
SONOMA COUNTY COMMUNITY DEVELOPMENT COMMISSION

Santa Rosa, CA



Financial Statements
Proprietary (Enterprise) Fund Type
&
Independent Auditors' Report

For the Year Ended June 30, 2014

SONOMA COUNTY COMMUNITY
DEVELOPMENT COMMISSION

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Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Financial Statements and Independent Auditors' Report
For the Year Ended June 30, 2014

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FINANCIAL INFORMATION



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Board of Commissioners
Sonoma County Community Development Commission
Santa Rosa, CA

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the Sonoma County Community Development Commission as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 of the Sonoma County Community Development Commission, as of June 30, 2014, and the respective change in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sonoma County Community Development Commission's financial statements. The combining statement of net position, and combining statement of revenues, expenses and changes in fund net positions are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining statement of net position and combining statement of revenues, expenses and changes in fund net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, and combining statement of revenues, expenses and changes in fund net position are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the Commission's internal control over financial reporting and 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* in considering Sonoma County Community Development Commission's internal control over financial reporting and compliance.


October 31, 2014

Sonoma County Community Development Commission
Santa Rosa, CA

Management Discussion and Analysis
For the Year Ended June 30, 2014

The Sonoma County Community Development Commission (the "Commission") provides housing assistance to low income families and individuals and funds community development projects and activities. The Commission also provides staffing services for the Sonoma County Successor Agency to the former Sonoma County Community Redevelopment Agency and administers the Low Moderate Income Housing Asset Fund per ABx1 26 and AB1484. The Commission's largest funding source is the U.S. Department of Housing and Urban Development (HUD).

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Government Accounting Standards Board (GASB), Statement No. 34 (GASB 34) Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. The MD&A is meant to be read in conjunction with the Basic Financial Statements.

For accounting purposes, the Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector where the determination of net income is useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting, in which all assets and liabilities associated with the operation of the funds are included on the balance sheet. The focus of enterprise funds is on income measurement which, together with the maintenance of equity, is an important financial indicator.

The Commission's Programs

Under the Housing Choice Voucher Program, the Commission administers contracts with independent landlords that own rental properties. A Housing Assistance Payment is made by the Commission to a landlord to subsidize a low income family or individual's rent. This program is administered under a contract with HUD, who provides funding for this purpose. The Housing Choice Voucher Program is 63% of the Commission's revenues and 76% of the Commission's expenses.

The Commission's other HUD-funded programs include the Community Development Block Grant, the HOME Investment Partnerships Program, the Emergency Solutions Grant and the McKinney-Vento Continuum of Care. These programs help provide affordable housing to low income individuals and families, rehabilitate homes of low income individuals that are in ill repair, and provide homeless intervention and prevention services. These programs are 11% of the Commission's revenues and 10% of the Commission's expenses.

The Flood Elevation program is funded by California's Emergency Management Agency (CalEMA) through the Federal Emergency Management Agency (FEMA). The program provides a percentage of the cost of raising a flood-prone residential structure above the 100-year flood level. The Flood Elevation program is 7% of the Commission's revenues and 6% of the Commission's expenses.

The Commission also maintains other state and local programs to help support their objectives of affordable and safe housing to low income individuals.

Sonoma County Community Development Commission
Santa Rosa, CA

Management Discussion and Analysis
For the Year Ended June 30, 2014

Financial Highlights

The following financial highlights are provided in an effort to describe, in terms of dollar amounts, the resources and operations of the Sonoma County Community Development Commission.

- The Commission's revenues are primarily derived from federally supported activities, which accounted for 79% of current fiscal year revenues.
- Total assets increased by \$6,003,446 from prior year and liabilities increased by \$90,051. The majority of the Commission's assets are cash, investments and notes receivable. Cash and investments accounted for 18% of total assets. Loans and related interest represents 68% of the agency's assets. The fiscal year ended with total assets of \$88,434,632 and liabilities of \$1,157,014. Total liabilities amount to 1.3% of total assets.
- The total net position of the Commission increased by \$5,913,395 from the June 30, 2013 balance of \$81,364,223, to the June 30, 2014 balance of \$87,277,618.

