,124,819</u>	<u>4,026,677</u>
Restricted assets:							
Restricted cash (Note 3)	<u>79,180</u>	<u>1,672,725</u>	<u>376,011</u>	<u>-</u>	<u>1,328,351</u>	<u>202,516</u>	<u>3,658,783</u>
Capital assets (Note 6):							
Land	1,227,931	-	967,857	536,138	-	50,500	2,782,426
Buildings	30,979,501	-	2,982,858	1,250,990	-	82,336	35,295,685
Furniture and equipment	378,164	204,484	1,612	208,963	487	98,859	892,569
Construction in progress	-	-	-	-	-	1,303,073	1,303,073
Accumulated depreciation	(14,488,052)	(166,711)	(1,634,344)	(521,809)	(487)	(77,260)	(16,888,663)
Total capital assets	<u>18,097,544</u>	<u>37,773</u>	<u>2,317,983</u>	<u>1,474,282</u>	<u>-</u>	<u>1,457,508</u>	<u>23,385,090</u>
Other noncurrent assets:							
Long-term notes receivable (Note 5)	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,281</u>	<u>4,151,349</u>	<u>-</u>	<u>4,280,630</u>
Total assets	<u>\$ 19,127,687</u>	<u>\$ 2,020,460</u>	<u>\$ 2,758,547</u>	<u>\$ 2,491,204</u>	<u>\$ 6,168,439</u>	<u>\$ 2,784,843</u>	<u>\$ 35,351,180</u>

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2006**

(Continued)

	Business-type Activities						Totals
	Public Housing	Housing Choice Voucher	HCD Projects	Local Fund	Revolving Loan Funds	Nonmajor Funds	
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 92,802	\$ -	\$ -	\$ -	\$ -	\$ 184,763	\$ 277,565
Accrued salaries and related costs	49,903	50,139	3,384	-	1,645	37,485	142,556
Due to other agencies	54,483	-	80,094	-	33,814	-	168,391
Due to other funds	-	-	109,005	-	95,601	695,031	899,637
Other current liabilities	-	-	-	14,000	367,770	-	381,770
Deferred revenue (Note 8)	9,283	-	973	-	-	-	10,256
Current portion of compensated absences (Note 9)	15,197	13,132	1,082	-	267	7,210	36,888
Current portion of long-term debt (Note 7)	-	-	-	26,800	-	15,500	42,300
Total current liabilities	221,668	63,271	194,538	40,800	499,097	939,989	1,959,363
Payable from restricted assets:							
Tenant security deposits	195,593	-	18,004	-	-	1,046	214,643
Family self sufficiency escrows	79,180	551,209	-	-	-	-	630,389
Other noncurrent liabilities:							
Long-term portion of compensated absences (Note 9)	45,590	39,398	3,244	-	799	21,628	110,659
Long-term debt (Note 7)	-	-	2,861,319	1,020,334	-	73,604	3,955,257
Deferred interest on long-term debt (Note 7)	-	-	663,677	-	-	-	663,677
Total liabilities	542,031	653,878	3,740,782	1,061,134	499,896	1,036,267	7,533,988
NET ASSETS (Note 10)							
Investment in capital assets, net of debt	18,097,544	37,773	(1,207,013)	427,149	-	1,368,403	18,723,856
Restricted net assets	-	1,121,516	376,011	-	5,128,043	-	6,625,570
Unrestricted net assets	488,112	207,293	(151,233)	1,002,921	540,500	380,173	2,467,766
Total net assets	18,585,656	1,366,582	(982,235)	1,430,070	5,668,543	1,748,576	27,817,192
Total liabilities and net assets	\$19,127,687	\$ 2,020,460	\$ 2,758,547	\$ 2,491,204	\$ 6,168,439	\$ 2,784,843	\$ 35,351,180

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities						Totals
	Public Housing	Housing Choice Voucher	HCD Projects	Local Fund	Revolving Loan Funds	Nonmajor Funds	
Operating revenue:							
Rents	\$ 1,566,253	\$ -	\$ 183,569	\$ -	\$ -	\$ 17,700	\$ 1,767,522
Interest - unrestricted	5,625	13,973	-	35,531	7,052	8,690	70,871
Other	<u>53,753</u>	<u>40,223</u>	<u>5,884</u>	<u>255,703</u>	<u>200</u>	<u>93,862</u>	<u>449,625</u>
Total operating revenue	<u>1,625,631</u>	<u>54,196</u>	<u>189,453</u>	<u>291,234</u>	<u>7,252</u>	<u>120,252</u>	<u>2,288,018</u>
Operating expenses:							
Administration	774,445	1,780,146	85,029	44,240	59,223	1,380,121	4,123,204
Tenant services	7,704	-	-	-	-	25,285	32,989
Utilities	897,508	-	19,901	34,358	-	94	951,861
Maintenance	1,361,709	3,889	59,516	41,012	-	444	1,466,570
General	329,520	41,000	44,008	-	4,610	22,123	441,261
Housing assistance payments	-	23,838,669	-	914	-	1,204,593	25,044,176
Depreciation (Note 6)	<u>930,643</u>	<u>22,936</u>	<u>99,405</u>	<u>53,166</u>	<u>-</u>	<u>19,815</u>	<u>1,125,965</u>
Total operating expenses	<u>4,301,529</u>	<u>25,686,640</u>	<u>307,859</u>	<u>173,690</u>	<u>63,833</u>	<u>2,652,475</u>	<u>33,186,026</u>
Operating income (loss)	(2,675,898)	(25,632,444)	(118,406)	117,544	(56,581)	(2,532,223)	(30,898,008)
Nonoperating revenue (expenses):							
Grants:							
Federal	1,118,206	26,335,607	-	-	-	1,751,038	29,204,851
State and local	-	-	-	-	-	912,228	912,228
Private	-	-	-	-	-	168,867	168,867
Interest - mortgage loans	-	-	-	-	199,776	-	199,776
Other - restricted	-	-	-	-	77,923	-	77,923
Interest - restricted	-	19,850	16,356	-	-	-	36,206
Loss on the sale of equipment	-	(2,758)	-	-	-	-	(2,758)
Extraordinary maintenance	-	-	-	-	-	(309,386)	(309,386)
Interest expense (Note 7)	<u>-</u>	<u>-</u>	<u>(61,535)</u>	<u>(61,856)</u>	<u>-</u>	<u>(7,458)</u>	<u>(130,849)</u>
Net income (loss) before contributions and transfers	(1,557,692)	720,255	(163,585)	55,688	221,118	(16,934)	(741,150)
Capital contributions	-	-	-	-	-	1,068,445	1,068,445
Transfers from (to) other funds	<u>1,067,141</u>	<u>(750,000)</u>	<u>-</u>	<u>(9)</u>	<u>-</u>	<u>(317,132)</u>	<u>-</u>
Change in net assets	<u>(490,551)</u>	<u>(29,745)</u>	<u>(163,585)</u>	<u>55,679</u>	<u>221,118</u>	<u>734,379</u>	<u>327,295</u>
Net assets - beginning of year, as originally stated	19,076,207	1,396,328	(818,650)	1,374,391	5,447,424	735,652	27,211,352
Prior period adjustments (Note 11)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>278,545</u>	<u>278,545</u>
Net assets - beginning of year, as restated	<u>19,076,207</u>	<u>1,396,328</u>	<u>(818,650)</u>	<u>1,374,391</u>	<u>5,447,424</u>	<u>1,014,197</u>	<u>27,489,897</u>
Net assets - end of year	<u>\$ 18,585,656</u>	<u>\$ 1,366,583</u>	<u>\$ (982,235)</u>	<u>\$ 1,430,070</u>	<u>\$ 5,668,542</u>	<u>\$ 1,748,576</u>	<u>\$ 27,817,192</u>

