# HOUSING AUTHORITY
# OF THE CITY OF RENO
# ANNUAL FINANCIAL REPORT
# YEAR ENDED JUNE 30, 2007
(Including Auditors' Report Thereon)

# HOUSING AUTHORITY OF THE CITY OF RENO
# ANNUAL FINANCIAL REPORT
# JUNE 30, 2007

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Housing Authority of the
City of Reno
Reno, Nevada

We have audited the financial statements of the business-type activities and each major fund of the Housing Authority of the City of Reno, Nevada, as of and for the year ended June 30, 2007, 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 City of Reno, Nevada, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Reno, Nevada, as of June 30, 2007, and the results of its operations and the cash flow of its proprietary fund types 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 our report dated January 4, 2008, on our consideration of the Housing Authority of the City of Reno, Nevada internal control over final reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

## HOUSING AUTHORITY OF THE CITY OF RENO
## MANAGEMENT'S DISCUSSION AND ANALYSIS
## JUNE 30, 2007

As management of the Housing Authority of the City of Reno (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 June 30, 2007.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### Financial Highlights

Long term liabilities decreased as a result of early retirement of three outstanding loans and refunding our revenue bonds. The effect of which was to reduce our overall debt by more than $1.4 million dollars. During the year, an asset that cost us nothing was sold for $.6 million. The governmental subsidies and grants decreased by $1.9 million (or 4.6%) during 2007. Total revenue was $50.1 million and $44.6 million for 2006 and 2007 respectively.

The total expenses of all Authority programs decreased by $2.5 million (or 5.6%). Total expenses were $45.8 million and $43.3 million for 2006 and 2007 respectively. The primary area of decrease was in Housing Assistance payments.

Overall, the financial statements indicate our financial health has improved from the prior year. We have seen an increase in our unrestricted net assets of $1.8 million and long term liabilities are down by $1.4 million or 19.2%. Revenues and expenses are stable and predictable.

### Required Financial Statements

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis in evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its rental income and other charges and profitability. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the Authority**

Our analysis of the Authority begins on page 2 in the Financial Statement Section. One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Balance Sheet, and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and changes in them. You can think of the Authority's net assets, (the difference between assets and liabilities), as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**The Authority's Programs**

Business Type Programs

*Conventional Public Housing* - Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with the Department of Housing and Urban Development (HUD), and HUD provides Operating Subsidy and Capital Grant funding to enable the Authority to provide the housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Program, which is the primary funding source for physical and management improvements to the Authority's properties.

*Housing Choice Voucher Program* - Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

*Section 8 Special Allocation Program* – Under the Section 8 Special Allocation Program the Authority is the Contract Administrator for the State of Nevada charged with carrying out 16 Incentive Based Performance Standards for HUD. Typical standards include approving tenant payments, processing rental adjustments, life threatening and non-life threatening health and safety issues, and conducting Management and Occupancy Reviews. Approximately 45 projects and 3,366 units are covered by this contract. This contract started October 1, 2000 with an initial two year period and three one-year renewal options. Since then we have been awarded several renewals, the most recent of which expires September 30, 2009.

*Section 8 Moderate Rehabilitation Program* – Under the Section 8 Moderate Rehabilitation Program, the Authority administers contracts with landlords. This program is similar to the Housing Choice Voucher Program. This program is down to only one landlord with less than 10 units.

*Business Activities* – This represents non-HUD resources developed from a variety of activities that consist basically of housing units not receiving Federal financial assistance.

(continued)

*Other Programs*
In addition to the programs above, the Authority also maintains the following:

*Section 8 New Construction* – Under the Section 8 New Construction program the Authority was under contract to administer three apartment complexes. The responsibilities were similar to the Section 8 Special Allocation Program listed above. As of July 1, 2007, these projects were assigned by HUD to our Section 8 Special Allocation Program.

*Section 8 Single Residence Occupancy* – Under the Section 8 Single Residence Occupancy Program the Authority oversees the functions related to one complex and is similar to the Section 8 Moderate Rehabilitation program.

*Component Unit* – The component unit is a separate corporation, Transitional Housing Corporation. This corporation owned a multi-family housing unit in which the Authority managed a Transitional Housing Grant from HUD. The grant has since expired and the housing unit has been sold.

