

# **REPORT OF INDEPENDENT AUDITOR**

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## **Report of Independent Auditor**

The Members  
Housing Finance Authority of Polk County, Florida

### **Report on the Financial Statements**

I have audited the accompanying basic financial statements of the Housing Finance Authority of Polk County, Florida ("Authority"), a component unit of Polk County, Florida, as of and for the years ended September 30, 2014 and 2013, and the related notes to the basic financial statements, which comprise the Authority'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 misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these basic financial statements based on my audits. I conducted my audits 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 I plan and perform the audits 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 statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Housing Finance Authority of Polk County, Florida as of September 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with 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 4 through 11 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Reports on Other Legal and Regulatory Requirements**

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 5, 2014 on my consideration of the Housing Finance Authority of Polk County, Florida's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

opinion on 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 the Housing Finance Authority of Polk County, Florida's internal control over financial reporting and compliance.

***Other Reporting Required by the Rules of the Auditor General of the State of Florida***

In accordance with Chapter 10.550 of the Rules of the Auditor General of the State of Florida, I have also issued my report dated November 5, 2014 on my examination of the Housing Finance Authority of Polk County, Florida's compliance with the requirements of Section 218.415, Florida Statutes. The purpose of that report is to describe the scope of my examining evidence about the Housing Finance Authority of Polk County, Florida's compliance with those requirements and to express my opinion on such compliance. My examination does not provide a legal determination on the Housing Finance Authority of Polk County, Florida's compliance with the requirements of Section 218.415, Florida Statutes. That report is an integral part of an examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants to consider the Housing Finance Authority of Polk County, Florida's compliance with the requirements of Section 218.415, Florida Statutes.

*Calvin C. Johnson*

November 5, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited)**

**September 30, 2014 and 2013**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Housing Finance Authority of Polk County, Florida's ("Authority") general purpose external financial statements presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2014. Please read it in conjunction with the basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

The Authority's mission is to alleviate the shortage of affordable residential housing facilities for low, moderate, and middle income families in Polk County, Florida. In pursuit of its mission, the Authority borrows money through the issuance of bonds, notes, or other obligations to finance single family residential housing and multi-family housing developments. The Authority also provides loans and grants for the acquisition, construction, renovation, and operation of residential housing facilities.

In connection with its past single family mortgage revenue bond programs, the Authority has made cash contributions and forgiven loans. At times, the Authority has made loans and grants to accomplish its public purpose. The grants may substantially impact the Authority's expenses in a single fiscal year and cause significant variation from year to year, and the loans will reduce current assets and increase noncurrent assets.

- The Authority's net position decreased by approximately \$13 thousand or .4 percent in Fiscal 2014.
- As compared with Fiscal 2013, in Fiscal 2014 the Authority's revenues increased from \$70 thousand to \$73 thousand, an increase of \$3 thousand or 4.3 percent. The increase was primarily due to an increase in authority fees and other income. Expenses decreased from \$147 thousand to \$86 thousand, a decrease of \$61 thousand or 41.5 percent. The net decrease was primarily attributable to a decrease in grants of \$42 thousand. Other factors included a decrease in legal fees of \$6 thousand, an increase in financial advisor fees of \$2 thousand, and a decrease in provision for loan losses of \$15 thousand.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**FINANCIAL HIGHLIGHTS (continued)**

- In October 2013, the Authority and Habitat for Humanity of East Polk County, Inc. ("Habitat") entered into a recipient agreement. Pursuant to the provisions of the Habitat recipient agreement, the Authority provided \$120,000 that was intended to be used by Habitat for making mortgage loans (i.e., not to exceed \$20,000, plus previous unused amounts, per loan and each loan is owned by the Authority) to low and moderate income families. Under the terms of the Habitat recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$30,000) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences. Also under the terms of the Habitat recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000) to assist in the payment of certain Habitat personnel costs.
  
- In April 2014, the Authority's Collateralized Multi-Family Housing Revenue Bonds, Series 2013 (\$4,000,000) matured in their entirety. The bond proceeds previously provided moneys to assist in the funding of the Cypress Cathedral Apartments Project, a multi-family residential rental housing project located in Polk County, Florida for persons of low and moderate income.
  
- In November 2014, the Authority entered into a recipient agreement with Habitat for Humanity of East Polk County, Inc. ("Habitat"). Pursuant to the provisions of the recipient agreement, the Authority has agreed to provide \$60,000 that is intended to be used by Habitat for making mortgage loans (i.e., not to exceed \$20,000, plus previous unused amounts, per loan and each loan to be owned by the Authority) to low and moderate income families. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$15,000) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences. Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000) to assist in the payment of certain Habitat personnel costs.

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**THE AUTHORITY**

The Authority was created as a public body corporate and politic in accordance with the Florida Housing Finance Authority Law, Part IV of Chapter 159, Florida Statutes, as amended, and Ordinance No. 78-20 enacted by the Board of County Commissioners of Polk County, Florida on November 21, 1978, (the "Act"). The Authority is a component unit of Polk County, Florida ("County"). The Authority has no component units.

The Authority is authorized, in furtherance of the public purposes described in the Act, to alleviate the shortage of affordable residential housing facilities and to provide capital for investment in such facilities for low, moderate, and middle income families by issuing its revenue bonds. The Authority issues bonds for single family programs that provide funds to eligible borrowers to finance the purchase of qualifying single family residences. The Authority also issues bonds for the development of qualifying multi-family housing projects.

Bonds and other related debt obligations issued by the Authority do not and shall never constitute an indebtedness, liability, general or moral obligation, or a pledge of the faith or loan of credit of the Authority or of the County. Accordingly, such obligations are not included within the Authority's basic financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The general purpose external financial statements consist of two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Basic Financial Statements also include notes that explain in more detail some of the information in the Basic Financial Statements.

The Authority's Basic Financial Statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. The Authority accounts for its financial activities through the use of an enterprise fund. See the notes to the Basic Financial Statements for a summary of the Authority's significant accounting policies.

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**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**BASIC FINANCIAL STATEMENTS**

The Basic 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-term and long-term financial information about its activities. The Statement of Net Position 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 for computing various financial ratios, 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 Position. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and creditworthiness and whether the Authority has successfully recovered all of its expenses through fees and other income. The final basic financial statement is the Statement of Cash Flows. The 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 operating, financing, and investing 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.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's revenues and expenses and the resulting change in net position. Over time, increases or decreases in the Authority's net position are an indicator of the Authority's financial health. When evaluating changes in the Authority's financial health, other nonfinancial factors should also be considered. These include factors such as changes in economic conditions, new or changed government legislation and regulations, and the fulfillment of the Authority's public purpose.

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**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**NET POSITION**

A summary of the Authority's Statements of Net Position is presented in Table A. The Authority has no capital assets and its long-term debt obligations (i.e., revenue bonds) are not general obligations of the Authority. Accordingly, such obligations are not included within the Authority's Basic Financial Statements (see Notes 1 and 6 to the Basic Financial Statements).