Overview of the Financial Statements

The Commission's Financial Report is comprised of the Independent Auditors' Report, Management's Discussion and Analysis, the Basic Financial Statements, Supplementary Information, and Compliance Reports. The Commission is classified as an enterprise fund, and accordingly, uses the full accrual method of accounting. Enterprise accounting reports information similar to private sector companies to offer short and long term financial information about the Commission's activities.

The Basic Financial Statements

The *Statement of Net Position* provides information about the financial position of the Commission as a whole on the full accrual basis, similar to that used in the private sector. The *Statement of Net Position* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* provides information about the Commission's revenues and expenses on the full accrual basis, with emphasis on measuring net revenues and expenses of each of the Commission's programs. The *Statement of Revenues, Expenses and Changes in Fund Net Position* explains the change in net position during the most recent fiscal year. Changes in net position 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 result in cash flows in future fiscal periods.

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

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

Sonoma County Community Development Commission
Santa Rosa, CA

Management Discussion and Analysis
For the Year Ended June 30, 2014

Financial Analysis

The Commission's total net position from governmental activities increased during the current fiscal year in the amount of \$5,913,395. The year-to-year change in total net position is a result of the net change of revenues and expenses during the year. The following table represents a comparative analysis of the net position of the governmental activities at June 30, 2014 and 2013.

	June 30, 2014	June 30, 2013
Current assets	\$ 18,436,095	\$ 13,034,996
Non-current assets	69,998,537	69,396,190
Total Assets	<u>88,434,632</u>	<u>82,431,186</u>
Current liabilities	928,403	806,448
Non-current liabilities	228,611	260,515
Total Liabilities	<u>1,157,014</u>	<u>1,066,963</u>
Net Position		
Net investment in capital assets	9,751,748	9,914,805
Restricted	292,548	2,697,124
Unrestricted	77,233,322	68,752,294
Total Net Position	<u>\$ 87,277,618</u>	<u>\$ 81,364,223</u>

Analysis of Net Position— Various Commission activities contributed to the total increase in net position. The following table shows the change in net assets by program.

Program	Net Position Change
Housing Choice Voucher Program	\$ (610,588)
Reinvestment & Revitalization Program	2,938,003
County Fund for Housing	2,026,394
Other HUD Funded Programs	1,359,800
All Other Programs	199,786
	<u>\$ 5,913,395</u>

The Commission administers the Sonoma County Housing Authority. The Housing Authority's largest program is the Housing Choice Voucher Program. The net position of this program decreased by \$610,588 during the fiscal year ended June 30, 2014. This reduction was the result of a program implemented by the U.S. Department of Housing and Urban Development to recapture Housing Assistance Payment reserve dollars from local housing authorities.

Sonoma County Community Development Commission
Santa Rosa, CA

Management Discussion and Analysis
For the Year Ended June 30, 2014

The largest increase in net position was due to the start-up of the Commission's Reinvestment and Revitalization program, funded by tax revenues related to former Redevelopment agencies in Sonoma County, CA. This program is intended to complete projects of the former Sonoma County Redevelopment Agency, that were disallowed by the California State Department of Finance upon dissolution.

The County Fund for Housing receives revenue through Sonoma County's Permit and Resource Management Department. During fiscal year 2013-14, no money was requested from the fund's current awardees, so the fund's net position increased by a substantial amount. The Commission anticipates distributing the majority of this fund's fiscal year 2013-14 net position within the next two years.

The remaining changes in all other funds of the Commission are due to normal business activities.

The following table is a comparative analysis of the Statement of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30, 2014 and 2013.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Revenues	\$ 38,319,694	\$ 35,155,464
Operating Expenses	33,916,100	34,476,849
Operating Income (Loss)	4,403,594	678,615
Non-operating Revenues (Expenses)	1,509,801	401,491
Capital Contributions and Transfers	-	3,467,000
Change in Net Position	<u>\$ 5,913,395</u>	<u>\$ 4,547,106</u>

Below is a table of the changes, in total, in revenues and expenses for the fiscal years ended June 30, 2014 and June 30, 2013.

	<u>Revenues</u>	<u>Expenses</u>
Fiscal Year 2013-14	\$ 39,829,495	\$ 33,916,100
Fiscal Year 2012-13	39,023,955	34,476,849
Change from Prior Year	<u>\$ 805,540</u>	<u>\$ (560,749)</u>
Percent Change	2.1%	-1.6%

Capital Assets and Debt Administration

Capital Assets

The Commission's capital assets were comprised of several computers, an unimproved real estate parcel, a shopping center, two single-family homes and a rent-restricted affordable apartment complex at the beginning of the fiscal year. During the year, the unimproved parcel with a value of \$420,000 was sold.