*Resident Opportunity and Supportive Services* – This is a grant from HUD designed to help provide tenants with skills necessary to seek, obtain and maintain better employment.

*Shelter Plus* – Shelter Plus is a program where the Authority can obtain contract funding through the State of Nevada and provide physical inspections.

(continued)

**Net Assets**

To begin our analysis, a summary of the Authority's Balance Sheets are presented in Table 1. As can be seen from the Table, net assets increased $1.4 million to $31.6 million in Fiscal 2007 up from $30.2 million in Fiscal 2006.

**TABLE 1**
**Condensed Statements of Net Assets (Balance Sheets)**
**(In millions of dollars)**

| | 2006 | 2007 | Dollar Change | Total % Change |
|---|---|---|---|---|
| Current and Other Assets | $ 16.5 | $16.8 | $0.3 | 18.2% |
| Capital Assets | 22.6 | 21.7 | (0.9) | (4.0) |
| **Total Assets** | **39.1** | **38.5** | **(0.6)** | **(0.2)** |
| Long-term Liabilities | 7.3 | 5.9 | (1.4) | (19.2) |
| Other Liabilities | 1.6 | 1.0 | (0.6) | (37.5) |
| **Total Liabilities** | **8.9** | **6.9** | **(2.0)** | **(22.5)** |
| Invested in Capital Assets, Net of Related Debt | 15.8 | 16.4 | 0.6 | 3.8 |
| Restricted Net Assets | 1.0 | -0- | (1.0) | |
| Unrestricted Net Assets | 13.4 | 15.2 | 1.8 | 13.4 |
| **Total Net Assets** | **$ 30.2** | **$31.6** | **$1.4** | **4.6%** |

For more detailed information see page 10 for the Statement of Net Assets.

**Major Factors Affecting the Statement of Net Assets**

During this year, the long term liabilities show the largest change of 1.4 million. This is due in part to paying off three mortgages but most notably the revenue bonds were refunded at a lower interest rate. Refunding the bonds also freed up restricted cash (1.0 million) which was applied to retire some of the outstanding bonds per the indenture agreement. The net effect was to reduce our future interest costs through a lower interest rate and a smaller principal balance. Capital assets changed from 22.6 million to 21.7 million. The primary decrease is attributed to current year's depreciation and the purchase of a piece of property for future development. For more information see "Capital Assets and Debt Administration" below.

(continued)

Table 2 presents details on the change in Unrestricted Net Assets

**TABLE 2**
**Change of Unrestricted Net Assets**

| | Millions of Dollars |
|---|---|
| Unrestricted Net Assets 6/30/06 | 13.4 |
| Results from Operations | 1.3 |
| Capital Expenditures | 0.5 |
| Unrestricted Net Assets 6/30/07 | 15.2 |

While the result 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.

**TABLE 3**

**Statement of Revenues, Expenses and Changes in Net Assets**
**(In Millions of Dollars)**

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

| | 2006 | 2007 | Dollar Change | Total % Change |
|---|---|---|---|---|
| **Revenues** | | | | |
| Tenant Revenues – Rents and Other | $3.6 | $3.6 | $0.0 | 0.0% |
| Governmental Subsidies and Grants | 41.7 | 39.8 | (1.9) | (4.6) |
| Other Revenues | 4.8 | 1.2 | (3.6) | (75.0) |
| **Total Revenues** | 50.1 | 44.6 | (5.5) | 10.9 |
| **Expenses** | | | | |
| Administrative | 4.9 | 4.0 | (0.9) | (18.4)% |
| Tenant Services | 0.3 | 0.5 | 0.2 | 66.7 |
| Utilities | 0.8 | 0.8 | 0.0 | 0.0 |
| Maintenance | 1.6 | 1.5 | (0.1) | (6.3) |
| General Expenses | 0.7 | 0.7 | -0- | 0.0 |
| Housing Assistance Payments | 35.7 | 34.0 | (1.7) | (4.7) |
| Depreciation | 1.8 | 1.8 | -0- | 0.0 |
| **Total Expenses** | 45.8 | 43.3 | (2.5) | (5.6) |
| **Net Increase (Decrease)** | $ 4.3 | $1.3 | $(3.0) | (69.7)% |

(continued)

**Major Factors Affecting the statement of Revenue, Expenses and Changes in Net Assets**

This year we experienced a drop in overall revenues from $50.1 million to $44.6 million, a decrease of $5.5 million. This decrease can be easily seen in the Other Revenue area. Last year we sold a vacant parcel of land for $4.3 million, the other $1.9 million decrease is seen in a reduction of federal funding predominantly in operating subsidy. We did experience a $.6 million gain on the sale of stock this year; an investment that we held went public and we chose to sell the shares. Expenses did decrease in the administrative area and also in Housing Assistance Payments as the result of reduced federal funding

**Capital Assets and Debt Administration**

Capital Assets

As of year end, the Authority had $21.7 million invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of $861,834 from the end of last year.