**TABLE A**  
**Condensed Statements of Net Position**  
**(In thousands of dollars)**

|                           | FY 2014                | FY 2013                | Dollar<br>Change      | Total<br>Percent<br>Change |
|---------------------------|------------------------|------------------------|-----------------------|----------------------------|
| Current assets            | \$ 1,204               | \$ 1,232               | \$ (28)               | (2.3) %                    |
| Noncurrent assets         | <u>1,844</u>           | <u>1,821</u>           | <u>23</u>             | 1.3 %                      |
| <b>Total assets</b>       | <b><u>3,048</u></b>    | <b><u>3,053</u></b>    | <b><u>(5)</u></b>     | <b>(.2) %</b>              |
| Current liabilities       | <u>12</u>              | <u>4</u>               | <u>8</u>              | 200.0 %                    |
| <b>Total liabilities</b>  | <b><u>12</u></b>       | <b><u>4</u></b>        | <b><u>8</u></b>       | <b>200.0 %</b>             |
| Restricted for mtg. loans | ---                    | ---                    | ---                   |                            |
| Unrestricted net position | <u>3,036</u>           | <u>3,049</u>           | <u>(13)</u>           | (.4) %                     |
| <b>Total net position</b> | <b><u>\$ 3,036</u></b> | <b><u>\$ 3,049</u></b> | <b><u>\$ (13)</u></b> | <b>(.4) %</b>              |

During the fiscal year ended September 30, 2014, total assets decreased \$5 thousand. Current assets decreased \$28 thousand. The net decrease in current assets was attributable to a \$74 thousand decrease in cash and cash equivalents, a \$5 thousand increase in investments, a \$16 thousand increase in Authority fees receivable, and a \$25 thousand increase in loans receivable. Noncurrent assets (i.e., loans receivable, net) increased \$23 thousand.

During Fiscal 2014, total liabilities increased \$8 thousand. The net increase in total liabilities related to an increase of \$8 thousand in accrued expenses and other liabilities.

The \$13 thousand decrease in net position was due to negative operational results that totaled approximately \$(19) thousand and positive non-operating revenue activity that totaled approximately \$6 thousand.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position is presented in Table B.

**TABLE B**  
**Condensed Statements of Revenues,**  
**Expenses, and Changes in Net Position**  
**(In thousands of dollars)**

|                                    | FY 2014                | FY 2013                | Dollar<br>Change      | Total<br>Percent<br>Change |
|------------------------------------|------------------------|------------------------|-----------------------|----------------------------|
| Operating revenues                 | \$ 67                  | \$ 65                  | \$ 2                  | 3.1 %                      |
| Nonoperating revenue               | 6                      | 5                      | 1                     | 20.0 %                     |
| <b>Total revenues</b>              | <u>73</u>              | <u>70</u>              | <u>3</u>              | <u>4.3 %</u>               |
| Operating expenses                 | <u>86</u>              | <u>147</u>             | <u>(61)</u>           | <u>(41.5) %</u>            |
| <b>Change in net position</b>      | <b>(13)</b>            | <b>(77)</b>            | <b>64</b>             | <b>83.1 %</b>              |
| Net position at begin. of year     | <u>3,049</u>           | <u>3,126</u>           | <u>(77)</u>           | <u>(2.5) %</u>             |
| <b>Net position at end of year</b> | <u><b>\$ 3,036</b></u> | <u><b>\$ 3,049</b></u> | <u><b>\$ (13)</b></u> | <u><b>(.4) %</b></u>       |

The Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and source of the changes in net position.

During Fiscal 2014, net position decreased by \$13 thousand, as compared with a decrease of \$77 thousand in Fiscal 2013. The decrease in Fiscal 2014 was primarily due to \$65 thousand in grant expense. The decrease in Fiscal 2013 was primarily due to \$107 thousand in grant expense.

As compared with Fiscal 2013, in Fiscal 2014 revenues increased from \$70 thousand to \$73 thousand, an increase of \$3 thousand or 4.3 percent. The increase was primarily due to an increase in authority fees and other income.

As compared with Fiscal 2013, in Fiscal 2014 expenses decreased from \$147 thousand to \$86 thousand, a decrease of \$61 thousand or 41.5 percent. The net decrease was primarily attributable to a decrease in grants of \$42 thousand. Other factors included a decrease in

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)**

legal fees of \$6 thousand, an increase in financial advisor fees of \$2 thousand, and a decrease in the provision for loan losses of \$15 thousand.

**CASH FLOWS**

A summary of the Authority's Statements of Cash Flows is presented in Table C. It presents the major sources and uses of cash and cash equivalents for the past two years. For purposes of the Statements of Cash Flows, the Authority considers all currency, demand deposits, passbook savings, and money market funds with banks or other financial institutions to be cash and cash equivalents.

**TABLE C**  
**Condensed Statements of Cash Flows**  
**(In thousands of dollars)**

|   | FY 2014              | FY 2013              | Dollar<br>Change      | Total<br>Percent<br>Change |
|---|----------------------|----------------------|-----------------------|----------------------------|
| Net cash provided by (used for)<br>operating activities         | \$ (74)              | \$ (93)              | \$ 19                 | 20.4 %                     |
| Net cash provided by (used for)<br>investment activities        | ---                  | ---                  | ---                   | ---                        |
| <b>Net increase (decrease) in cash<br/>and cash equivalents</b> | <b>(74)</b>          | <b>(93)</b>          | <b>19</b>             | <b>20.4 %</b>              |
| Cash and cash equivalents at<br>beginning of year               | <u>276</u>           | <u>369</u>           | <u>(93)</u>           | (25.2) %                   |
| <b>Cash and cash equivalents at<br/>end of year</b>             | <u><b>\$ 202</b></u> | <u><b>\$ 276</b></u> | <u><b>\$ (74)</b></u> | <b>(26.8) %</b>            |

Cash and cash equivalents decreased \$74 thousand, during the year ended September 30, 2014. The decrease in cash and cash equivalents was the result of \$74 thousand being used for operating activities and \$0 thousand being provided by investment activities.

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**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Management's Discussion and Analysis (Unaudited) (continued)**

**BOND PROGRAMS**

The Authority has issued bonds to finance single family residential housing and qualified multi-family housing developments. The financial assistance was provided to stimulate the acquisition and construction of residential housing for low, moderate, and middle income individuals and families. The Authority's bonds are secured as described in each of the respective trust indentures. In no case is the Authority, Polk County, the State of Florida, or any political subdivision thereof obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the Basic Financial Statements. As of September 30, 2014 and 2013, no single family bonds were outstanding.

Through interlocal agreements, the Authority joins other local housing finance authorities in the issuance of their single family bonds. This allows the citizens of Polk County the opportunity to participate in those single family bond programs.

Significant portions of the Authority's operating revenues are derived from fees and income generated by the multi-family bond programs issued by the Authority.

As of September 30, 2014, the Authority had issued and outstanding the following bonds pursuant to its authorization:

|  | Issue Amount | Outstanding Amount   |
|--|--------------|----------------------|
| <b>Multi-Family Housing Revenue Bonds:</b> |              |                      |
| Series 2001 (Cambridge Cove Apartments)    | \$ 9,000,000 | \$ 7,600,000         |
| Series 2002 A&B (Wilmington Apartments)    | 10,800,000   | 8,980,000            |
| Series 2009 (Lakewood Terrace Apartments)  | 6,480,000    | <u>6,250,000</u>     |
| Total                                      |              | <u>\$ 22,830,000</u> |

**CONTACTING THE AUTHORITY'S CHAIRMAN**

This financial report is designed to provide our citizens and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Housing Finance Authority of Polk County, Florida's Chairman, P.O. Drawer 7608, Winter Haven, Florida 33883-7608.