Debt Administration

At June 30, 2014, the Commission had total long-term debt outstanding of \$-0-.

Sonoma County Community Development Commission
Santa Rosa, CA

Management Discussion and Analysis
For the Year Ended June 30, 2014

Economic Factors and Next Year's Budget

The Commission will continue to rely primarily on federal funding, specifically HUD, for Community Development and Rental Assistance Programs. California continues to face significant economic and budgetary challenges, which may effect the Commission's state funded programs and the ability of individuals and non-profits to pay their Commission-sponsored loans.

Request for Information

This annual report is intended to provide citizens with a general overview of the Commission's finances. Questions about this report should be directed to the Commission's Executive Director at 1440 Guerneville Road, Santa Rosa, CA 95403.

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Statement of Net Position
June 30, 2014

ASSETS

Current Assets

Cash and cash equivalents:	
Unrestricted	\$ 15,190,189
Restricted	292,548
Subtotal	<u>15,482,737</u>
Accounts receivable (net)	105,702
Due from other governments	2,847,656
Prepays	-
Total Current Assets	<u><u>18,436,095</u></u>

Noncurrent Assets

Interest receivable (net)	10,404,362
Capital assets (net)	9,751,748
Long term notes receivable (net)	<u>49,842,427</u>
Total Noncurrent Assets	<u><u>69,998,537</u></u>

TOTAL ASSETS 88,434,632

DEFERRED OUTFLOWS OF RESOURCES -

LIABILITIES

Current Liabilities

Accounts payable	493,049
Other liabilities	393,934
Unearned revenue	1,077
Compensated absences - current	40,343
Total Current Liabilities	<u><u>928,403</u></u>

Noncurrent Liabilities

Compensated absences - long-term	<u>228,611</u>
Total Noncurrent Liabilities	<u><u>228,611</u></u>

TOTAL LIABILITIES 1,157,014

DEFERRED INFLOWS OF RESOURCES -

NET POSITION

Net investment in capital assets	9,751,748
Restricted	292,548
Unrestricted	<u>77,233,322</u>
TOTAL NET POSITION	<u><u>\$ 87,277,618</u></u>

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Statement of Revenues, Expenses, and Changes in Fund Net Position For the Year Ended June 30, 2014

REVENUES

Operating Revenues

Government grants - operating	\$ 37,753,973
Program	201,407
Rental	327,457
Other	36,857
Total Operating Revenues	38,319,694

EXPENSES

Operating Expenses

Administrative	1,283,611
Salaries and benefits	3,697,991
Occupancy	188,642
Insurance	19,666
Project	4,079,769
Housing assistance payments	24,483,364
Depreciation	163,057
Total Operating Expenses	33,916,100

Operating Income (Loss) 4,403,594

Nonoperating Revenues (Expenses)

Interest income	1,538,801
Interest expense	-
Gain (loss) on sale of capital assets	(29,000)
Total Nonoperating Revenues (Expenses)	1,509,801

Income (loss) Before Capital Contributions and Transfers 5,913,395

Capital Contributions and Transfers

Government grants - capital	-
Transfers in (out)	-
Total Capital Contributions and Transfers	-

Change in Net Position 5,913,395

Net position - beginning 81,364,223
Net Position - ending \$ 87,277,618

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Statement of Cash Flows
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 878,928
Receipts from grants	37,641,917
Payments to suppliers	(5,419,136)
Payments to employees for services	(3,664,937)
Payments for housing assistance	(24,483,364)
Net Cash Provided (Used) By Operating Activities	<u>4,953,408</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers in - Sonoma County	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>-</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sale of assets	391,000
Principal paid on debt	(60,000)
Interest paid on debt	-
Net Cash Provided (Used) By Financing Activities	<u>331,000</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Collection of long term notes receivable	95,935
Investment income	677,462
Net Cash Provided (Used) By Investing Activities	<u>773,397</u>