The accompanying notes are an integral part of this statement.

HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities						Totals
	Public Housing	Housing Choice Voucher	HCD Projects	Local Fund	Revolving Loan Funds	Nonmajor Funds	
Cash flows from operating activities:							
Tenant receipts	\$ 1,568,084	\$ -	\$ 185,758	\$ -	\$ -	\$ 19,634	\$ 1,773,476
Interest receipts	21,675	13,973	(140)	35,530	7,052	8,695	86,785
Other receipts	35,286	40,224	5,884	255,703	200	88,545	425,842
Payroll and benefit expenditures	(1,260,077)	(1,526,108)	(96,389)	(10,692)	(53,705)	(1,138,197)	(4,085,168)
Administration expenditures	(170,022)	(284,675)	(20,126)	(33,548)	(4,580)	(243,052)	(756,003)
Tenant services expenditures	(7,704)	-	-	-	-	(25,285)	(32,989)
Utilities expenditures	(897,508)	-	(19,901)	(34,358)	-	(94)	(951,861)
Maintenance expenditures	(621,333)	(3,729)	(26,371)	(44,652)	-	86,006	(610,079)
General expenditures	(330,842)	(44,289)	(28,157)	-	(4,144)	(22,550)	(429,982)
Housing assistance payment expenditures	-	(23,755,654)	-	(914)	-	(1,204,593)	(24,961,161)
Net cash provided (used) by operating activities	<u>(1,662,441)</u>	<u>(25,560,258)</u>	<u>558</u>	<u>167,069</u>	<u>(55,177)</u>	<u>(2,430,891)</u>	<u>(29,541,140)</u>
Cash flows from noncapital financing activities:							
Operating grants received	1,088,183	26,335,607	-	-	-	2,503,430	29,927,220
Repayment of notes receivable	-	-	-	4,597	421,360	-	425,957
Deposits held on behalf of another entity	-	-	-	(96,745)	-	-	(96,745)
Interest received on notes receivable	-	-	-	-	199,893	-	199,893
Other restricted receipts	-	-	-	-	77,923	-	77,923
Interest on restricted cash	-	19,850	16,356	-	25,201	-	61,407
Interfund borrowing/transfers	567,552	(683,403)	16,922	(88,289)	(93,641)	280,859	-
Notes receivable issued	-	-	-	(1,904)	(550,806)	-	(452,710)
Borrowing with related parties	-	-	-	-	-	32,917	32,917
Extra ordinary maintenance expenditures	-	-	(9,781)	-	-	(309,387)	(319,168)
Interest returned to granting agency	-	-	-	-	(30,052)	-	(30,052)
Net cash provided (used) by noncapital financing activities	<u>1,655,735</u>	<u>25,672,054</u>	<u>23,497</u>	<u>(182,341)</u>	<u>49,878</u>	<u>2,507,819</u>	<u>29,726,642</u>
Cash flows from capital financing activities:							
Grants received to acquire capital assets	-	-	-	-	-	1,068,445	1,068,445
Acquisition of capital assets	-	(23,101)	-	(10,439)	-	(1,092,533)	(1,126,073)
Principal paid on debt	-	-	-	(25,478)	-	(14,333)	(39,811)
Interest paid on debt	-	-	-	(61,857)	-	(7,458)	(69,315)
Net cash used by capital financing activities	<u>-</u>	<u>(23,101)</u>	<u>-</u>	<u>(97,774)</u>	<u>-</u>	<u>(45,879)</u>	<u>(116,754)</u>
Net increase (decrease) to cash	<u>\$ (6,706)</u>	<u>\$ 88,695</u>	<u>\$ 24,055</u>	<u>\$ (113,046)</u>	<u>\$ (5,299)</u>	<u>\$ 31,049</u>	<u>\$ 18,748</u>

HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)