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**BASIC FINANCIAL STATEMENTS**  
**(AUDITED)**

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Statements of Net Position**

|  | <b>September 30</b> |              |
|--|---------------------|--------------|
|  | <b>2014</b>         | <b>2013</b>  |
| <b>Assets</b>                          |                     |              |
| Current assets:                        |                     |              |
| Cash and cash equivalents              | \$ 202,475          | \$ 275,977   |
| Investments                            | 864,708             | 859,413      |
| Authority fees receivable              | 34,713              | 19,335       |
| Interest and other receivables         | 126                 | 169          |
| Loans receivable                       | 102,102             | 76,815       |
| Total current assets                   | 1,204,124           | 1,231,709    |
| Noncurrent assets:                     |                     |              |
| Investments                            | ---                 | ---          |
| Loans receivable, net                  | 1,844,083           | 1,821,624    |
| Total noncurrent assets                | 1,844,083           | 1,821,624    |
| Total assets                           | 3,048,207           | 3,053,333    |
| <b>Liabilities</b>                     |                     |              |
| Current liabilities:                   |                     |              |
| Accrued expenses and other liabilities | 12,535              | 3,800        |
| Developer deposit                      | ---                 | ---          |
| Total liabilities                      | 12,535              | 3,800        |
| <b>Net Position</b>                    |                     |              |
| Restricted for mortgage loans          | ---                 | ---          |
| Unrestricted net position              | 3,035,672           | 3,049,533    |
| Total net position                     | \$ 3,035,672        | \$ 3,049,533 |

*Read the accompanying footnotes.*

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Statements of Revenues, Expenses,  
and Changes in Net Position**

|   | Year ended September 30 |              |
|---|-------------------------|--------------|
|   | 2014                    | 2013         |
| <b>Operating Revenues</b>                 |                         |              |
| Authority fees and other income           | \$ 67,027               | \$ 64,960    |
| Total operating revenues                  | 67,027                  | 64,960       |
| <b>Operating Expenses</b>                 |                         |              |
| Professional fees:                        |                         |              |
| Accounting and auditing                   | 8,900                   | 8,950        |
| General counsel                           | 3,770                   | 9,789        |
| Bond counsel                              | ---                     | ---          |
| Financial advisor                         | 6,242                   | 4,455        |
| Banking fees, dues, and other expenses    | 733                     | 721          |
| Grants                                    | 65,000                  | 107,000      |
| Special district and bond allocation fees | 175                     | 175          |
| Provision for loan losses                 | 1,392                   | 15,842       |
| Total operating expenses                  | 86,212                  | 146,932      |
| Operating income (loss)                   | (19,185)                | (81,972)     |
| <b>Nonoperating Revenue</b>               |                         |              |
| Investment interest income                | 5,324                   | 5,244        |
| Change in net position                    | (13,861)                | (76,728)     |
| Net position at beginning of year         | 3,049,533               | 3,126,261    |
| Net position at end of year               | \$ 3,035,672            | \$ 3,049,533 |

*Read the accompanying footnotes.*

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Statements of Cash Flows**

|  | Year ended September 30 |             |
|--|-------------------------|-------------|
|  | 2014                    | 2013        |
| <b>Operating Activities</b>                          |                         |             |
| Collection of authority fees and other income        | \$ 51,650               | \$ 59,381   |
| Payment of operating expenses                        | (11,086)                | (23,115)    |
| Payments to grantees                                 | (65,000)                | (107,000)   |
| Advances of loan principal                           | (120,000)               | (120,000)   |
| Collection of loan principal                         | 70,862                  | 93,521      |
| Moneys returned by Keystone                          | ---                     | 7,000       |
| Moneys deposited with Keystone                       | ---                     | ---         |
| Repayment of developer deposit                       | ---                     | (3,000)     |
| Receipt of developer deposit                         | ---                     | ---         |
| Net cash provided by (used for)                      |                         |             |
| operating activities                                 | (73,574)                | (93,213)    |
| <b>Investing Activities</b>                          |                         |             |
| Proceeds from sales of investments                   | 862,050                 | 1,269,471   |
| Receipt of investment interest                       | 5,367                   | 5,174       |
| Purchase of investments                              | (867,345)               | (1,274,535) |
| Net cash provided by (used for)                      |                         |             |
| investing activities                                 | 72                      | 110         |
| Net increase (decrease) in cash and cash equivalents | (73,502)                | (93,103)    |
| Cash and cash equivalents at beginning of year       | 275,977                 | 369,080     |
| Cash and cash equivalents at end of year             | \$ 202,475              | \$ 275,977  |

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Statements of Cash Flows (continued)**

|  | Year ended September 30 |             |
|--|-------------------------|-------------|
|  | 2014                    | 2013        |
| <b>Reconciliation of operating income (loss)</b>     |                         |             |
| <b>to net cash provided by (used for)</b>            |                         |             |
| <b>operating activities:</b>                         |                         |             |
| Operating income (loss)                              | \$ (19,185)             | \$ (81,972) |
| <br>Adjustments to reconcile operating income (loss) |                         |             |
| to net cash provided by (used for) operating         |                         |             |
| activities:  |                         |             |
| Provision for loan losses                            | 1,392                   | 15,842      |
| Changes in assets and liabilities:                   |                         |             |
| Authority fees receivable                            | (15,378)                | (5,579)     |
| Interest and other receivables                       | ---                     | 7,900       |
| Loans receivable                                     | (49,138)                | (26,479)    |
| Accrued expenses and other liabilities               | 8,735                   | 75          |
| Developer deposit                                    | ---                     | (3,000)     |
| Net cash provided by (used for)                      |                         |             |
| operating activities                                 | \$ (73,574)             | \$ (93,213) |

*Read the accompanying footnotes.*

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements**

**September 30, 2014 and 2013**

**1. Significant Accounting Policies**

The accounting principles and policies of the Authority conform to accounting principles generally accepted in the United States of America ("GAAP"), as applicable to governmental entities. The following is a summary of the significant accounting principles and policies used in the preparation of the accompanying financial statements.

**Reporting Entity**

The Housing Finance Authority of Polk County, Florida ("Authority") was created as a public body corporate and politic in accordance with the Florida Housing Finance Authority Law, Part IV of Chapter 159, Florida Statutes, as amended, and Ordinance No. 78-20 (the "Ordinance") enacted by the Board of County Commissioners of Polk County, Florida on November 21, 1978, (the "Act"). The Authority is authorized, in furtherance of the public purposes described in the Act, to alleviate the shortage of affordable residential housing facilities and to provide capital for investment in such facilities for low, moderate, and middle income families by issuing its revenue bonds. The Authority issues bonds for single family programs that provide funds to eligible borrowers to finance the purchase of qualifying single family residences. The Authority also issues bonds for the development of qualifying multi-family housing projects.

Financial oversight and accountability to the citizens of Polk County is provided by the Board of County Commissioners ("Board"). The Board appoints the Housing Finance Authority members, who serve four year terms. Members may be reappointed. Prior to issuance by the Authority, the Board approves bond financings, when required by either the Ordinance or federal tax law. Pursuant to Florida Statutes, the Board may alter or change the structure, organization, programs, or activities of the Authority; terminate the Authority; remove members of the Authority; and, review the budget of the Authority.