Net Increase (Decrease) In Cash 6,057,805

BEGINNING CASH 9,424,932
ENDING CASH \$ 15,482,737

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss) \$ 4,403,594

Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:

Non-cash items:

Depreciation 163,057

Changes in assets and liabilities

(Increase) decrease in assets:

Accounts receivable 312,130

Due from other governments (94,956)

Prepaid expenses 19,532

Increase (decrease) in liabilities:

Accounts payable 133,020

Other liabilities (17,100)

Unearned revenue 1,077

Compensated absences 33,054

Due to other governments -

Total Adjustments 549,814

Net Cash Provided (Used) By Operating Activities \$ 4,953,408

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Notes to Financial Statements
For the Year Ended June 30, 2014

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and final position of the Sonoma County Community Development Commission as follows:

- Note 1. Definition of Reporting Entity
- Note 2. Summary of Significant Accounting Policies
- Note 3. Cash and Investments
- Note 4. Accounts Receivable
- Note 5. Long-term Notes Receivable and Interest Receivable
- Note 6. Capital Assets
- Note 7. Interfund Balances
- Note 8. Employer Retirement Plan
- Note 9. Contingent Liabilities
- Note 10. Other Post-Employment Health Benefits
- Note 11. Other Liabilities
- Note 12. Related Party Transactions
- Note 13. Compensated Absences – Long-term
- Note 14. Subsequent Events

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Notes to Financial Statements
For the Year Ended June 30, 2014

1. DEFINITION OF REPORTING ENTITY

The Sonoma County Community Development Commission (the "Commission") was established as a separate public and corporate entity pursuant to Section 34110 of the California Health and Safety Code. The Commission is governed by the Board of Commissioners who are appointed by the Elected Board of Supervisors of Sonoma County. The exercise of this oversight responsibility causes the Commission to be an integral part of the County of Sonoma's (the "County") reporting entity. Therefore, the Commission's basic financial statements are expected to be included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2014.

The Commission's financial statements include activities over which the Board of Commissioners has oversight and budgeting responsibility. Sonoma County Housing Authority is included in the reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Commission reports on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

(b) Proprietary Fund Type

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets, deferred inflows of resources, liabilities and deferred outflow of resources associated with a proprietary fund's activities are included on its statement of net position.

In addition, the accounting records of the Commission are organized on the basis of funds. Each of the Commission's programs is accounted for in a separate fund.

The basic accounting and reporting entity is a "fund." A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, including resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. All the programs are reported as a single business-type activity fund.

(c) Use of Estimates

The preparation of all financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities and assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, actual results could differ from those estimates.

(d) Revenues

Operating revenues are recognized in the accounting period in which they are earned and become measurable. Intergovernmental grant revenue received for capital acquisitions or construction is reported as operating revenues. Charges for services include fees generated by the activities of the various programs. Fees generated by a program remain within the program and are used for program purposes.

(e) Expenses

Expenses are recognized in the accounting period in which the related liability is incurred.

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Notes to Financial Statements
For the Year Ended June 30, 2014

(f) Accounts Receivable

Accounts receivable consist of miscellaneous receivables related to the Commission's various programs and fraud recovery. An allowance for uncollectable amounts has been set up and relates to the estimated uncollectable balance of revenues earned or accrued that have been included in accounts receivable at year end. An allowance is recorded on receivable balances based on historical bad debt experience related to the nature of each receivable balance.

(g) Due From Other Governments

Due From Other Governments are amounts due to the Commission and represents revenues earned or accrued in the current period. These include amounts due from grantors for grants for specific programs and capital projects. All amounts are deemed to be fully collectible, therefore no allowance for uncollectable amounts have been recorded.

(h) Cash and Investments

The majority of the Commission's cash and investments are pooled with the Sonoma County Treasurer in the County Treasury Investment Pool ("the Treasury Pool"), which is an external investment pool. The Commission also has cash deposits with banks and investments which are held by outside trustees. The Sonoma County Treasurer also acts as a disbursing agent for the Commission. The fair value of the investments in the Sonoma County Treasury pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

For the purposes of the statement of cash flows, equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity of 3 months or less.

(i) Capital Assets

Capital assets are stated at cost or estimated historical cost. The Commission defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided for, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend an asset's life, are not capitalized.

No capital asset impairments were recorded for the year ended June 30, 2014.