**TABLE 4**
**Capital Assets**

| | 06/30/06 | 06/30/07 |
|---|---|---|
| Land and water rights | $ 3,981,239 | $ 4,346,893 |
| Buildings | 46,702,246 | 47,380,124 |
| Equipment – Furniture, Equipment | 519,544 | 519,544 |
| Accumulated Depreciation | (29,386,067) | (31,214,482) |
| Construction in Progress | 767,134 | 690,183 |
| Total | $ 22,584,096 | 21,722,262 |

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in the notes to the financial statements.

**TABLE 5**
**Change in Capital Assets**

| | |
|---|---|
| Beginning Balance | $22,584,096 |
| Additions | 1,515,130 |
| Deletions | ( 535,122) |
| Depreciation | ( 1,841,842) |
| Ending Balance | $21,722,262 |

This year's major changes are:

Capital Assets

| | |
|---|---|
| Modernization completed on Authority's Public and private Housing | $ 1,149,476 |
| Land | 365,654 |
| | $ 1,515,130 |

Debt Outstanding

As of year-end, the Authority had $5,362,530 in debt (bonds, notes, etc.) outstanding compared to $6,892,481 last year, a $1,529,951 net decrease:

**Outstanding Debt, at Year-End**

| | Totals | |
|---|---|---|
| | **2006** | **2007** |
| Business Activities | $ 6,892,481 | $ 5,362,530 |
| Less: Current Portion | ( 202,245) | ( 62,010) |
| Total | $ 6,690,236 | $ 5,300,520 |

**Economic Factors**

The Authority is primarily dependent upon HUD for the funding of operations; therefore, the Authority is affected more by the Federal budget than by the State or local economic conditions.

Given the dependency upon HUD it is in the Authority's best interest to seek and pursue other economic sources. With the profits from last years sale of vacant land we will pursue the investment of these monies in either additional land, development of existing land and/or purchase of existing housing stock.

**Financial Contact**

Regarding this report, contact C. James Caufield, CPA, Director of Administration, Housing Authority of the City of Reno, 1525 E. Ninth Street, Reno, NV 89512, Tel.(775) 329-3630.

## HOUSING AUTHORITY OF THE CITY OF RENO
## COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND TYPES
## FOR THE YEAR ENDED JUNE 30, 2007

| | Enterprise Fund Housing |
|---|---|
| Operating Revenues | |
| Grants | $ 39,128,234 |
| Rental income | 3,620,150 |
| Other | 960,534 |
| Total operating revenues | 43,708,918 |
| Operating Expenses | |
| Administration | 4,876,389 |
| Utilities | 819,571 |
| Maintenance | 1,456,238 |
| Tenant services | 539,095 |
| General | 243,197 |
| Housing assistance payments | 33,996,708 |
| Depreciation | 1,841,842 |
| Total operating expenditures | 43,773,040 |
| Operating income (loss) | (64,122) |
| Non-Operating Revenues (Expenses) | |
| Capital grants | 654,338 |
| Investment income | 762,972 |
| Gain on sale of fixed assets | 418,710 |
| Interest expense | (411,069) |
| Net non-operating revenue (expenses) | 1,424,951 |
| Change in net assets | 1,360,829 |
| Net assets, beginning of year | 30,265,645 |
| Total net assets, ending | $ 31,626,474 |