The accompanying financial statements present the financial position, changes in financial position, and cash flows of the operating fund, which includes all of the funds controlled by the Authority. For financial reporting purposes, the Authority is considered a component unit of Polk County, Florida due to the oversight responsibility exercised by the Board and because the public service provided by the Authority is primarily for the benefit of Polk County residents. The Authority has no component units.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**1. Significant Accounting Policies (continued)**

**Reporting Entity (continued)**

Bonds and certain other obligations issued by the Authority are payable, both as to principal and interest, solely from the assets of the various programs that are pledged under the resolutions authorizing the particular issues. These issues do not constitute an obligation, either general or moral, of the Authority, Polk County, the State of Florida, or of any local government therein. Neither the full-faith, credit, revenues, nor the taxing power of the Authority, Polk County, the State of Florida, or any local government therein is pledged to the payment of the principal or interest on the obligations. Accordingly, such obligations are not included within the accompanying financial statements. The Authority has no taxing power.

The Authority and other local housing finance authorities and/or counties have entered into interlocal agreements with the objective of alleviating the shortage of housing in their respective jurisdictions. The agreements provide for the Authority, other local housing finance authorities, or other counties to either (1) issue single family bonds to provide funds to make loans to qualified persons or families of low, moderate, or middle income to finance the purchase of qualified owner-occupied single family residences or (2) issue multi-family bonds to provide funds to make loans to qualified entities to finance the acquisition, construction, and/or rehabilitation of qualified multi-family housing projects.

**Basis of Presentation**

The Authority accounts for its operating fund activities through the use of an enterprise fund. An enterprise fund is used to account for activities similar to those found in the private sector, where the determination of a change in financial position is necessary or useful for sound financial administration.

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**1. Significant Accounting Policies (continued)**

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Authority considers all currency, demand deposits, passbook savings, and money market funds with banks or other financial institutions to be cash and cash equivalents.

**Investments**

Investments are carried at cost, which approximates fair value.

**Loans Receivable**

Loans receivable are carried at original cost, less principal collections. Loans receivable, which are deemed by management to be uncollectable, are written-off in the period in which the determination is made.

**Allowance for Loan Losses**

Additions to the allowance for loan losses are made by provisions charged to current operations. The determination of the allowance is based on an evaluation of the loan portfolio, current economic conditions, and other factors relevant to a determination of the collectibility of the loans and reflects an amount that, in management's judgment, is adequate to provide for potential losses.

**Revenues and Expenses**

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of bond program authority fees, multi-family bond program application fees, and bond program residuals. Nonoperating revenue consists of revenue that is related to investing activity.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**1. Significant Accounting Policies (continued)**

**Developer Deposits**

The Authority's Application Procedures and Program Guidelines requires a deposit from developers seeking new bond financing or bond refunding for multi-family developments. To the extent necessary, the deposited moneys are subsequently utilized to pay the professional fees incurred to structure and close the bond financing. Unused moneys are returned to the developer.

**Net Position**

Net position is comprised of the accumulated net earnings (losses) from revenues and expenses.

The restricted net position classification is used to indicate a segregation of a portion of net position equal to the value of assets the uses of which are restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Unrestricted net position relates to that portion of net position not restricted for the purposes described above.

Designations are used to indicate a segregation of a portion of unrestricted net position at the discretion of the Authority, which are to be used for a specific purpose and not for general operations. These amounts are included in unrestricted net position for financial reporting purposes.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**2. Cash and Cash Equivalents**

At September 30, 2014 and 2013, cash and cash equivalents consisted of the following:

|   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| CenterState Bank demand deposit account   | \$ 119,177  | \$ 192,720  |
| CenterState Bank passbook savings account | 83,298      | 83,257      |
|   | \$ 202,475  | \$ 275,977  |

The Authority manages custodial credit risk by only depositing moneys in qualified public depositories.

The bank demand deposit account, passbook savings account, and certificate of deposit (Note three) are covered by federal depository insurance up to a combined limit of \$250,000 per bank. The bank demand deposit account, passbook savings account, and certificate of deposit are also secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred.

**3. Investments**

At September 30, 2014 and 2013, investments consisted of the following:

|   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| CenterState Bank certificate of deposit         | \$ ---      | \$ ---      |
| Community Southern Bank certificates of deposit | 864,708     | 859,413     |
| Subtotal  | 864,708     | 859,413     |
| Less: Current portion                           | (864,708)   | (859,413)   |
| Long-term portion                               | \$ ---      | \$ ---      |

Florida Statutes authorize the Authority to invest in certain types of investments. It is the Authority's practice to comply with statutory requirements. It is the Authority's policy to invest in (a) the local government pooled fund administered by the Florida State Board of Administration or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.1, Florida Statutes, (b) Securities and

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**3. Investments (continued)**

Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency, (c) savings accounts in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes, (d) direct obligations of the U.S. Treasury, (e) certificate of deposits in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes, (f) Federal agencies and instrumentalities, (g) obligations of the Federal National Mortgage Association, (h) commercial paper with the highest credit quality rating from a nationally recognized rating agency, (i) time drafts and Bills of Exchange, commonly known as Bankers Acceptances, and (j) investments in repurchase agreements of any securities authorized by this policy. The securities listed in the foregoing sentence are to be invested to match investment maturities with known cash needs and anticipated cash-flow requirements. Investments made pursuant to the Authority's investment policy are to be diversified to the extent practical to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold.

The bank demand deposit account (Note 2), passbook savings account (Note 2), and certificates of deposit are covered by federal depository insurance up to a combined limit of \$250,000 per bank. The bank demand deposit account, passbook savings account, and certificates of deposit are also secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred.

On September 30, 2014, the Community Southern Bank certificates of deposit totaled \$208,327 and \$656,381, mature on December 21, 2014 and March 21, 2015, and bear interest at .75% and .45%, respectively.

Certain of the Authority's investments are subject to credit risk and interest rate risk considerations. Credit risk quality, identified with nationally recognized statistical rating organization ratings, and interest rate risk, as identified by weighted average maturities, are provided in the following table.

| <u>Fund/Investment</u>     | <u>Credit<br/>Quality Rating</u> | <u>Weighted Average<br/>Maturity (years)</u> | <u>2014<br/>Fair Value</u> |
|----------------------------|----------------------------------|--|----------------------------|
| Community Southern Bk. CDs | Unrated                          | less than one year                           | \$ 864,708                 |

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable**

At September 30, 2014 and 2013, the Authority owned loans receivable from the following parties:

|  | 2014         | 2013         |
|--|--------------|--------------|
| (a) Habitat 1997 Agreement   | \$ 87,930    | \$ 98,324    |
| (b) Habitat 2003 Agreement   | 44,636       | 47,978       |
| (c) Habitat 2004 Agreement   | 87,116       | 92,741       |
| (d) Habitat 2006 Agreement   | 78,277       | 82,777       |
| (e) Habitat 2007 Agreement   | 88,522       | 93,023       |
| (f) Habitat 2008 Agreement   | 75,411       | 79,161       |
| (g) Habitat 2009 Agreement   | 128,414      | 134,414      |
| (h) Habitat 2010 Agreement   | 170,873      | 178,373      |
| (i) Habitat 2011 Agreement   | 182,679      | 190,179      |
| (j) Habitat 2012 Agreement   | 115,166      | 119,750      |
| (k) Habitat 2013 Agreement   | 119,833      | —            |
| (l) Keystone 1993 Agreement  | 33,930       | 38,920       |
| (m) Keystone 1995 Agreement  | 37,200       | 43,200       |
| (n) Keystone 1999 Agreement  | 104,129      | 104,129      |
| (o) Keystone Homeless Housing Initiative Agreement                         | 57,000       | 57,000       |
| (p) Keystone 2008 Agreement  | 215,900      | 215,900      |
| (q) Housing Finance Authority of Pinellas County 2009 Interlocal Agreement | 511,000      | 518,000      |
| Subtotal   | 2,138,016    | 2,093,869    |
| Less: Current portion  | (102,102)    | (76,815)     |
| Less: Allowance for loan losses  | (191,831)    | (195,430)    |
| Long-term portion, net   | \$ 1,844,083 | \$ 1,821,624 |