(j) Accrued Compensated Absences

The Commission's employees are entitled to certain compensated absences based on their length of employment and position held. Vacation time is subject to certain maximum accumulations. Vacation pay is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Commission by retirement.

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Notes to Financial Statements
For the Year Ended June 30, 2014

(k) Assets Held for Resale

An asset which the Commission is not using in operations and that is intended to sell is classified on the Statement of Net Position as "Assets Held for Resale." The asset held for resale in the prior year was a piece of land with a commercial building on it and was sold during the year. The carrying value of an asset is the lower of the asset's cost or its net realizable value, which is currently its historical cost to the Commission.

(l) Notes and Interest Receivable

As part of the Commission's housing rehabilitation programs and low-income housing development programs, the Commission makes certain loans to homeowners, non-profit agencies and for-profit entities. The Commission accrues interest on these loans based on the loan agreement.

The Commission's notes receivable are primarily "second mortgages" which follow a first lender in order of security interest. It is the Commission's practice to primarily make only "traditional" fixed interest rate loans with 20 to 30 year amortization periods. All of the Commission's notes and interest receivable are secured upon the related real property.

The Commission performs an analysis of notes receivable annually to estimate the potential for uncollectible notes and interest receivable. This analysis involves consideration of the notes risk of default and, should a default take place, the probability that the value of the property which the note is secured on will be less than the related outstanding debt.

(m) New Accounting Pronouncements

In fiscal year 2013, the Commission did implement a new accounting standard issued by GASB. GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirements of this Statement are to improve the financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

(n) Net Position

The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Commission presents the statement of net position in the format recommended by GASB, displaying assets plus deferred outflows of resources minus liabilities and deferred inflows of resources equal net position.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Net position is reported as restricted when there are limitations imposed on the use of assets, either through constitutional provisions or enabling legislation, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Commission exhausts all restricted resources before use of unrestricted resources.

Sonoma County Community Development Commission

Proprietary (Enterprise) Fund Type
Santa Rosa, CA

Notes to Financial Statements
For the Year Ended June 30, 2014

3. CASH AND INVESTMENTS

The Commission follows the practice of pooling cash and investment of funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and grant agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The Commission's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (Slate Pool) demand deposits
- Repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations
- Joint power agreements

A copy of the County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 1001F, Santa Rosa, California, 95403.

Investment in County Treasurer's Pooled Cash

As of June 30, 2014, the Commission's cash and investments balance managed by the County Treasurer was \$11,348,472. At that time, the weighted average maturity of the investments in the pool was less than two years. The credit rating and other information regarding the Treasury pool for the year is disclosed in Sonoma County's 2013-2014 Comprehensive Annual Financial Report.

The net increase in the fair value of the Commission's investments during the year was \$130,289. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The cumulative unrealized gain on investments held at year end amounted to \$90,774. The realized gain and loss from securities matured during the current fiscal year are recognized through the net change in the fair value of the investment held in the Treasury Pool.

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Non-Pooled Cash and Investments

Included in the non-pooled cash and investments balance are \$250 cash on-hand and \$4,134,015 cash deposited with the banks.

The following schedule shows the pooled and non-pooled cash amounts as of year end:

<i>Cash inside Sonoma County Treasurer's Pool</i>	
Cash with Sonoma County	\$ 11,348,472
Less: Bank overdraft	-
Total cash and investments in pooled cash (net)	<u>11,348,472</u>
<i>Cash outside of Sonoma County Treasurer's pool</i>	
Cash with banks	4,134,015
Petty cash	250
Total cash and investments outside of pool	<u>4,134,265</u>
 Total cash and investments	 <u><u>\$ 15,482,737</u></u>

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 interest rates. One of the ways that the Commission manages its exposure is to spread its cash between several financial institutions. The majority of the Commission's cash and investments are held by the Treasury Pool, which has a weighted average maturity of less than two years.

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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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.

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of cash, deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral. Under California law this collateral is held in the Commission's name and places the Commission ahead of general creditors of the institution. The Commission has waived the collateral requirements for the portion of deposits covered by federal deposit insurance.

As of June 30, 2014, \$500,000 of the Commission's cash with banks balance of \$4,134,015 was federally insured and \$3,634,015 was uninsured but collateralized by pledged securities and therefore not exposed to custodial risk.