**The accompanying notes are an integral part of this statement.**

# HOUSING AUTHORITY OF THE CITY OF RENO
# COMBINED STATEMENT OF CASH FLOWS
# PROPRIETARY FUND TYPES
# FOR THE YEAR ENDED JUNE 30, 2007

| | Enterprise Fund Housing |
|---|---|
| Cash flows from operating activities: | |
| Cash received from operating grants | $ 38,912,161 |
| Cash received from rents | 3,616,487 |
| Other cash receipts | 862,380 |
| Cash payments to employees for services | (2,413,662) |
| Cash payments to suppliers and consultants | (5,378,636) |
| Cash payments to landlords | (33,996,708) |
| Net cash provided (used) in operating activities | 1,602,022 |
| Cash flows from capital and related financing activities: | |
| Capital grants | 654,338 |
| Acquisition of fixed assets | (980,008) |
| Principal paid on capital debt | (1,529,951) |
| Sale of fixed assets | 418,710 |
| Interest paid on capital debt | (648,970) |
| Net cash (used) by capital and related financing activities | (2,085,881) |
| Cash flows from investing activities: | |
| Note payments received | 3,152 |
| Interest received | 762,397 |
| Net cash provided by investing activities | 765,549 |
| Net increase (decrease) in cash | 281,690 |
| Cash at beginning of year | 15,725,009 |
| Cash at end of year | $ 11,588,128 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| Operating income (loss) | $ (64,122) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 1,841,842 |
| Changes in assets and liabilities: | |
| Increase in accounts receivable | (101,817) |
| Increase in due from other governments | (83,301) |
| Increase in prepaid expenses | (15,798) |
| Decrease in inventories | 55,729 |
| Decrease in accounts payable | (33,059) |
| Decrease in bond issuance costs | 151,952 |
| Decrease in amounts due other governments | (132,772) |
| Decrease in compensated absences | (106,251) |
| Increase in other liabilities | 89,619 |
| Net cash provided by operating activities | $ 1,602,022 |

**The accompanying notes are an integral part of this statement.**

HOUSING AUTHORITY OF THE CITY OF RENO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

## Note 1 - DEFINITION OF REPORTING ENTITY

The Housing Authority of the City of Reno, Nevada (the Authority) was established on August 8, 1940 by a resolution of the City of Reno City Council. The Authority is a public body corporate and politic pursuant to the laws of Chapter 315 of the State of Nevada. The Authority is governed by a five member Board of Commissioners. The City Council appoints the members of the Board of Commissioners to a maximum of two four year terms.

Although they are legally separate entities from the Authority the Washoe Affordable Housing Corporation and Transitional Housing Corporation are reported as if they were part of the Authority because their sole purpose is to work in conjunction with the Authority to assist with the provision of housing for low and moderate individuals and the members of the Board of Commissioners of the Authority act as members of the Board of Directors of these corporations. Therefore, the financial information of the Washoe Affordable Housing Corporation and the Transitional Housing Corporation are included in the accompany financial statements as blended component units of the Authority.

At June 30, 2007 the Authority was administering the following programs which consisted of 7,360 units of low and moderate income housing:

| | Number of Units |
|---|---|
| Conventional Low Rent Program: | |
| Mineral Manor | 143 |
| Tom Sawyer Village | 100 |
| Silverada Manor | 149 |
| Stead Manor | 67 |
| Hawk View Apartments | 99 |
| Essex Manor | 105 |
| Myra Birch Manor | 53 |
| John McGraw Court | 34 |
| | 750 |
| Section 8 Housing Assistance Payments Programs: | |
| Moderate Rehabilitation | 5 |
| Single Room Occupancy | 22 |
| New Construction | 224 |
| Vouchers | 2,492 |
| Special Allocations | 3,539 |
| | 6,330 |
| Other Rental Programs | |
| Business Activities | 280 |
| Total low and moderate income housing units being administered | 7,360 |

**Note 1 (continued)**

In addition to the low and moderate income housing units the Authority also administered the following programs:

Capital fund Program
Resident Opportunity and supportive Services Program

## Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 requires that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Assets and Statement of Activities display information about the primary government (the Authority). These statements include the financial activities of the overall Authority. These statements distinguish between the *governmental and business-type activities* of the Authority. Business-type activities are financed in whole or in part by fees charged to external parties. There were no governmental type activities for the Authority for fiscal year 2007.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Authority and for each function of the Authority's governmental activities (if such activities were to exist). Direct expenses are those that are specifically associated with a program or function and, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to the operations of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. There are no governmental fund types for this Authority.

