

**LOW AND MODERATE INCOME
HOUSING ASSET SPECIAL REVENUE FUND
OF THE CITY OF FRESNO, CALIFORNIA**
(The Housing Successor of the City of Fresno, California)

Independent Auditor's Reports
and Financial Statements

For the Year Ended June 30, 2016



Certified
Public
Accountants

**LOW AND MODERATE INCOME HOUSING ASSET SPECIAL REVENUE FUND
OF THE CITY OF FRESNO, CALIFORNIA
(The Housing Successor of the City of Fresno, California)**

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Independent Auditor's Report

To the City Council
City of Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Low and Moderate Income Housing Asset Special Revenue Fund (Fund) of the City of Fresno, California (the City), as of and for the year ended June 30, 2016, and the related notes to the 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 Fund 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 Fund financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the City, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of the Fund's internal control over the Fund's financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the financial reporting or on the compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over the financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
November 18, 2016

**LOW AND MODERATE INCOME HOUSING ASSET
SPECIAL REVENUE FUND OF THE CITY OF FRESNO, CALIFORNIA
(The Housing Successor of the City of Fresno, California)**

Balance Sheet
June 30, 2016

Assets

Restricted cash held by financial institutions	\$ 7,369,747
Accounts receivable	62,208
Property held for resale	7,743,778
Loans and notes receivable, net	19,287,015
Total assets	<u>\$ 34,462,748</u>

Fund Balance

Restricted	<u>\$ 34,462,748</u>
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See accompanying notes to the financial statements.

**LOW AND MODERATE INCOME HOUSING ASSET
SPECIAL REVENUE FUND OF THE CITY OF FRESNO, CALIFORNIA
(The Housing Successor of the City of Fresno, California)
Statement of Revenues, Expenditures and Change in Fund Balance
For the Year Ended June 30, 2016**

Revenues:

Use of money and property	\$ 694,698
Total revenues	694,698

Expenditures:

General government	67,966
Community development	110,155
Loss on forgiveness of loans	30,593
Loss on sale of property	1,154,222
Write down of property held for resale - cost to value	1,206,986
Total expenditures	2,569,922

Change in fund balance	(1,875,224)
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Fund balance (beginning)	36,337,972
Fund balance (ending)	\$ 34,462,748

See accompanying notes to the financial statements.

**LOW AND MODERATE INCOME HOUSING ASSET SPECIAL REVENUE FUND
OF THE CITY OF FRESNO, CALIFORNIA**

(The Housing Successor of the City of Fresno, California)

Notes to the Financial Statements

June 30, 2016

Note 1 – Reporting Entity

As of February 1, 2012, the Fresno Redevelopment Agency (Agency) was dissolved in accordance with ABx1 26. This Bill, signed by the Governor on June 29, 2011, required that each California redevelopment agency suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the dissolution of the agency.

The legislation provided for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. At a City Council meeting on January 26, 2012, the Fresno City Council elected to retain the housing assets and functions, rights, powers, duties and obligations previously performed by the Agency. The City of Fresno (City) maintains the Low and Moderate Income Housing Asset Special Revenue Fund (also referred to as the Housing Successor) to account for the former Redevelopment Agency's affordable housing assets following its dissolution on January 31, 2012.

The accompanying financial statements represent the Low and Moderate Income Housing Asset Special Revenue Fund of the City, and are not intended to present fairly the financial position or changes in financial position of the City in conformity with the accounting principles generally accepted in the United States of America.

Note 2 – Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Low and Moderate Income Housing Asset Fund (LMIHAF) is accounted for as a special revenue fund of the City, a governmental fund. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues and other revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Budgetary Data

The budget of the City, prepared on a cash basis, is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) programs, projects, services and activities to be provided during the fiscal year, (2) the estimated resources (inflow) and amounts available for appropriation and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City charter prohibits expending funds for which there is no legal appropriation.

**LOW AND MODERATE INCOME HOUSING ASSET SPECIAL REVENUE FUND
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(The Housing Successor of the City of Fresno, California)

Notes to the Financial Statements (Continued)

June 30, 2016

The budget document is organized to reflect the fund structure of the City's finances. Fund revenues and expenditures are rolled up to the various object levels by division and department for presentation of information to the public. Budget adoption and subsequent administration is carried out on a fund basis.

The City adopts an annual budget for the LMIHAF on the cash basis. Supplemental appropriations during the year must be approved by the City Council. Budgeted amounts are reported as amended.

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the LMIHAF. Encumbrance accounting is utilized for budgetary control and accountability and to facilitate cash planning and control. Encumbrances outstanding at year-end are reported as part of restricted fund balance. At June 30, 2016, encumbrances totaled \$4,175,127 in the LMIHAF.