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Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Commission has no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments. Below indicates the concentration by bank as of June 30, 2014:

Exchange Bank	\$ 3,088,304	74.70%
WestAmerica Bank	1,045,711	25.30%
Total Cash With Banks	<u>\$ 4,134,015</u>	<u>100.00%</u>

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. The Commission follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. The Commission does not currently hold any investments to report.

Funds totaling \$11,348,472 are pooled with other County of Sonoma funds and are invested pursuant to investment policies established by the County Treasurer. Investments in the County Treasury pool are unrated.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2014:

Fraud recovery	\$ 220,612
Less: Allowance	(220,476)
Fraud recovery (net)	136
Density bonus	16,325
Miscellaneous other	89,241
Accounts receivable (net)	<u>\$ 105,702</u>

5. LONG-TERM NOTES RECEIVABLE AND INTEREST RECEIVABLE

There are various types of notes receivable. Some require monthly principal reduction, and others have balloon payments at the end of the term of the note. Interest rates on the loans range from zero to ten percent per annum. Long-term notes receivable and interest receivable consisted of the following at year end:

Long-term notes receivable	\$ 50,776,987
Less: Allowance for doubtful accounts	(934,560)
Long-term Notes Receivable (net)	<u>\$ 49,842,427</u>
Interest receivable	\$ 10,462,734
Less: Allowance for uncollectable interest	(58,372)
Interest Receivable (net)	<u>\$ 10,404,362</u>

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6. CAPITAL ASSETS

A summary of the land, structures and equipment for the year ended June 30, 2014 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Non-depreciable Capital Assets:</i>				
Land	\$ 5,450,000	\$ -	\$ -	\$ 5,450,000
Subtotal	<u>5,450,000</u>	<u>-</u>	<u>-</u>	<u>5,450,000</u>
<i>Depreciable Capital Assets:</i>				
Buildings and improvements	4,714,218	-	-	4,714,218
Equipment	117,359	-	-	117,359
Subtotal	<u>4,831,577</u>	<u>-</u>	<u>-</u>	<u>4,831,577</u>
Total Capital Assets	<u>10,281,577</u>	<u>-</u>	<u>-</u>	<u>10,281,577</u>
Accumulated depreciation	<u>(366,772)</u>	<u>(163,057)</u>	<u>-</u>	<u>(529,829)</u>
Capital Assets (net)	<u>\$ 9,914,805</u>	<u>\$ (163,057)</u>	<u>\$ -</u>	<u>\$ 9,751,748</u>

Depreciation expense for the year ended June 30, 2014 was \$163,057.

7. INTERFUND BALANCES

Cash is moved between programs in the form of short-term loans and permanent transfers. The short-term interfund borrowing is reflected on the Combining Statement of Net Positions as Due From Other Funds and Due to Other Funds. These transfers are typically for periods of less than one year and funds are only transferred out of funds where allowed by law or program guidelines. All balances have been eliminated in the Statement of Net Position.

8. EMPLOYER RETIREMENT PLAN

The Commission participates in a defined benefit retirement plan (DBRP or the "Plan") that is administered by the Sonoma County Employee's Retirement Association. All full-time employees of the Commission participate in this plan. The Commission had 34 participants at June 30, 2014. The Plan provides benefits as defined by law upon retirement, death, or disability of its members. The Commission's total payroll for covered employees was \$3,195,838 for the year ended June 30, 2014.

The California Public Employees' Pension Reform Act of 2013 (PEPRA) was signed into law by Governor Jerry Brown in early September with an effective date of January 1, 2013. All employees hired after January 1, 2013, with the exception of employees who are eligible for reciprocity with another qualified California retirement system, are part of Plan B which complies with the laws established by PEPRA. The details of the Sonoma County Board of Supervisors policy decisions have been documented and posted to the SCERA website.

The Plan is funded by actuarially-determined regular contributions using the entry age normal cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the working lifetime of the individual. Plan B uses a single rate methodology, regardless of entry age, where members pay 50% of the normal costs. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. Employer and member contributions are funded and recognized through the County payroll system via employer benefit payments and employee deductions.