	Business-type Activities						Totals
	Public Housing	Housing Choice Voucher	HCD Projects	Local Fund	Revolving Loan Funds	Nonmajor Funds	
Net increase(decrease) to cash	(6,706)	88,695	24,055	(113,046)	(5,299)	31,049	18,748
Cash at beginning of year	657,220	1,857,935	351,956	892,615	1,489,439	489,519	5,738,684
Cash at end of year	<u>\$ 650,514</u>	<u>\$ 1,946,630</u>	<u>\$ 376,011</u>	<u>\$ 779,569</u>	<u>\$ 1,484,140</u>	<u>\$ 520,568</u>	<u>\$ 5,757,432</u>
Cash and cash equivalents	\$ 571,334	\$ 273,905	\$ -	\$ 779,569	\$ 155,789	\$ 318,052	\$ 2,098,649
Restricted cash	79,180	1,672,725	376,011	-	1,328,351	202,516	3,658,783
Total cash at year end	<u>\$ 650,514</u>	<u>\$ 1,946,630</u>	<u>\$ 376,011</u>	<u>\$ 779,569</u>	<u>\$ 1,484,140</u>	<u>\$ 520,568</u>	<u>\$ 5,757,432</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (2,675,898)	\$ (25,632,444)	\$ (118,406)	\$ 117,544	\$ (56,581)	\$ (2,532,223)	\$ (30,898,008)
Adjustments to reconcile operating loss to net cash used by operating activities:							
Depreciation expense	930,643	22,936	99,405	53,166	-	19,815	1,125,965
Bad debt written off	-	-	-	-	493	-	493
(Increase) Decrease in:							
Tenants accounts receivable	24,259	-	(2,708)	-	-	995	22,546
Due from other agencies	-	34,123	1,654	-	-	-	35,777
Other receivable	(18,327)	-	-	-	-	(27,012)	(45,339)
Prepaid expenses	(27,501)	(3,289)	(816)	-	(27)	(429)	(32,062)
Increase (Decrease) in:							
Accounts payable	80,816	-	-	(3,641)	-	114,165	191,340
Accrued payroll	2,327	(11,310)	12	-	(128)	(6,804)	(15,903)
Compensated absences	1,577	(19,166)	1,648	-	1,066	2,959	(11,916)
Due to other governments	1,052	-	12,758	-	-	-	13,810
Tenant security deposits	24,809	-	6,076	-	-	943	31,828
Deferred revenues	245	-	935	-	-	(3,300)	(2,120)
FSS escrows	(6,443)	48,892	-	-	-	-	42,449
Net cash provided (used) by operating activities	<u>\$ (1,662,441)</u>	<u>\$ (25,560,258)</u>	<u>\$ 558</u>	<u>\$ 167,069</u>	<u>\$ (55,177)</u>	<u>\$ (2,430,891)</u>	<u>\$ (29,541,140)</u>

Noncash Transactions:

Ⓒ To facilitate the close-out of the Public Housing Comprehensive Grant and Public Housing Capital Fund Projects, capital assets in the amount of \$317,141 were transferred to the Public Housing Program.

The accompanying notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) General Statement

The Housing Authority of the County of Marin (the Authority) is responsible for the development and implementation of housing programs and activities within the County of Marin.

The Authority is governed by a seven member Board of Commissioners. Five members of the Board of Commissioners are also members of the Marin County Board of Supervisors. The Board of Supervisors also appoint two tenant commissioners. The Authority was formed on January 26, 1942, by a resolution of the Marin County Board of Supervisors.

(B) Financial Reporting Entity

The Authority's combined financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- *The organization is legally separate (can sue and be sued in their own name)
- *The Authority holds the corporate powers of the organization
- *The Authority appoints a voting majority of the organization's board
- *The Authority is able to impose its will on the organization
- *The organization has the potential to impose a financial benefit/burden on the Authority
- *There is financial dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

(C) Basis of Presentation - Fund Accounting

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the Authority as a whole. They include all funds of the Authority. The Authority has no fiduciary funds. The statements distinguish between government and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Authority's activities are strictly business-type.

Fund Financial Statements:

Fund financial statements of the Authority are organized into funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund

HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

(Continued)

Note 1 (continued)

equity, revenues, and expenses/expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority considers all of its funds to be proprietary. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Authority or if total assets, liabilities, revenues, or expenses of the individual fund are at least 10 percent of the Authority-wide total. The major enterprise funds for the fiscal year ended December 31, 2006 are the Public Housing, Housing Choice Voucher, HCD funded projects, Local, and Revolving Loan Programs.

The various funds are grouped by fund type in the combined basic financial statements as follows:

PROPRIETARY FUND TYPES

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are also used when the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

(D) Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Proprietary Fund Types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred. Under this basis of accounting and measurement focus, the Authority applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

(Continued)

Note 1 (continued)

(E) Capital Assets

Capital assets are valued at historical cost. Contributed capital assets are recorded at fair market value at the time received. Interest expense incurred during the development period is capitalized.

Capital assets acquired for Proprietary Funds are capitalized in the respective funds to which they apply. Depreciation of exhaustible capital assets used by Proprietary Funds is charged as an expense against operations, and accumulated depreciation is reported on the Proprietary Funds' balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Structures are being depreciated over a useful life of thirty years, furniture and equipment over five years, and computer equipment over three years.

(F) Interfund Receivables, Payables and Transfers

Short-term amounts owed between funds are classified as "Due to/from other funds". For the purposes of the Authority-wide Statement of Net Assets, the due to/from other funds, totaling \$899,637, have been eliminated.

The Authority calculates the rent for its office building based on operating costs including debt service on the mortgage. The rent, totaling \$179,315 for the current fiscal year, was allocated to all of the Authority's programs. The Authority's Local Enterprise Fund receives management fee revenue from two other programs. The RAP Condo program paid \$1,328, while the Fairfax Vest Pocket (HCD) Housing Program paid \$6,950 to the Local Fund for these management services. For the purpose of the Authority-wide Statement of Activities, these interfund revenue and expenses, totaling \$187,593 have been eliminated.

Interfund transfers were made to close out one program. The capital assets of one completed Capital Fund Program project, in the amount of \$317,141, were transferred to the Public Housing Enterprise Fund. For the purpose of the Authority-wide Statement of Activities, this interfund revenue and expense has been eliminated.

(G) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets, including interest owed on the loans. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

(Continued)

Note 1 (continued)

(H) Operating Revenue and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Authority, these revenues are typically rental charges. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund.

(I) Encumbrances

Encumbrance accounting is not employed by the Authority.

(J) Income Taxes

The Authority is exempt from Federal Income and California Franchise Taxes.

(K) Grant Restrictions

The Authority has received loans and grants from the U.S. Department of Housing and Urban Development to build and improve housing projects. The grants require that only individuals and families that meet various income, age and employment standards be housed or aided.

Note 2 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2006, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 2,098,649
Restricted cash	<u>3,658,783</u>
Total cash and investments	<u><u>\$ 5,757,432</u></u>

Cash and investments as of December 31, 2006, consist of the following:

Cash on hand	\$ 300
Deposits with financial institutions	1,843,570
Investments	<u>3,913,562</u>
Total cash and investments	<u><u>\$ 5,757,432</u></u>

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

(Continued)

Note 2 (continued)

Investments Authorized by the Authority's Investment Policy

The Authority currently does not have an updated investment policy. However, the Authority has no investments except for the amounts deposited with the State of California, Local Agency Investment Fund (LAIF).