**Note 2 (continued)**

**B. Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when related cash flows take place.

Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Proprietary Fund Types**

Proprietary funds use the economic resources measurement focus. The accounting objectives are a determination of net income, financial position and cash flows. All assets and liabilities associated with a proprietary fund□s activities are included on its balance sheet. Proprietary fund net assets are segregated into investments in capital assets, net of related debt; restricted and unrestricted.

**C. 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 include all land and site improvements thereon; all dwelling and nondwelling structures, including fixtures permanently attached thereto or installed in a fixed position; and all items of nonexpendable equipment acquired and held for the projects. It also includes items of expendable equipment paid for from funds provided for the development of the projects.

Maintenance, minor repairs and replacements are recorded as expenses; extraordinary replacements of property resulting in property betterments are charged to the property accounts.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of the related asset. The estimated useful lives of the various asset categories are as follows:

| | |
|---|---|
| Buildings and improvements | 15-30 years |
| Equipment and vehicles | 5-7 years |

**Note 2 (continued)**

**D. Receivables**

All receivables are reported at their gross value. Tenants' accounts receivable which will be reduced by an allowance for doubtful accounts if such an amount is considered applicable.

**E. Income Taxes**

The Authority is exempt from Federal Income and State taxes.

**F. Encumbrances**

Encumbrance accounting is not employed by the Authority.

**G. Inventories**

Inventory is valued at the lower of cost or market on a first-in, first-out basis (FIFO). Inventory consists of expendable maintenance supplies held for consumption. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories on hand at the fiscal year end are reported as assets.

**H. Employee Leave Benefits**

Regular full-time employees earn from 13 to 26 vacation days per year, depending upon their length of employment. Each employee also earns 13 sick leave days per year. Unused annual leave may be accumulated not to exceed two years of earned vacation time. Unused sick leave will be allowed to accumulate and up to a maximum of 400 hours of sick leave is paid to the employee at one-half the employee's pay rate upon his termination from the Authority.

**I. 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 3 - CASH AND INVESTMENTS

### A. Policies

Nevada law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under Nevada Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the authority ahead of general creditors of the institution.

The Authority and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the Authority employs the Trust Department of a bank as the custodian of certain managed investments, regardless of their form.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of those adjustments in income for that fiscal year.

Cash and cash equivalents are considered to be liquid assets for purposes of measuring cash flows.

### B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agency agreements. Cash and investments as of June 30, 2007 are as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 6,579,900 |
| Investments with trustees | | 9,145,109 |
| Total cash and investments | $ | 15,725,009 |

**Note 3 (continued)**

The $15,725,009 of cash and cash equivalents reflect $6,580,800 maintained on deposit in banks, $1,100 of petty cash, $99,943 in certificates of deposit, $778,584 in money market mutual funds, $1,051,350 in U.S. government securities, and $7,213,232 in Federal Home Loan discount notes and Freddie Mac discount notes. Of the amounts deposited into banks and certificates of deposit, $280,763 is covered by federal deposit insurance. The remaining $6,302,037 as previously stated is required by Nevada law to be collateralized by governmental securities with a market value of 110% of the deposit or with first trust deed mortgages with a value of 150% of the uninsured amount.

The $9,145,109 of investments with trustees reflects amounts held by trust departments of various Authority lending agencies. These investments are carried at fair value.

Cash and cash equivalents are considered to be liquid assets for purposes of measuring cash flows.

## C. Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. In General the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

| Investment Type | 12 Months or Less | One to Five Years | More Than Five Years | Total |
|---|---|---|---|---|
| Certificates of Deposit | $ 99,943 | $ - | $ - | $ 99,943 |
| Discount Notes | 7,213,232 | - | - | 7,213,232 |
| U.S. government securities | 1,051,350 | - | - | 1,051,350 |
| Mutual funds | 778,584 | - | - | 778,584 |
| Total | $ 9,143,109 | $ - | $ - | $ 9,143,109 |

## D. 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. Presented below is the actual rating as of June 30, 2007 for each Authority investment type as provided by Standard and Poor's. The following is a categorization of credit risk of the security investments.