- (a) On March 27, 1997, the Authority entered into a Recipient Agreement (1997 Agreement) with Habitat for Humanity of East Polk County, Inc. ("Habitat") to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible persons or families in the Habitat Program (Program). The Authority's funding totaled \$96,000. The 1997 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing and is payable in 240 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis. On January 14, 1998, May 10, 1999, May

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

17, 2000, and July 1, 2001 amendments to the 1997 Agreement were adopted authorizing the sums of \$42,000, \$120,000, \$30,000, and \$150,000, respectively, for additional Authority financing as provided by the original 1997 Agreement.

- (b) On July 1, 2003, the Authority entered into a second agreement (2003 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible persons or families in the Program. The Authority's funding totaled \$120,000. The 2003 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing and is payable in 240 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis.
- (c) On July 1, 2004, the Authority entered into a third agreement (2004 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$150,000. The 2004 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing and is payable in 240 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis.
- (d) On October 1, 2006, the Authority entered into a fourth agreement (2006 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$120,000. The 2006 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis.
- (e) On October 1, 2007, the Authority entered into a fifth agreement (2007 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

the Program. The Authority's funding totaled \$120,000. The 2007 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis.

- (f) On October 1, 2008, the Authority entered into a sixth agreement (2008 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$100,000. The 2008 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing loan and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$25,000, with zero remaining as of September 30, 2010) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences. Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,189 (limited to a total of \$32,754, with zero remaining as of September 30, 2009) to assist in the payment of certain Habitat personnel costs.
- (g) On October 1, 2009, the Authority entered into a seventh agreement (2009 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$160,000. The 2009 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on a mortgage loan on a quarterly basis.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$40,000, with zero remaining as of September 30, 2010) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences. Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with zero remaining as of September 30, 2010) to assist in the payment of certain Habitat personnel costs.

- (h) On October 1, 2010, the Authority entered into an eighth agreement (2010 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$200,000. The 2010 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing loan and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$50,000, with zero remaining as of September 30, 2012) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences (Note 5). Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with zero remaining as of September 30, 2011) to assist in the payment of certain Habitat personnel costs.
- (i) On October 1, 2011, the Authority entered into a ninth agreement (2011 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$200,000. The 2011 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing loan and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

monthly principal amount paid on each mortgage loan on a quarterly basis. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$50,000, with zero remaining as of September 30, 2013) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences (Note 5). Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with zero remaining as of September 30, 2012) to assist in the payment of certain Habitat personnel costs. Additionally under the terms of the recipient agreement, the Authority agreed to pay Habitat grants (limited to a total of \$75,000, with zero remaining as of September 30, 2013) to reimburse Habitat to develop the infrastructure of a six single family lot development in Winter Haven, Florida (Note 5).

(j) On October 1, 2012, the Authority entered into a tenth agreement (2012 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$120,000. The 2012 Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing loan and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$30,000, with zero remaining as of September 30, 2014) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences (Note 5). Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with zero remaining as of September 30, 2013) to assist in the payment of certain Habitat personnel costs (Note 5).

(k) On October 1, 2013, the Authority entered into a eleventh agreement (2013 Agreement) with Habitat to provide financing for the land acquisition, construction and construction related costs of single-family residences for eligible person or families in the Program. The Authority's funding totaled \$120,000. The 2013

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

Agreement provides that Habitat will obtain a mortgage note and mortgage from the mortgagor, reflecting the Authority's (not to exceed \$20,000 plus previous unused amounts) and Habitat's proportionate principal share of the mortgage loan. Each mortgage loan is non-interest bearing loan and is payable, at Habitat's discretion, in between 240 and 300 equal monthly payments. Habitat is to remit the Authority's portion of the monthly principal amount paid on each mortgage loan on a quarterly basis. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$30,000, with \$10,000 remaining as of September 30, 2014) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences (Note 5). Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with zero remaining as of September 30, 2014) to assist in the payment of certain Habitat personnel costs (Note 5).

The Authority is authorized to issue second or third mortgage loans to eligible homebuyers (i.e., low and moderate income) to assist with the down payment and/or closing costs on a home. The mortgage loans are non-interest bearing and are due upon the sale or transfer of legal or beneficial interest of the subject property by the mortgagor or upon final payment of or default under the first mortgage loan. All of the loans made pursuant to Recipient Agreements with Keystone Challenge Fund, Inc. ("Keystone") are such loans.

- (l) On November 2, 1993, the Authority entered into a Recipient Agreement (1993 Agreement) with Keystone to assist low and moderate income persons who participated in the Keystone Education Program (Keystone Program) with down payments assistance. The Authority's funding totaled \$100,000.
  
- (m) On May 16, 1995, the Authority entered into a second Recipient Agreement (1995 Agreement) with Keystone to assist low and moderate income persons who participated in the Keystone Program with down payment assistance. The Authority's funding totaled \$220,000. On October 24, 1995, the agreement was extended by an extension letter agreement. The extension letter expired December 31, 1995. On April 23, 1996, an amendment to the 1995 Agreement was adopted extending the 1995 agreement to September 30, 1996.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

- (n) On June 15, 1999, the Authority entered into a third Recipient Agreement (1999 Agreement) with Keystone to promote the development of low income housing in a specific subdivision in Polk County. The Authority's funding totaled \$282,376. On May 17, 2000, an amendment to the 1999 Agreement was adopted extending the original 1999 Agreement to September 30, 2001. On October 1, 2001, a second amendment to the 1999 Agreement was adopted extending the original 1999 Agreement to September 30, 2002. On October 1, 2002, a third amendment to the 1999 Agreement was adopted extending the original 1999 Agreement to March 31, 2003.
- (o) On October 1, 2001, the Authority entered into a fourth Recipient Agreement (Homeless Housing Initiative Agreement) with Keystone to assist homeless persons who participate in the Keystone program with partially financing the purchase of a home. The Authority's funding totaled \$76,000.
- (p) On March 21, 2008, the Authority entered into a fifth Recipient Agreement (2008 Agreement) with Keystone and CenterState Banks of Florida, Inc. ("CenterState"). Pursuant to the 2008 Agreement, the Authority deposited \$300,000 into a separate, interest-bearing account with CenterState. During January 2010, the account was closed, upon the end of the loan origination period for the loans described below. All moneys in the account were available to be disbursed by CenterState, on behalf of the Authority, to provide mortgage loans (i.e., not to exceed \$15,000 per loan and each loan is owned by the Authority) and Closing Costs Assistance Grants (i.e., not to exceed \$2,000 per loan) to eligible persons and families in connection with the purchase of homes in a specific subdivision in Polk County. Prior to such disbursements, Keystone was to determine whether the loan application met the agreement requirements, compile a compliance package, and ensure the applicant completed a homeownership education program. After the applicant had been approved for a first mortgage loan (i.e., first mortgage loan to be made by a party other than the Authority), CenterState was to cause Keystone to have the mortgagor execute and deliver to the Authority a second mortgage note, second mortgage, and other customary affidavits and instruments, and make the second mortgage loan and, if requested by Keystone, the Closing Cost Assistance Grant, on behalf of the Authority.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