Disclosures Related to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. The Authority considers the deposits with LAIF to be cash equivalents, due to the fact that they are convertible to cash within a twenty-four hour period.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The Authority's investment are concentrated all in LAIF. These investments are owned by the following programs:

Housing Choice Voucher	\$ 1,829,868	46.8%
Public Housing	466,185	11.9
RHCP - Isabel Cook	186,182	4.8
FHDP - Fairfax Vest Pocket	179,989	4.6
Local Fund	777,509	19.9
Revolving Loan Programs	155,789	4.0
Rebate to Marin Renter	<u>318,040</u>	8.0
Total investments	<u>\$ 3,913,562</u>	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires California banks and savings and loan associations to secure the Authority's deposits not covered by federal deposit insurance by

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Note 2 (continued)

pledging mortgages or government securities as collateral. The market value of mortgages must equal at least 150% of the face value of deposits. The market value of government securities must equal at least 110% of the face value of deposits. Such collateral must be held in the pledging bank's trust department in a separate depository in an account for the Authority.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (broker-dealer, etc) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The Housing Authority of the County of Marin has executed a "General Depository Agreement" with WestAmerica Bank. This agreement states that "any portion of the PHA funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD. Such securities shall be pledged and set aside in accordance with applicable law or Federal regulation."

The Authority's exposure to custodial credit risk is as follows:

Demand deposits with banks fully insured	\$ 100,000
Demand deposits with WestAmerica Bank, in excess of the amount insured but covered by the depository agreement	1,743,570
Investments in LAIF	<u>3,913,562</u>
Total deposits	<u><u>\$ 5,757,132</u></u>

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each government agency may invest up to \$30,000,000 in each account in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest or principal. The full faith and credit of the State of California secure investments in LAIF.

At December 31, 2006, an account was maintained in the name of the Housing Authority of the County of Marin for \$4,453,585. The total cost value of investment in LAIF was \$4,453,585. The total fair value of investments in LAIF was \$4,451,111. The fair value total includes an unrealized

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

(Continued)

Note 2 (continued)

loss on investments of \$2,474. The unrealized loss was based on a fair value adjustment factor of 0.999444427 that was calculated by the State of California Treasurer’s Office. Of the \$4,453,585 invested in LAIF, \$3,913,562 is recorded as assets of the Authority. The difference includes \$597,257 of investments belonging to MHDC and MCHDFC commingled by the Authority in their LAIF account and \$57,234 of interest receivable as of December 31, 2006, shown as investments.

LAIF is a part of the State of California Pooled Money Investment Account (PMIA). At December 31, 2006, the fair value of the State of California Pooled Money Investment Account (PMIA), including accrued interest, was \$57,523,016,604. The PMIA portfolio had securities in the form of structured notes totaling \$200,000,000 and asset-backed securities totaling \$1,618,861,000. The PMIA has policies, goals and objectives for the portfolio to make certain that the goals of safety, liquidity, and yield are not jeopardized. These policies are formulated by investment staff and reviewed by both the PMIA and LAIF Advisory Boards on an annual basis.

During 2002, California Government code was added to the LAIF’s enabling legislation stating that “the right of a city, county...special district...to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any state official or state agency based upon the State’s failure to adopt a State Budget by July 1 of each new fiscal year.” In addition, it has been determined that the State of California cannot declare bankruptcy under Federal regulations. This allows other government code stating that “money placed with the state treasurer for deposit in the LAIF shall not be subject to ...transfer or loan...or impound or seizure by any state official or state agency” to stand.

Note 3 - RESTRICTED CASH

Restricted cash consists of funds that cannot be disbursed by the Authority unless approval is obtained from another government agency and funds held by the Authority on behalf of its clients. These balances are as follows:

Held by the Authority for RHCP project replacement	\$ 196,022
Held by the Authority for FHDP project replacement and operations	179,989
Held by the Authority for CDBG revolving loan program	1,328,351
Held by the Authority for tenant security deposits	188,254
Held by the Authority on behalf of FSS program participants	630,389
Held by the Authority on behalf of a issuer of a bond	14,262
HUD funds restricted in use for HAP payments only	<u>1,121,516</u>
Total restricted cash	<u>\$ 3,658,783</u>

The funds held for the FHDP, and FSS programs and portions of the funds help for the RHCP and CDBG programs are invested in the State of California Local Agency Investment Fund.

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(Continued)

Note 3 (continued)

The interest rate as of December 31, 2006, was 5.1% per annum. The remainder of the CDBG and RHCP program funds and the tenant security deposit funds are maintained in checking accounts. The CDBG and tenant security deposit checking accounts earned interest at a rate of .05% and .4%, respectively, as of December 31, 2006. The other checking account earned no interest.

The funds held for the replacement and operations of the RHCP and FHDP projects can not be disbursed without the prior approval of the State of California, Department of Housing and Community Development. These funds are reported as restricted net assets (see also Note 11). The funds held for the CDBG revolving loan program may only be used to provide loans to qualified Marin County home owners (see also Note 5). These funds are reported as part of restricted net assets (see also Note 11). The excess HAP funds are also reported as restricted net assets (see Note 11). The amounts held for tenant security deposits and the amounts held on behalf of the FSS program participants are reported as payable from restricted assets.

Note 4 - INTERFUND BALANCES

See the Financial Data Schedule on pages 40 through 42 of this report for detail of the interfund balances by program.

Note 5 - NOTES RECEIVABLE

Through various programs, the Authority has made deferred payment loans to individuals and organizations. The notes receivable are summarized as follows:

	<u>Balance</u> <u>12/31/05</u>	<u>Loans</u> <u>Issued</u>	<u>Loans</u> <u>Repaid</u>	<u>Loans</u> <u>Forgiven</u>	<u>Balance</u> <u>12/31/06</u>
CDBG Rehabilitation	\$ 3,498,232	\$ 543,000	\$(357,455)	\$ -	\$ 3,683,777
Storm Damage Assistance Program	263,624	5,000	(27,626)	-	240,998
Double Unit Opportunity Program	42,495	-	(10,000)	-	32,495
Loans to the Marin Housing Development Corporation	129,281	-	-	-	129,281
Down Payment Assistance Program	52,947	-	(5,147)	-	47,800
Gates Cooperative Program	118,920	-	-	-	118,920
Rental Deposit Guarantee Program	<u>20,856</u>	<u>28,128</u>	<u>(21,145)</u>	<u>(480)</u>	<u>27,359</u>
Total long-term notes	4,126,355	576,128	(421,373)	(480)	4,280,630
Employee Computer Acquisition	<u>3,809</u>	<u>2,304</u>	<u>(4,996)</u>	<u>-</u>	<u>1,117</u>
Total notes receivable	<u>\$ 4,130,164</u>	<u>\$ 578,432</u>	<u>\$(426,369)</u>	<u>\$ (480)</u>	<u>\$ 4,281,747</u>