**Note 3 (continued)**

The deposits and investments are classified by investment risk as prescribed by generally accepted accounting principles as follows:

Category 1 – Deposits which are insured by Deposit Insurance
Category 2 – Deposits which are collateralized
Category 3 – Deposits which are uninsured or uncollateralized

Investments are carried at fair value and are categorized as follows at June 30, 2007:

| | Category 1 | Category 2 | Total |
|---|---|---|---|
| Certificates of deposit | $ - | $ 99,943 | $ 99,943 |
| Money market mutual funds | - | 778,584 | 778,584 |
| U.S. Government Securities | - | 1,051,350 | 1,051,350 |
| Discount Notes | - | 7,213,232 | 7,213,232 |
| Total Investments | $ - | $ 9,143,109 | $ 9,143,109 |

**E. Cash Deposits**

| | Carrying Amounts | Bank Balance Before Reconciling Items | Reconciling Items | Bank Balance After Reconciling Items |
|---|---|---|---|---|
| Cash in bank | $ 6,580,800 | $ 6,528,597 | $ 52,203 | $ 6,580,800 |

## Note 4 - INVESTMENTS IN PARTNERSHIPS

Investments in partnerships at June 30, 2007 consist of the following:

| | | |
|---|---|---|
| Joint Venture – Silver Sage Court | $ | 20,056 |
| Yorkshire Terrace Limited Partnership | | 70,204 |
| | $ | 90,260 |

The Authority entered into a joint venture agreement with Silver Sage Corporation to construct sixteen unit affordable housing complex for the elderly. Each of the units is one bedroom. The joint venture agreement provided for the Authority to construct and administer the complex. The units were constructed on land previously owned by the Authority. As of June 30, 2007 the Authority's investment is $20,056. The joint venture is accounted for on the equity basis of accounting. The authority's share of the decrease in equity for the 2007 fiscal year was $2,898.

The Authority also entered into a limited partnership agreement with Yorkshire Terrace Limited Partnership. This partnership agreement was entered into for the purpose of constructing and administering a thirty unit complex of three and four bedroom units. To assist with the construction costs the partnership received tax credits from the State of Nevada. The Authority acts as the general partner in the partnership and holds a one percent interest in the partnership. In order to construct the units the Authority contributed 5.21 acres of land for its one percent interest. The land was originally obtained by the Authority from the City of Reno. The partnership is accounted for on the equity basis of accounting. The Authority's share of partnership losses for the fiscal year 2007 was $470.

## Note 5 - CAPITAL ASSETS

The following is a summary of the Authority's changes in capital assets for the fiscal year ended June 30, 2007:

| | Balance 7/1/06 | Additions | Deletions | Balance 6/30/07 |
|---|---|---|---|---|
| Land | $ 3,981,239 | $ 365,654 | $ - | $ 4,346,893 |
| Buildings & Improvements | 47,469,380 | 605,827 | (4,900) | 48,070,307 |
| Equipment | 519,544 | - | - | 519,544 |
| | $ 51,970,163 | $ 971,481 | $ (4,900) | 52,936,744 |
| Less accumulated Depreciation | | | | (31,214,482) |
| Capital assets, net | | | | $ 21,722,262 |

## Note 6 - LONG-TERM DEBT

Following is a summary changes in long-term debt for the year ended June 30, 2007:

| | Balance 7/1/06 | Additions | Deletions | Balance 6/30/07 |
|---|---|---|---|---|
| Revenue Refunding Bonds | $ 5,465,000 | $ 4,509,000 | $(5,606,000) | $ 4,368,000 |
| Notes payable: | | | | |
| Heath Family Trust | 820,933 | - | (49,070) | 771,863 |
| HOME Consortium | 233,370 | - | (10,703) | 222,667 |
| Nevada State Bank | 224,824 | - | (224,824) | - |
| Wells Fargo Bank | 73,519 | - | (73,519) | - |
| Wells Fargo Bank | 74,835 | - | (74,835) | - |
| Compensated Absences (Note 7) | 401,265 | - | (190,565) | 210,700 |
| | $ 7,293,746 | $ 4,509,000 | $(6,229,516) | $ 5,573,230 |