- (q) On November 17, 2009, the Authority entered into an interlocal agreement ("2009 Interlocal Agreement") with the Housing Finance Authority of Pinellas County, Florida ("Pinellas HFA") whereby the Authority granted authority to the Pinellas HFA to operate Pinellas HFA single family mortgage revenue bond programs within Polk County. During 2009 and 2010, the Pinellas HFA issued its Single Family Housing Revenue Bonds (GSE Program - Multi-County) 2009 Series A, Subseries 1 (Program Bonds - Non-AMT) and 2010 Series A-2 (Non-AMT), a portion of the proceeds of which were used to implement a single family mortgage program within Polk County, Florida ("Bond Mortgage Program"). On February 1, 2011, the Authority and the Pinellas HFA entered into the first supplement ("First Supplement") to the 2009 Interlocal Agreement. The First Supplement provides for the implementation of a second mortgage loan program, which was to be funded with \$280,000 from the Authority. The program provides for down payment assistance ("DPA") second mortgage loans ("Second Mortgage Loans"), which were offered and could be issued in connection with the first mortgage loans originated in Polk County, Florida through the Bond Mortgage Program. The Second Mortgage Loan proceeds could only be used for closing costs and/or down payment assistance. Each Second Mortgage Loan was to be originated in connection with a first mortgage loan originated in Polk County, Florida. The principal amount of each Second Mortgage Loan could not exceed \$7,000. The Second Mortgage Loans bear interest at 0% and are non-amortizing, with the full lump-sum payment due upon the first to occur of the following events: (a) borrower sells, transfers, or disposes of the property or home either voluntarily or involuntarily, (b) borrower fails or ceases to occupy the home as a principal resident, (c) borrower or surviving spouse of the borrower, dies, or (d) borrower refinances the first mortgage loan. The Second Mortgage Loans are owned by the Pinellas HFA. On August 1, 2011, the Authority and the Pinellas HFA entered into the second supplement ("Second Supplement") to the 2009 Interlocal Agreement. The Second Supplement provides for an additional sum of \$245,000 from the Authority for the funding of Second Mortgage Loans (i.e., in Polk County), which are owned by the Pinellas HFA.

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**4. Loans Receivable (continued)**

During Fiscal 2011, the Authority appropriated and disbursed \$525,000 to loan to the Pinellas HFA to fund the second mortgage loan program. The loan to the Pinellas HFA is non-interest bearing and unsecured. The loan is to be repaid to the Authority utilizing the repayments from the Second Mortgage Loans (i.e., in Polk County) received by the Pinellas HFA. As of September 30, 2012 and 2011, the Pinellas HFA had funded Second Mortgage Loans (i.e., for the purchase of homes in Polk County) totaling \$525,000 and \$280,000, respectively. As of September 30, 2011, the Authority's appropriated amount totaling \$525,000 had been paid to the Pinellas HFA and \$245,000 remained available to fund Second Mortgage Loans. The \$245,000 was used to fund second mortgage loans, during the year ended September 30, 2012.

Under the terms of agreements with Keystone, the Authority agreed to pay Keystone to provide homebuyer training and monitoring services in connection with the down payment assistance Second Mortgage Loans described in the preceding two paragraphs. The Authority agreed to pay \$500 per mortgagor (limited to a total of \$37,500, with zero remaining as of September 30, 2012) for the services (Note 5).

Since the real properties, which collateralize certain of the Authority's loans receivable, are concentrated within one geographic location (Polk County, Florida), there is a significant concentration of credit risk. In an effort to minimize this risk, it is the Authority's policy to perform application reviews and to record mortgage liens on the real property during the period the loans are outstanding.

**5. Grants**

During the year ended September 30, 2014 and 2013, the Authority paid grants consisting of the following:

|                                    | <b>2014</b>      | <b>2013</b>       |
|------------------------------------|------------------|-------------------|
| Habitat home grants                | \$ 30,000        | \$ 40,000         |
| Habitat salary grants              | 35,000           | 35,000            |
| Habitat infrastructure grants      | ---              | 25,000            |
| Keystone homebuyer training grants | ---              | 7,000             |
|                                    | <b>\$ 65,000</b> | <b>\$ 107,000</b> |

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**5. Grants (continued)**

Under the terms of the 2013 recipient agreement with Habitat (Note 4), the Authority agreed to pay Habitat individual grants of \$5,000 per home (limited to a total of \$30,000, with \$20,000 and \$0 being paid during the years ended September 30, 2014 and 2013, respectively) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences.

Under the terms of the 2012 recipient agreement with Habitat (Note 4), the Authority agreed to pay Habitat individual grants of \$5,000 per home (limited to a total of \$30,000, with \$10,000 and \$20,000 being paid during the years ended September 30, 2014 and 2013, respectively) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences.

Under the terms of the 2011 recipient agreement with Habitat (Note 4), the Authority agreed to pay Habitat individual grants of \$5,000 per home (limited to a total of \$50,000, with \$0 and \$20,000 being paid during the years ended September 30, 2014 and 2013, respectively) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences.

Also under the terms of the 2013 recipient agreement with Habitat (Note 4), the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with \$35,000 being paid during the year ended September 30, 2014) to assist in the payment of certain Habitat personnel costs.

Also under the terms of the 2012 recipient agreement with Habitat (Note 4), the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000, with \$35,000 being paid during the year ended September 30, 2013) to assist in the payment of certain Habitat personnel costs.

Additionally under the terms of the 2011 recipient agreement with Habitat (Note 4), the Authority agreed to pay Habitat grants (limited to a total of \$75,000, with \$25,000 and \$50,000 being paid during the years ended September 30, 2013 and 2012, respectively) to reimburse Habitat to develop the infrastructure of a six single family lot development in Winter Haven, Florida.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**5. Grants (continued)**

Under the terms of agreements with Keystone, the Authority agreed to pay Keystone to provide homebuyer training and monitoring services in connection with the down payment assistance Second Mortgage Loans described in item (q) of the loans receivable footnote (Note 4). Originally, the Authority agreed to pay \$500 per mortgagor (limited to a total of \$37,500, with \$18,000 and \$19,500 being paid during the years ended September 30, 2012 and 2011, respectively) for the services. In February 2013, the Authority agreed to pay an additional \$7,000 for such services, with such payment being made during the year ended September 30, 2013.

**6. Bond Programs**

The Authority has issued revenue bonds and other obligations to provide financial assistance to individuals, families, and private-sector entities. The financial assistance was provided to encourage the investment of private capital and stimulate the acquisition and construction of residential housing for low, moderate, and middle income individuals and families. The bonds and other obligations are secured by the assets, revenues, receipts, and other resources of the bond programs and/or the properties financed. Neither the Authority, Polk County, the State of Florida, nor any political subdivision thereof is obligated in any manner for repayment of the bonds and other obligations. Accordingly, the bonds and other obligations are not reported as liabilities in the Basic Financial Statements.