All of the above notes, except for the Down Payment Assistance Program, the Rental Deposit Guarantee Program, and the amounts loaned to employees, were issued to homeowners to aid in unit rehabilitation and are secured by recorded deeds of trust. The Down Payment

HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Note 5 (continued)

Assistance Program notes were issued to very-low and low-income households to aid in the purchase of a home within certain housing developments in Marin County and are secured by recorded deeds of trust. The Rental Deposit Guarantee Program notes were issued to aid renters with security deposits and are secured by promise to pay agreements. The amounts loaned to employees are for a computer purchase loan program and are considered to be short-term. The loans are paid back over two years with the payments being withheld from the employees' payroll.

The CDBG rehabilitation loans are secured by deeds of trust, in the name of the County of Marin. Although, in legal form they are assets of the County of Marin, it is management's opinion that in substance they are assets of the Authority. This is a revolving loan program administered by the Authority. Any repayment of outstanding loans can only be used for new loans. The entire net assets of the program have been restricted (see also Note 11). Annually, the County of Marin provides separate CDBG funding for the administration of this program.

The funds to start the Down Payment Assistance, Gates Cooperative, and Braun Silent Second Programs were donated by a private Non-Profit Corporation with the restriction that all repayment of principal and interest be used for new loans. Therefore, the net assets of these three programs have been restricted (see also Note 11). As of December 31, 2006, no loans have been made from the Braun Silent Second Program.

The Authority has made \$1,131,060 of loans under the Rental Rehabilitation Program. The Rental Rehabilitation Program was enacted as part of the Housing and Urban-Rural Recovery Act of 1983 to help support the rehabilitation of privately owned real property used primarily for residential rental purposes. The loans have been made to sixteen different parties. The loan balances are forgiven at a rate of ten percent per year, unless the borrower defaults. Generally, the rental units must be made available to participants of the Authority's Section 8 program. The proceeds of the loans were disbursed directly by the Authority to contractors performing the rehabilitation work. The last of these loans were forgiven during the fiscal year ended December 31, 2006.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Note 6 - CAPITAL ASSETS

The following is a summary of the Authority's changes in capital assets for the fiscal year ended December 31, 2006.

	Balance 12/31/05	Additions	Deletions	Transfers	Balance 12/31/06
Public Housing Program	\$ 32,827,012	\$ 1,068,445	\$ (6,788)	\$ -	\$ 33,888,669
Section 8 Programs	190,488	19,812	(10,844)	5,028	204,484
Rental Housing Construction	1,391,192	-	-	-	1,391,192
Family Hsg Demonstration	2,561,135	-	-	-	2,561,135
Mill Valley Condos	132,836	1,050	-	-	133,886
Local	1,985,885	10,439	(233)	-	1,996,091
Other	109,558	9,216	(15,450)	(5,028)	98,296
	<u>\$ 39,198,106</u>	<u>\$ 1,108,962</u>	<u>\$ (33,315)</u>	<u>\$ -</u>	<u>\$ 40,273,753</u>

The Authority calculates depreciation on a straight-line basis with the useful lives of capital assets being - 30 years for structures, 5 years for furniture and equipment, and 3 years for computer equipment. The following is a summary of the Authority's changes in depreciation for the fiscal year ended December 31, 2006:

	Balance 12/31/05	Additions	Deletions	Transfers	Balance 12/31/06
Public Housing Program	\$ 13,564,197	\$ 930,643	\$ (6,788)	\$ -	\$ 14,488,052
Section 8 Programs	150,122	22,936	(9,346)	2,999	166,711
Rental Housing Construction	1,052,911	39,683	-	-	1,092,594
Family Hsg Demonstration	482,028	59,722	-	-	541,750
Mill Valley Condos	5,478	2,745	-	-	8,223
Local	468,877	53,166	(234)	-	521,809
Other	69,646	17,070	(14,193)	(2,999)	69,524
	<u>\$ 15,793,259</u>	<u>\$ 1,125,965</u>	<u>\$ (30,561)</u>	<u>\$ -</u>	<u>\$ 16,888,663</u>

The following is a summary of the Authority's capital assets by major class for the fiscal year ended December 31, 2006.

	Historical Cost	Accumulated Depreciation	Net
Land	\$ 2,782,426	\$ -	\$ 2,782,426
Buildings	35,295,685	(16,150,544)	19,145,141
Dwelling equipment	196,864	(196,604)	260
Office equipment	695,705	(541,515)	154,190
Construction in progress	1,303,073	-	1,303,073
	<u>\$ 40,273,753</u>	<u>\$ (16,888,663)</u>	<u>\$ 23,385,090</u>

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
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(Continued)

Note 7 - LONG-TERM DEBT

Following is a summary of changes in long-term debt for the year ended December 31, 2006:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Short</u> <u>Term</u>
Notes Payable - HCD	\$ 2,861,319	\$ -	\$ -	\$ 2,861,319	\$ -
Mortgages:					
Office bldg	1,072,612	-	(25,478)	1,047,134	26,800
Mill Valley Condos	<u>103,437</u>	-	<u>(14,333)</u>	<u>89,104</u>	<u>15,500</u>
	<u>\$ 4,037,368</u>	<u>\$ -</u>	<u>\$ (39,811)</u>	<u>\$ 3,997,557</u>	<u>\$ 42,300</u>

Following is a schedule of debt payment requirements to maturity for long-term debt other than the notes payable to HCD:

<u>Year Ending</u> <u>December 31</u>	<u>Office Mortgage</u>		<u>Condo Mortgage</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	\$ 26,800	\$ 60,245	\$ 15,500	\$ 6,219	\$ 108,764
2008	28,402	58,643	16,793	4,925	108,764
2009	30,100	56,945	18,097	3,622	108,763
2010	31,899	55,146	19,502	2,217	108,764
2011	33,806	53,239	19,212	493	106,750
2012-2013	<u>896,127</u>	<u>38,609</u>	-	-	<u>934,736</u>
	<u>\$ 1,047,134</u>	<u>\$ 322,827</u>	<u>\$ 89,104</u>	<u>\$ 17,476</u>	<u>\$ 1,476,541</u>

The Authority borrowed \$810,158 from the California Department of Housing and Community Development (HCD) to convert the Isabel Cook School into 18 units of low rent housing. The note, which is secured by a trust deed on the Isabel Cook project, is due on April 12, 2014. The loan is interest free. The Authority assumed a loan from HCD in the amount of \$2,051,161 when it acquired the Fairfax Vest Pocket housing project from a defunct nonprofit corporation. This loan accrues simple interest at a rate of three percent per annum. Principal and interest payments on this loan are payable to HCD only if the project generates surplus cash. Interest of \$61,535 was accrued and expensed for the fiscal year ended December 31, 2006. Total interest accrued on this loan as of December 31, 2006 is \$663,677. This amount has been reported as an "other noncurrent liability".