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Defined benefit pension plan members are required to contribute 7 percent to 14 percent of their annual covered salary, and their particular rate is based upon age at entry into the system. The Commission is required to contribute the remaining amounts necessary to finance the coverage of the employees through periodic contributions at actuarially determined rates. The Commission's contributions during the years are as follows:

	<u>Contribution</u>
June 30, 2014	\$ 397,066
June 30, 2013	\$ 455,687
June 30, 2012	\$ 463,691

Because the Commission's portion cannot be separated from the whole, additional financial information pertaining to the retirement plan can be found in the financial statements of the County of Sonoma, California as of June 30, 2014. Detailed information and separately issued financial statements of the Retirement Association can be obtained from the Sonoma County Employee's Retirement Association located at: 433 Aviation Boulevard, Suite 100. Santa Rosa, California 95403 or can be found at www.scretire.com.

9. CONTINGENT LIABILITIES

Insurance

The Commission, as a component unit of the County, is named insured on all general and automobile liability coverage maintained by the County of Sonoma. The County maintains a self-insured retention of \$1,000,000 per occurrence which is accounted for in the County's Risk Management internal Service Fund. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA), and Excess Liability Program. Limits of this coverage are \$15,000,000. The Commission is covered under this program for general liability, auto liability, public employee faithful performance/dishonesty and property insurance. The Commission paid an annual premium to the County for the above insurance coverage in the amount of \$19,666. Settlements have not exceeded coverage for each of the past three fiscal years. The Commission maintains worker's compensation insurance through the State Compensation Insurance Fund.

Grants

The Commission 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 Commission 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 Commission does not expect such disallowed amounts, if any, to materially affect the financial statements.

10. OTHER POST-EMPLOYMENT HEALTH BENEFITS

The County of Sonoma's governmental reporting entity consists of the County and its component units. The Sonoma County Community Development Commission is a component unit of the County of Sonoma. The County administers a post-employment healthcare plan. The County offers either a defined benefit or defined contribution medical plan in accordance with the County Salary Resolution No. 95-0926 and Commission employees are covered under said resolution.

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Governmental Accounting Standards Board (GASB) standard 45 direct how local governments account for and report other post-employment benefits (OPEB) that are separate from pension benefits. The County of Sonoma has calculated the medical benefit plan OPEB requirements and described the County's methodology and amounts with within the County's June 30, 2014 CAFR. These calculations cover the OPEB or all County employees including Commission employees.

On June 30, 2008 the County established another post-employment health benefit (OPEB) trust with the Public Agency Retirement Services (PARS) which is used to accumulate resources to fund future benefits.

The Sonoma County Employee's Retirement Association (SCERA) administers the retirement benefits of County employees, including employees of the Sonoma County Community Development Commission. The County entered into a Memorandum of Understanding (MOU) with the SCERA to perform retiree health benefit administrative services as well. For additional OPEB details see the notes to the financial statements of the County of Sonoma for the fiscal year ending June 30, 2014.

11. OTHER LIABILITIES

Other current liabilities of the Commission were comprised of the following as of June 30, 2014:

Owners' contributions - Flood elevation	\$ 227,045
FSS escrow deposits	138,192
Other miscellaneous payables and deposits	28,697
Total Other Liabilities	<u>\$ 393,934</u>

12. RELATED-PARTY TRANSACTIONS

In fiscal year 2012-2013, the Commission received a multifamily project from the Sonoma City Redevelopment Agency dissolution called "Village Green." In accordance with the Successor Agency agreement, only the assets were transferred to the Commission. The project has a related mortgage which was not transferred to the Commission but was transferred to Sonoma City. Currently, the Commission is making the principal and interest payments on the mortgage and billing the City of Sonoma for reimbursement. As of June 30, 2014 Sonoma City has prepaid \$10,080 to the Commission for future mortgage payments. The amount is currently classified with other liabilities.

13. COMPENSATED ABSENCES LONG-TERM

The Commission had the following activity for the noncurrent portion of compensated absences for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance
Compensated absences - LT	\$ 207,679	\$ 61,275	\$ (40,343)	\$ 228,611
Total	<u>\$ 207,679</u>	<u>\$ 61,275</u>	<u>\$ (40,343)</u>	<u>\$ 228,611</u>

14. SUBSEQUENT EVENTS

Accounting standards require that Sonoma County Community Development Commission assess and disclose the data and the basis for the date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. Management evaluated all potential subsequent events as of October 31, 2014 when the financial statements were authorized and available to be issued and noted no matters that required disclosure.