As of September 30, 2014 and 2013, the Authority had issued and outstanding revenue bonds totaling \$22,830,000 and \$27,100,000, respectively.

**7. Risk Management**

The Authority is exposed to various risks of loss related to torts, theft of assets, errors and omissions, personal injury, and natural disasters. As a dependent special district, the Authority's management is of the belief that the Authority is insured under Polk County's insurance plan. The coverage is provided at no cost to the Authority. In the past three years, there have been no claims settled exceeding the insurance coverage. As of September 30, 2014 and 2013, there were no outstanding claims.

**Housing Finance Authority of Polk County, Florida**  
**(A Component Unit of Polk County, Florida)**

**Notes to Financial Statements (continued)**

**8. Subsequent Events**

In November 2014, the Authority entered into a recipient agreement with Habitat for Humanity of East Polk County, Inc. ("Habitat"). Pursuant to the provisions of the recipient agreement, the Authority provided \$60,000 that is intended to be used by Habitat for making mortgage loans (i.e., not to exceed \$20,000, plus previous unused amounts, per loan and each loan is owned by the Authority) to low and moderate income families. Under the terms of the recipient agreement, the Authority also agreed to pay Habitat individual grants of \$5,000 per home contemplated by this agreement (limited to a total of \$15,000) to pay or reimburse Habitat for a portion of the acquisition, construction, and construction-related costs of the single family residences. Also under the terms of the recipient agreement, the Authority agreed to pay Habitat quarterly grants of \$8,750 (limited to a total of \$35,000) to assist in the payment of certain Habitat personnel costs.

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**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Compliance Reports and Management Letter**

*September 30, 2014*

Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)

**Compliance Reports and Management Letter**

*September 30, 2014*

**Housing Finance Authority of Polk County, Florida  
(A Component Unit of Polk County, Florida)**

**Compliance Reports and Management Letter**

**September 30, 2014**

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**Report of Independent Auditor on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

The Members  
Housing Finance Authority of Polk County, Florida

I have audited, in accordance with the 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, the basic financial statements of the Housing Finance Authority of Polk County, Florida ("Authority"), a component unit of Polk County, Florida, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which comprise the Housing Finance Authority of Polk County, Florida's basic financial statements, and have issued my report thereon dated November 5, 2014.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the basic financial statements, I considered the Housing Finance Authority of Polk County, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, which are described as follows that I consider to be significant deficiencies.

The following matters were discovered, while I performed audit tests of the Authority's loan receivable balances. It does not appear the Authority's internal control over financial reporting allowed for those charged with governance to learn of these matters in a timely manner. The matters are presented for the Authority's consideration (e.g., the terms and conditions agreed upon in the related notes and mortgages), discussion with legal counsel, and possible action.

- 1) In or around September 2009, the Authority extended a \$12,000 second mortgage loan to an individual ("Borrower MB") for the partial financing of Borrower MF's purchase of a home located at 448 Lake Eloise Pointe Boulevard, Winter Haven, Florida. The loan is included in the Keystone 2008 Agreement loan portfolio. In November 2013, Borrower MB passed away. Subsequently, it appears the probate court adjudged that title to the property descended to Borrower MB's parents. The Authority's second mortgage loan may have been due and payable, upon the demise of the borrower.
- 2) In or around May 1994, the Authority extended a \$4,990 second mortgage loan to a couple ("Borrowers DF and RF") for the partial financing of Borrowers DF and RF's purchase of a home located at 5095 Misty Lake Drive, Mulberry, Florida. The loan is included in the Keystone 1993/1994 Agreement loan portfolio. The Authority's second mortgage loan was subservient to a mortgage to SunBank/Mid-Florida National Association, which was satisfied in February 2006. In 2013, a mortgage foreclosure action was instituted on behalf of Nationstar Mortgage, LLC ("Nationstar") to foreclose a 2006 mortgage on the same property that is mortgaged to the Authority. It appears the Authority was not made a defendant in the foreclosure action and was not served with a copy of the summons and complaint. On July 2, 2014, after the entry of a judgment of foreclosure, the property was sold to Nationstar at a public sale. A certificate of title was issued to Nationstar on July 21, 2014. It appears the Authority has never received repayment of its second mortgage loan.
- 3) In or around March 2014, together with Habitat for Humanity of East Polk County, Inc. ("Habitat"), the Authority extended a first mortgage loan (Authority's portion \$20,000) to an individual ("Borrower MC") for the financing of Borrower MC's purchase of a home referred to by Habitat as house number 122. The loan is included in the Habitat 2013 Recipient Agreement loan portfolio. Borrower MC's note and mortgage contain incorrect date references, with regard to the recipient agreement. It appears that some or all of the other five first mortgage loan notes and mortgages, which are included in the Habitat 2013 Recipient Agreement loan portfolio, may contain similar incorrect date references.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Finance Authority of Polk County, Florida's basic financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described as follows.

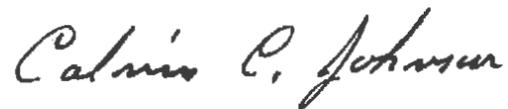
Please refer to items 1 through 3, which are discussed in the preceding section entitled, "Internal Control Over Financial Reporting".

## **Authority's Response to Findings**

The Housing Finance Authority of Polk County, Florida's responses to the findings identified in my audit are described in their accompanying letter, which follows the Management Letter. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



November 5, 2014

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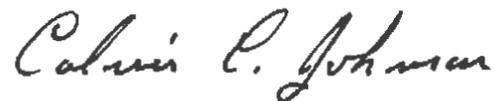
**Report of Independent Accountant on an Examination Conducted  
in Accordance With AICPA *Professional Standards*, Section 601,  
Regarding Compliance Requirements in Accordance With  
Chapter 10.550, Rules of the Auditor General**

The Members  
Housing Finance Authority of Polk County, Florida

I have examined the Housing Finance Authority of Polk County, Florida's compliance with the requirements of Section 218.415, Florida Statutes during the year ended September 30, 2014. Management is responsible for the Housing Finance Authority of Polk County, Florida's compliance with those requirements. My responsibility is to express an opinion on the Housing Finance Authority of Polk County, Florida's compliance based on my examination.

My examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Housing Finance Authority of Polk County, Florida's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my examination provides a reasonable basis for my opinion. My examination does not provide a legal determination on the Housing Finance Authority of Polk County, Florida's compliance with specified requirements.

In my opinion, the Housing Finance Authority of Polk County, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.



November 5, 2014

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## **Management Letter**

The Members and Management  
Housing Finance Authority of Polk County, Florida

### **Report on the Financial Statements**

I have audited the basic financial statements of the Housing Finance Authority of Polk County, Florida ("Authority"), a component unit of Polk County, Florida, as of and for the year ended September 30, 2014, and have issued my report thereon dated November 5, 2014.

### **Auditor's Responsibility**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

### **Other Reports**

I have issued my Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* and Report of Independent Accountant on an Examination Conducted in Accordance With *AICPA Professional Standards*, Section 601, Regarding Compliance Requirements in Accordance With Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated November 5, 2014, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that I determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no such matters reported in the preceding annual financial audit report.

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the basic financial statements. The Housing Finance Authority of Polk County, Florida was created as a Florida public corporation in accordance with the Florida Housing Finance Authority Law, Part IV of Chapter 159, Florida Statutes, as amended, following the adoption of an approving ordinance (Number 78-20) by the Board of County Commissioners of Polk County, Florida. Polk County, Florida is the oversight unit. The Authority has no component units.