The Authority borrowed \$1,200,000 from WestAmerica Bank to purchase an office building. The note, dated July 21, 1997, is secured by a deed of trust on the office building property. The note requires monthly payments of \$7,254, accrues interest at 5.820% per annum, and requires a balloon payment of \$876,864 on September 1, 2012. Interest expense of \$61,856 was incurred and paid on this loan.

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(Continued)

Note 7 (continued)

In October 2003, the Authority borrowed \$194,000 from WestAmerica Bank to purchase three condos located in Mill Valley, California. The purpose of this acquisition was to retain affordable housing in the City of Mill Valley. The loan requires a monthly payment of \$1,810, carries an interest rate of 7.5% per annum, and is due July 2018. Interest expense of \$7,458 was incurred and paid on this loan. In 2004, the Authority sold one of the three units. A pay down on the principal of the note was made through escrow in the amount of \$64,700. This will result in the loan being paid off by the end of 2011.

During the fiscal year ended December 31, 1999, HUD directed the Authority to remove all HUD-guaranteed debt from their books of accounts. This debt included \$4,205,253 of HUD permanent notes and \$2,064,306 of interest accrued on these notes. It also included \$2,018,000 of outstanding New Housing Bonds. These HUD-guaranteed notes and bonds have not been forgiven by HUD. The Public Housing Program's Annual Contributions Contract (ACC) states that all debt service requirements related to these notes and bonds will be HUD's responsibility. It is therefore management's opinion that the Authority is not liable for these notes unless the federal government fails to honor the ACC. Accordingly, these amounts have been removed from the Authority's books of accounts.

Note 8 - DEFERRED REVENUE

Deferred revenue consists of \$9,283 prepaid rents of the Public Housing Program and \$973 prepaid rents of the two HCD programs (RHCP & FHDP).

Note 9 - COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation leave up to a maximum of 240 hours. This leave will be used in future periods or paid to employees upon separation from the Authority. Accrued vacation leave has been valued by the Authority at \$159,863 as of December 31, 2006. Of this amount, \$147,547 has been allocated to all programs, and recorded as accrued liabilities. The Authority estimates that 25% of these compensated absences will be used by employees within the next year and, therefore, \$36,888 of the \$147,547 was shown as short-term. It is the Authority's policy to permit employees to accumulate earned but unused sick leave; however, the value of unused sick leave is not payable to employees upon separation from the Authority.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
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(Continued)

Note 10 - NET ASSETS

A. Investment in Capital Assets, Net of Related Debt

Investments in capital assets, net of related debt consists of the following:

Capital assets, net of depreciation (Note 6)	\$ 23,385,090
Long-term debt (Note 7)	(3,997,557)
Accrued interest on long-term debt (Note 7)	<u>(663,677)</u>
Investment in capital assets, net of related debt	<u>\$ 18,723,856</u>

B. Restricted Net Assets

Net assets are reported as restricted when constraints placed on the net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Authority has reported the following as restricted net assets:

Excess HAP funding	\$ 1,121,516
Replacement reserves:	
RHCP - 80-RHC-031	196,022
FHDP - 93-FHDP-011	100,020
Operating reserves - FHDP - 93-FHDP-011	79,969
Revolving loan program funds:	
CDBG	4,665,940
Down Payment Assistance Program	48,818
Gates Cooperative	184,300
Braun Silent Second	<u>228,985</u>
Restricted net assets	<u>\$ 6,625,570</u>

On January 11, 2006, HUD issued *Notice PIH 2006-03* (the Notice). The Notice states that “any budget authority provided to PHA’s in calendar year 2006 that exceeds actual program expenses for the same period must be maintained in a PHA’s undesignated fund balance account.” The term “undesignated fund balance” is the term associated with the equity of Governmental Fund Types under GAAP. The Authority utilizes a Proprietary Fund Type to account for its program. Under Proprietary Fund Types equity is titled “net assets.” The Notice further states that excess HAP funding “may only be used to assist additional families up to the number of units under contract.” Based on this statement, it appears that the intent of the Notice was to restrict excess HAP funding. Therefore, the excess HAP funding has been reported as “restricted net assets.”

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(Continued)

Note 10 (continued)

The revenue recognition directives contained in the Notice are a departure from the revenue recognition policy of prior years. Prior to 2005, HUD grant revenue was recognized only to the extent that HAP expenses were incurred. During the current year, HUD grant revenue was recognized when received, regardless of whether or not HAP expenses were incurred. Funding for HAP received from HUD for the current fiscal year exceeded HAP expenses by the amount shown above.

The RHCP and FHDP reserves are funded and held by the Authority. These funds may not be spent without prior, written approval from HCD.

The loans funds were received from various sources with the purpose of loaning the funds to qualified low income home buyers or home owners. The Authority administers several loan programs with various purposes and requirements. As of December 31, 2006, \$3,321,455 of the above \$4,868,146 restricted net assets have been loaned to homeowners within the County.

C. Deficit Unrestricted Net Assets

The following funds have a deficit unrestricted net asset balance as of December 31, 2006:

	<u>2006</u>	<u>2005</u>
Isabel Cook (RHCP)	\$ 35,436	\$ 38,928
Fairfax Vest Pocket (FHDP)	115,797	78,720
Mortgage Credit Certificates	34,705	26,991
RAP Condos	22,244	surplus
Below Market Rate	10,625	surplus

Note 11 - PRIOR PERIOD ADJUSTMENTS

The Authority administers a program, known as the Rebate to Marin Renters program, which receives grants from various municipalities located within Marin County, as well as from the County itself. These grants are used to subsidize the rent of qualified renters within the County and each municipality. Prior to January 1, 2006, grants received in excess of rent subsidy disbursed were maintained in deferred revenue accounts for each municipality, for use in subsequent years. As of January 1, 2006, the Authority decided that these excess funds would be more accurately reported as net assets of the project. Therefore, the deferred revenue of \$278,545, as of December 31, 2005, was transferred to net assets.