SUPPLEMENTARY FINANCIAL INFORMATION

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Combining Statement of Net Position
June 30, 2014

ASSETS	Housing Choice Vouchers	Other Programs	Inter-Program Eliminating Entries	Totals
Current Assets				
Cash and cash equivalents:				
Unrestricted	\$ 3,103,752	\$ 12,086,437	\$ -	\$ 15,190,189
Restricted	292,548	-	-	292,548
Subtotal	3,396,300	12,086,437	-	15,482,737
Accounts receivable (net)	36,291	69,411	-	105,702
Due from other governments	-	2,847,656	-	2,847,656
Due from other funds	-	2,002,340	(2,002,340)	-
Prepays	-	-	-	-
Total Current Assets	3,432,591	17,005,844	(2,002,340)	18,436,095
Noncurrent Assets				
Interest receivable (net)	-	10,404,362	-	10,404,362
Capital assets (net)	-	9,751,748	-	9,751,748
Long-term notes receivable (net)	-	49,842,427	-	49,842,427
Total Noncurrent Assets	-	69,998,537	-	69,998,537
TOTAL ASSETS	3,432,591	87,004,381	(2,002,340)	88,434,632
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-
LIABILITIES				
Current Liabilities				
Accounts payable	1,824	491,225	-	493,049
Other liabilities	138,192	255,742	-	393,934
Unearned revenue	-	1,077	-	1,077
Due to other funds	-	2,002,340	(2,002,340)	-
Compensated absences - current	11,348	28,995	-	40,343
Total Current Liabilities	151,364	2,779,379	(2,002,340)	928,403
Noncurrent Liabilities				
Compensated absences - long-term	64,305	164,306	-	228,611
Total Noncurrent Liabilities	64,305	164,306	-	228,611
TOTAL LIABILITIES	215,669	2,943,685	(2,002,340)	1,157,014
DEFERRED INFLOWS OF RESOURCES				
	-	-	-	-
NET POSITION				
Net investment in capital assets	-	9,751,748	-	9,751,748
Restricted	292,548	-	-	292,548
Unrestricted	2,924,374	74,308,948	-	77,233,322
TOTAL NET POSITION	\$ 3,216,922	\$ 84,060,696	\$ -	\$ 87,277,618

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Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2014

REVENUES	Housing Choice		Inter-Program	Totals
	Vouchers	Other Programs	Eliminating Entries	
Operating Revenues				
Government grants - operating Program	\$ 25,073,712	\$ 12,680,261	\$ -	\$ 37,753,973
Rental	2,379	199,028	-	201,407
Other	-	327,457	-	327,457
Total Operating Revenues	25,110,397	13,209,297	-	38,319,694
EXPENSES				
Operating Expenses				
Administrative	459,607	824,004	-	1,283,611
Salaries and benefits	1,690,501	2,007,490	-	3,697,991
Occupancy	88,426	100,216	-	188,642
Insurance	10,260	9,406	-	19,666
Project	-	4,079,769	-	4,079,769
Housing assistance payments	23,480,323	1,003,041	-	24,483,364
Depreciation	-	163,057	-	163,057
Total Operating Expenses	25,729,117	8,186,983	-	33,916,100
Operating Income (Loss)	(618,720)	5,022,314	-	4,403,594
Nonoperating Revenues (Expenses)				
Interest income	8,132	1,530,669	-	1,538,801
Interest expense	-	-	-	-
Gain (loss) on sale of capital assets	-	(29,000)	-	(29,000)
Total Nonoperating Revenues (Expenses)	8,132	1,501,669	-	1,509,801
Income (loss) Before Capital Contributions and Transfers	(610,588)	6,523,983	-	5,913,395
Capital Contributions and Transfers				
Government grants - capital	-	-	-	-
Transfers in - Sonoma County	-	-	-	-
Total Capital Contributions and Transfers	-	-	-	-
Change in Net Position	(610,588)	6,523,983	-	5,913,395
Net position - beginning	3,827,510	77,536,713	-	81,364,223
Net Position - ending	\$ 3,216,922	\$ 84,060,696	\$ -	\$ 87,277,618