### **Financial Condition**

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that I report the results of my determination as to whether or not the Authority has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with my audit, I determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, I applied financial condition assessment procedures. It is management's responsibility to monitor the Authority's financial condition, and my financial condition assessment was based in part on representations made by management and the review of financial information provided by same. My financial condition assessment procedures were performed as of September 30, 2014.

### **Annual Financial Report**

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that I report the results of my determination as to whether the annual financial report for the Authority for the year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the year ended September 30, 2014. In connection with my audit, I determined that these two reports were in agreement.

### **Special District Component Units**

Section 10.554(1)(i)5.d, Rules of the Auditor General, requires that I determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with my audit, I determined that all special district component units (i.e., Housing Finance Authority of Polk County, Florida) provided the necessary information (i.e., to Polk County, Florida) for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

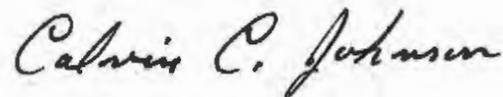
### **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that I address in the management letter any recommendations to improve the Authority's financial management. In connection with my audit, I reported findings in the Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that I address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with my audit, I reported findings in the Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

### **Purpose of this Letter**

My management letter is intended solely for the information and use of the members and management of the Housing Finance Authority of Polk County, Florida, the Polk County Board of County Commissioners, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



November 5, 2014

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**HOUSING FINANCE AUTHORITY  
OF POLK COUNTY, FLORIDA**

P. O. Drawer 7608  
Winter Haven, FL 33883-7608

November 13, 2014

Calvin C. Johnson, CPA  
3615 Pine Tip Road  
Tallahassee, FL 32312

Re: Response to audit findings

Dear Mr. Johnson:

During the October 5, 2014 meeting of the Housing Finance Authority of Polk County, Florida ("HFA") you presented a report entitled "Report of Independent Auditor on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards" (the "Report"). The Report was prepared in connection with your audit of the financial statements of the Authority for the year ended September 30, 2014.

On page 2 of the Report you state:

The following matters were discovered, while I performed audit tests of the Authority's loan receivable balances. It does not appear the Authority's internal control over financial reporting allowed for those charged with governance to learn of these matters in a timely manner. The matters are presented for the Authority's consideration (e.g., the terms and conditions agreed upon in the related notes and mortgages), discussion with legal counsel, and possible action.

- 1) In or around September 2009, the Authority extended a \$12,000 second mortgage loan to an individual ("Borrower MB") for the partial financing of Borrower MF's purchase of a home located at 448 Lake Eloise Pointe Boulevard, Winter Haven, Florida. The loan is included in the Keystone 2008 Agreement loan portfolio. In November 2013, Borrower MB passed away. Subsequently, it appears the probate court adjudged that title to the property descended to Borrower MB's parents. The Authority's second mortgage loan may have been due and payable, upon the demise of the borrower.
- 2) In or around May 1994, the Authority extended a \$4,990 second mortgage loan to a couple ("Borrowers DF and RF") for the partial financing of Borrowers DF

and RF's purchase of a home located at 5095 Misty Lake Drive, Mulberry, Florida. The loan is included in the Keystone 1993/1994 Agreement loan portfolio. The Authority's second mortgage loan was subservient to a mortgage to SunBank/Mid-Florida National Association, which was satisfied in February 2006. In 2013, a mortgage foreclosure action was instituted on behalf of Nationstar Mortgage, LLC ("Nationstar") to foreclose a 2006 mortgage on the same property that is mortgaged to the Authority. It appears the Authority was not made a defendant in the foreclosure action and was not served with a copy of the summons and complaint. On July 2, 2014, after the entry of a judgment of foreclosure, the property was sold to Nationstar at a public sale. A certificate of title was issued to Nationstar on July 21, 2014. It appears the Authority has never received repayment of its second mortgage loan.

3) In or around March 2014, together with Habitat for Humanity of East Polk County, Inc. ("Habitat"), the Authority extended a first mortgage loan (Authority's portion \$20,000) to an individual ("Borrower MC") for the financing of Borrower MC's purchase of a home referred to by Habitat as house number 122. The loan is included in the Habitat 2013 Recipient Agreement loan portfolio. Borrower MC's note and mortgage contain incorrect date references, with regard to the recipient agreement. It appears that some or all of the other five first mortgage loan notes and mortgages, which are included in the Habitat 2013 Recipient Agreement loan portfolio, may contain similar incorrect date references.

The Authority responds as follows to the three matters to which you refer, with each of the following numbered paragraphs corresponding to the same numbered paragraph of the Report:

1. The property that is the subject of the Authority's mortgage was the borrower's homestead, and the probate court's adjudication that upon borrower's death title to the home descended to Borrower's parents as a matter of law does not affect the status of the Authority's mortgage loan. The mortgage remains a second mortgage, behind a mortgage to the United States Department of Agriculture which, according to a review of information posted to the Polk County Clerk of Court's website, has not been satisfied or released. The Authority's mortgage contains a due-on-sale covenant that the borrower will not sell, convey, transfer, or assign any interest in or any part of the mortgaged property without the Authority's prior written consent, and that any such transfer allows the Authority to require immediate payment of all sums secured by the mortgage. The Authority's mortgage does not, however, provide that an event of default occurs if title to the mortgaged property transfers to a relative resulting from the death of the borrower. Even if the mortgage contained a provision of that nature, the Authority also understands from counsel that pursuant to federal law, a lender may not exercise an option pursuant to a due-on-sale clause upon a transfer to a relative resulting from the death of a borrower. 12 U.S.C. §1701j-3(d)(5).

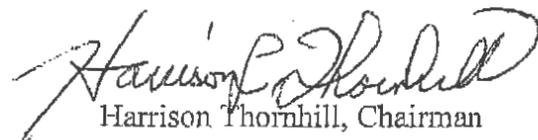
The Authority has asked its counsel to notify the borrower's parents of the Authority's mortgage lien on the property.

2. You state in the Report that it appears the Authority was not a party to the mortgage foreclosure action brought on behalf of Nationstar Mortgage, LLC and that the Authority has not received repayment of its second mortgage loan. Those statements are correct, however, the foreclosure action did not affect the Authority's status as a mortgage lienholder. In fact, the 2006 satisfaction of the SunBank/Mid-Florida National Association mortgage to which you refer elevated the Authority's mortgage status as that of a first lienholder. That status was unaffected by the Nationstar mortgage foreclosure and subsequent public sale of the property.

The Authority as asked its counsel to notify the current owner of the property of the Authority's mortgage lien on the property.

3. Habitat for Humanity of East Polk County, Inc. ("Habitat") closes its mortgage loans with its local counsel, and the incorrect date references to which you refer were apparently imbedded in the closing documents. Counsel for the Authority has spoken with a representative of Habit and asked Habitat to contact each borrower who has entered a mortgage loan in favor of the Authority that contains an incorrect date reference, meet with the borrower, correct the date(s), initial the corrected date(s), and rerecord any mortgage in which a date is corrected. Habitat has agreed to pursue that action and report back to the Authority. Additionally, the Authority's counsel has agreed to review, as a second set of eyes, future promissory notes and mortgages prepared by Habitat's counsel for use in closing on an Authority loan made through Habitat.

Sincerely,



Harrison Thornhill, Chairman