Refunding bonds debt service requirements to maturity are as follows:

| Year Ending June 30 | Principal | Interest | Total Required Payments |
|---|---|---|---|
| 2008 | $ - | $ 170,107 | $ 170,107 |
| 2009 | 148,000 | 212,553 | 360,553 |
| 2010 | 155,000 | 205,054 | 360,054 |
| 2011 | 161,000 | 197,233 | 358,233 |
| 2012 | 167,000 | 189,115 | 356,115 |
| 2013-2017 | 945,500 | 812,159 | 1,757,659 |
| 2018-2022 | 1,209,500 | 547,213 | 1,756,713 |
| 2023-2027 | 1,582,000 | 240,926 | 1,822,926 |
| | $ 4,368,000 | $ 2,574,360 | $ 6,942,360 |

Notes payable debt service requirements to maturity are as follows:

| Year Ending June 30 | Principal | Interest | Total Required Payments |
|---|---|---|---|
| 2008 | $ 62,010 | $ 37,827 | $ 99,837 |
| 2009 | 64,501 | 35,336 | 99,837 |
| 2010 | 67,095 | 32,742 | 99,837 |
| 2011 | 69,793 | 30,044 | 99,837 |
| 2012 | 72,602 | 27,235 | 99,837 |
| 2013-2017 | 409,315 | 89,872 | 499,187 |
| 2018-2022 | 228,939 | 23,611 | 252,550 |
| 2023-2027 | 20,275 | - | 20,275 |
| | $ 994,530 | $ 276,667 | $ 1,271,197 |

HOUSING AUTHORITY OF THE CITY OF RENO
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(Continued)

**Note 6 (continued)**

The following is a summary of outstanding refunding bonds and revenue notes:

| | Amount Issued | Amount Outstanding |
|---|---|---|
| Revenue Bonds – 2007 Series, Refunding of Ala Moana Apartments revenue bonds | $ 4,509,000 | $ 4,368,000 |
| Total Revenue Bonds outstanding at June 30, 2007 | | 4,368,000 |
| Notes Payable: | | |
| Heath Family Trust for purchase of the Sarrazin Arms Apartments. Note matures 2019. Interest rate on the note is 4.15% | $ 1,350,000 | 771,863 |
| City of Reno Note for the purchase of the Sarrazin Arms Apartments. Note matures 2022. Interest rate on the note is 3.00% | $ 300,000 | 222,667 |
| Total Notes Payable outstanding At June 30, 2007 | | 994,530 |
| Total Bonds and Notes Payable at June 30, 2007 | | $ 5,362,530 |

## Note 7 - COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation leave up to a maximum of two years of earned vacation 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 and has been recorded at $355,416 as of June 30, 2007.

It is the Authority's policy to permit employees to accumulate earned but unused sick leave. Unused sick leave is payable up to a maximum of 400 hours at one-half the employees payroll rate upon separation from the Authority.

## Note 8 - EMPLOYEES RETIREMENT PLAN

The Housing Authority of the City of Reno's (the Authority) defined benefit pension plan, the Public Employees Retirement System of Nevada (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority is part of the Public Agency portion of PERS, an agent multi-employer plan administered by PERS, which acts as a common investment and administrative agent for participating public employers within the State of Nevada. A menu of benefit provisions as well as other requirements is established by state Statutes within the Public Employees' Retirement Law. The authority selects optional benefits provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance (other local methods). PERS issues a separate comprehensive annual financial report. Copies of the PERS annual financial report may be obtained from the PERS Executive Office located at:

Public Employees Retirement System of Nevada
693 West Nye Lane
Carson City, NV 89703

Funding Policy:
The Authority is required to contribute 20.25% of covered employees' annual salary. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension cost:
For the fiscal year 2006/2007 the Authority's annual pension cost was $478,067. The required contribution for fiscal year 2006/2007 was determined as part of an annual actuarial valuation using entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) an 8.0% of annual return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 4.5% to 14.75% for members and (c) 2.0% to 5.0% cost of living adjustment (for plans with a 5.0% COLA, the actuarial assumption is 3.5%, i.e., the smaller of the CPI increase and the assumed inflation assumption). Both (a) and (b) include an inflation factor component of 2.0% to 5.0%. The actuarial value of PERS's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period. PERS's unfunded accrued liability is amortized using a year-by-year closed amortization period where each amortization period is set at 30 years.

**Three-Year Trend Information**

| Fiscal Year Ending | Annual Pension Cost APC | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| June 30, 2004 | $ 485,531 | 100% | 0 |
| June 30, 2005 | 485,656 | 100% | 0 |
| June 30, 2006 | 478,067 | 100% | 0 |