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(Continued)

Note 12 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Authority contributes to the California Public Employees Retirement System (PERS), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statutes within the Public Employees' Retirement Law. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from their executive office - 400 P Street - Sacramento, CA 95814.

B. Funding Policy

Participants are required to contribute 7% of their annual covered salary. The Authority makes 100% of this required contribution for top management employees, 75% for management employees, 50% for mid management employees, and 25% for confidential employees. In addition, the Authority allows each employee a fixed medical benefit allowance. If an employee does not use this benefit allowance on medical benefits then the amount remaining is contributed by the Authority to fund the employee's portion of PERS. Any further amounts of employee PERS contributions are made by the employees. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate was 6.933% for the first six months of the fiscal year and increased to 7.112% of annual covered payroll beginning July 1, 2006. The rate is expected to increase to 6.921% beginning July 1, 2007 and is projected to be 6.6% beginning July 1, 2008. The contribution requirements of plan members and the Authority are established and may be amended by PERS.

C. Annual Pension Cost

For the fiscal year ended December 31, 2006, the Authority's annual pension cost of \$209,152 for PERS was equal to the Authority's required and actual contributions. The Authority made payments to PERS totaling \$412,504. This \$412,504 consisted of \$209,152 employer required contributions, \$128,138 employee required contributions made by the Authority on their behalf, and 75,214 employee required contributions made by the employees. The required contribution for the fiscal year ended December 31, 2006, was determined as part of the June 30, 2003 (for the first six months of the fiscal year) and June 30, 2004 (for the second six months of the fiscal year) actuarial valuation using the

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(Continued)

Note 12 (continued)

entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions used during the June 30, 2003 actuarial valuation included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3.0%. The actuarial assumptions used during the June 30, 2004 actuarial valuation included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a two to five year period (smoothed market value) depending on the size of investment gains and/or losses. PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

D. Three-Year Trend Information for PERS

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 0	100%	\$ 0
12/31/04	76,340	100%	0
12/31/05	192,098	100%	0

E. Required Supplemental Information

The Authority's plan valuation changed during 2003. PERS determined that since the Authority's plan had fewer than 100 active members, then it was required to participate in a risk pool. The Authority therefore ceased to receive stand alone valuation statements as of June 30, 2003.

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
Stand alone valuation:						
6/30/03	8,781,656	9,492,384	(710,728)	108.1%	2,785,215	(25.518%)
Risk pool's actuarial value:						
6/30/03	\$2,596,966,545	\$2,372,879,034	\$ 224,087,511	91.4%	\$ 725,020,458	30.9%
6/30/04	2,746,095,668	2,460,944,656	285,151,012	89.6%	743,691,970	38.3%
6/30/05	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%

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(Continued)

Note 13 - MANAGEMENT AGREEMENTS

Under an agreement with the Marin Housing Development Corporation (MHDC), the Authority manages the Sundance Apartments. Under an agreement with the Marin County Housing Development Financing Corporation (MCHDFC), the Authority manages the Bradley House project. The result of operations and financial position of MHDC and MCHDFC are not presented or included in these statements. The Authority recognized management fees in the amount of \$41,285 due from these related parties. The Authority is owed by MHDC and MCHDFC \$209,251 which is included in Due from Related Parties. MHDC owes the Authority \$129,281 which is included in Notes Receivable (see also Note 5).

Note 14 - JOINT POWERS AGREEMENT - WORKERS' COMPENSATION INSURANCE

The Authority participates in a joint venture under a joint powers agreement (JPA) with the California Housing Workers' Compensation Authority (CHWCA). CHWCA was formed to provide workers' compensation insurance coverage for member housing authorities. At December 31, 2006, there were thirty-one members. The relationship between the Authority and CHWCA is such that CHWCA is not a component unit of the Authority for financial reporting purposes.

Condensed audited financial information for the year ended December 31, 2005 and 2006, is as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Total assets	\$ 21,069,317	\$ 17,791,407
Total liabilities	<u>(11,427,502)</u>	<u>(12,394,949)</u>
Total net assets	<u>\$ 9,641,815</u>	<u>\$ 5,396,458</u>
Total revenues	\$ 6,568,300	\$ 7,167,982
Total expenses	<u>(2,322,943)</u>	<u>(2,584,185)</u>
Net change in net assets	<u>\$ 4,245,357</u>	<u>\$ 4,583,797</u>

CHWCA had no long-term debt outstanding at December 31, 2006. The Authority's share of year end assets, liabilities, or retained earnings has not been calculated. The Authority's annual premium is based on covered payroll. Premium paid for the calendar year ended December 31, 2006 was \$211,766. This is a 4% increase over the prior year's premium. CHWCA issues a separate comprehensive annual financial report. Copies of this report may be obtained by contacting Bickmore Risk Services, 6371 Auburn Boulevard, Suite B, Citrus Heights, California, 95621.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

(Continued)

Note 15 - JOINT POWERS AGREEMENT - PROPERTY AND LIABILITY INSURANCE

The Authority participates in a joint venture under a Joint Powers Agreement (JPA) with the California Housing Authority Risk Management Agency (CHARMA). CHARMA was formed to provide property and liability coverage to its members. At May 31, 2006, there were six members other than the Authority. The Authority's property insurance deductible varies by location, however in no case is it more than \$25,000 per occurrence. The Authority's liability insurance has a \$10,000 deductible per occurrence. The Authority's automobile insurance has no deductible for comprehensive damage and collision damage. The Authority paid premiums to CHARMA of approximately \$264,695 during the fiscal year ended December 31, 2006. The relationship between the Authority and CHARMA is such that CHARMA is not a component unit of the Authority for financial reporting purposes.

CHARMA's governing board controls the operations of the JPA, including selection of management and approval of operating budgets independent of any influence by member authorities beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested, and shares surpluses and deficits proportionately to its participation in CHARMA.

Condensed audited financial information for the year ended May 31, 2005 and 2006, are as follows:

	<u>May 31, 2006</u>	<u>May 31, 2005</u>
Total assets	\$ 5,067,460	\$ 4,559,551
Total liabilities	<u>(892,879)</u>	<u>(926,352)</u>
Retained earnings	<u>\$ 4,174,581</u>	<u>\$ 3,633,199</u>
Total revenues	\$ 3,138,135	\$ 3,102,413
Total expenses	<u>(2,596,753)</u>	<u>(2,730,115)</u>
Net increase (decrease) in retained earnings	<u>\$ 541,382</u>	<u>\$ 372,298</u>

CHARMA has no long term debt outstanding at May 31, 2006. The Authority's share of year end assets, liabilities, or retained earnings has not been calculated.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

(Continued)

Note 16 - CONTINGENT LIABILITIES

A. Grants

The Authority has received funds from various federal, state, and local grant programs. It is possible that at some future date it may be determined that the Authority was not in compliance with applicable grant requirements. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Authority does not expect such disallowed amounts, if any, to materially affect the financial statements.

SUPPLEMENTAL INFORMATION

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Department of Housing and <u>Urban Development (HUD)</u>		
Direct Programs:		
Shelter Plus Care	14.238	\$ <u>771,945</u> *
Public and Indian Housing	14.850	<u>1,118,206</u>
Housing Choice Voucher Program	14.871	<u>26,436,807</u> *
Public Housing Capital Fund	14.872	<u>1,493,354</u> *
Public Housing Neighborhood Networks Grant	14.875	<u>15,498</u>
Resident Opportunities and Supportive Services - Elderly and Persons with Disabilities	14.876	<u>22,750</u>
Public Housing Family Self Sufficiency - under Resident Opportunity and Supportive Housing	14.877	<u>50,457</u>
Passed through the County of Marin:		
Community Development Block Grant Rehabilitation Loan Program Administration		182,951
Housing Search Specialist		<u>17,352</u>
Total CDBG through the County of Marin	14.218	<u>200,303</u>
Housing Opportunities for Persons with AIDS	14.241	<u>265,177</u>
Total federal expenditures (HUD)		<u>\$ 30,374,497</u>

* Tested as a major (type A) federal program.

The accompanying Independent Auditors' Report and notes are an integral part of this statement.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. The schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the County of Marin, California, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Public and Indian Housing Program expenditures reported consist only of the operating subsidy amount received from HUD for the fiscal year ended December 31, 2006.
3. The expenditures reported for the Housing Choice Voucher Program represent the program's operating expenditures in its entirety, less depreciation, and including expenditures for capital additions, regardless of the amount of HUD annual contributions received or earned.

Operating expenses	\$ 25,686,640
Less depreciation	(22,936)
Plus operating transfers out	750,000
Plus equity transfer out	3,291
Plus capital additions	<u>19,812</u>
Total expenditures of federal awards	<u>\$ 26,436,807</u>

4. Expenditures for the Public Housing Capital Fund, the Public Housing Neighborhood Network Grant, the Resident Opportunity and Supportive Services - Elderly and Persons with Disabilities, and the Public Housing Family Self-Sufficiency under Resident Opportunity and Supportive Services programs reported agree with actual revenues and expenditures for the fiscal year.
5. Amounts reported for the Housing Opportunities for Persons with AIDS and Shelter Plus Care Programs agree with HUD revenue earned, which differs from expenditures due to administrative fees earned and other state and local grants received.
6. The amount reported as CDBG passed through the County of Marin includes two grants made to the Authority by the County. The expenditures reported are made up of revenue earned for reimbursement of qualified expenditures.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATEMENT OF COMPLETED CAPITAL FUND PROJECT
ANNUAL CONTRIBUTION CONTACT SF-258
DECEMBER 31, 2006**

CA39P052501-04

Funds approved	\$ 1,219,013
Funds expended	<u>1,219,013</u>
Excess of funds approved	<u><u>\$ -</u></u>
Funds advanced	\$ 1,219,013
Funds expended	<u>1,219,013</u>
Excess of funds expended	<u><u>\$ -</u></u>

The accompanying Independent Auditors' Report and notes are an integral part of this statement.

Harn & Dolan

Certified Public Accountants

2423 Stirrup Court

Walnut Creek, California 94596-6526

(925) 280-1693 Fax (925) 938-4829

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Housing Authority of the
County of Marin
San Rafael, California

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the County of Marin, California, as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September XX, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority of the County of Marin, California's internal control over financial reporting as a basis designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority of the County of Marin, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the County of Marin, California's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authorities of the City and County of Fresno, California's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Housing Authorities of the City and County of Fresno, California's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authorities of the City and County of Fresno, California's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Housing Authorities of the City and County of Fresno, California's internal control.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be a significant deficiency or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the County of Marin, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Housing Authority of the County of Marin, California, in a separate letter dated September XX, 2007.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September XX, 2007

Harn & Dolan

Certified Public Accountants

2423 Stirrup Court

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(925) 280-1693 Fax (925) 938-4829

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
Housing Authority of the
County of Marin
San Rafael, California

Compliance

We have audited the compliance of the Housing Authority of the County of Marin, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Housing Authority of the County of Marin, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of the County of Marin, California's management. Our responsibility is to express an opinion on the Housing Authority of the County of Marin, California's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of the County of Marin, California's compliance with those requirements and performed such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority of the County of Marin, California's compliance with those requirements.

In our opinion, the Housing Authority of the County of Marin, California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Housing Authority of the County of Marin, California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of the County of Marin, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September XX, 2007

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

The previous audit report for the year ended December 31, 2005 contained no audit findings.

**HOUSING AUTHORITY OF THE COUNTY OF MARIN
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unqualified
Going concern explanatory paragraph included?	no
Internal control over financial reporting:	
Material weaknesses identified?	no
Reportable conditions identified not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards

Dollar threshold used to distinguish between Type A and Type B programs	\$ 911,235
Auditee qualified as low-risk auditee?	yes
Internal control over major programs:	
Material weaknesses identified?	no
Reportable conditions identified not considered to be material weaknesses?	none reported
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with A-133, Section .510(a)?	no
Any known questioned costs reported?	no
Identification of major programs:	
Type A programs tested as major:	
Shelter Plus Care	14.238
Housing Choice Voucher Program	14.871
Public Housing Capital Fund	14.872

Section II - Financial Statement Findings

none

Section III - Federal Award Findings

none