Restricted Cash Held by Financial Institutions

Deposits held by financial institutions in the name of the LMIHAF totaled \$7,369,747 at June 30, 2016 and are restricted for housing activities by California Health and Safety Code 34176.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The LMIHAF maintains cash accounts with Wells Fargo Bank. Accounts in excess of \$250,000 are securitized in accordance with Government Code Section 53652. The California Government Code and the City's investment policy contain legal or policy requirements that limit the exposure to custodial credit risk for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amounts deposited by public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposit. The collateral pledged to cover the public fund deposits in California is held in the name of the California Collateral Pool Administrator and is held in their name by the Federal Reserve Bank as custodian. As of June 30, 2016, the LMIHAF's deposits with financial institutions in excess of federal depository insurance limits was \$7,119,747 held in accounts collateralized in accordance with State law as described above.

Property Held for Resale

Property held for resale is recorded at the lower of estimated cost or estimate conveyance value of a property based on current intended use. Property held for sale, during the period it is held by the LMIHAF, may generate rental income, which is recognized as it becomes due and is considered collectable. During fiscal year 2016, it was determined that the value of property held for resale should be reduced by \$1,206,986 to reflect current appraisals of certain properties.

**LOW AND MODERATE INCOME HOUSING ASSET SPECIAL REVENUE FUND
OF THE CITY OF FRESNO, CALIFORNIA**

(The Housing Successor of the City of Fresno, California)

Notes to the Financial Statements (Continued)

June 30, 2016

Fund Balance

Fund balances of governmental funds are reported in a hierarchy of classifications based on the extent to which the City is bound to honor constraints on the specific purposes for which the amounts in the funds can be spent. Governmental fund balance classifications consist of the following:

Nonspendable – Includes amounts that are either 1) not in spendable form or 2) are legally or contractually required to be maintained intact. Not in spendable form includes items that are not expected to be converted to cash such as inventories, prepaid items and certain long-term receivables. The LMIHAF did not have nonspendable fund balance at June 30, 2016.

Restricted – Includes amounts which have constraints placed on the use of the resources. The constraints are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law or enabling legislation of the government itself and which are legally enforceable. The total fund balance of the LMIHAF at June 30, 2016, was considered restricted for housing activities.

Committed – Includes amounts that can only be used for specific purposes pursuant to Section 1212 of the Fresno City Charter which establishes a policy for managing City Reserves. The LMIHF did not have committed fund balance at June 30, 2016.

Assigned – Includes amounts that are not classified as non-spendable, restricted, or committed but which are intended by the City to be used for specific purposes. Intent is expressed by legislation or action of the City Council, or the Mayor or City Manager which legislation has delegated the authority to assign amounts for specific purposes. The LMIHAF did not have assigned fund balance at June 30, 2016.

Unassigned – Other governmental funds may report only negative unassigned fund balances if expenditures incurred for specific purposes exceeded amounts restricted or committed for those purposes. The LMIHAF did not have an unassigned deficit fund balance at June 30, 2016.

When multiple classifications of resources are available for use, it is the City's policy to use resources in the order of restricted, committed, assigned, and unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions that may affect certain reported assets and liabilities. Actual results could differ from those estimates.

**LOW AND MODERATE INCOME HOUSING ASSET SPECIAL REVENUE FUND
OF THE CITY OF FRESNO, CALIFORNIA
(The Housing Successor of the City of Fresno, California)
Notes to the Financial Statements (Continued)
June 30, 2016**

Note 3 –Loans and Notes Receivable

Loans and notes receivables are presented in the financial statements net of the allowance for uncollectible accounts. The allowance for doubtful accounts reduces the reported amount of a receivable to net realizable value. Providing an allowance for doubtful accounts presents a more realistic picture of how much of the receivable is likely to be turned into cash particularly in the near term. The amount of the allowance for each fund is a management determination made by reviewing past collections received on each account. This analysis includes reviewing the aging of the receivable balance, past account write-offs and other known variables. The allowance is evaluated at the end of the year for adequacy. At June 30, 2016, the reserve allowance related to notes receivable that are under tax credit partnership agreements. These agreements mature after approximately 55 years, which results in the uncertainty of collection after that extended period of time.

The composition of the loans and notes receivable balance at June 30, 2016, was as follows:

Loans receivable	\$ 948,057
Notes receivable	<u>21,038,958</u>
Subtotal	21,987,015
Allowance for uncollectible amounts	<u>(2,700,000)</u>
Total loans and notes receivable, net	19,287,015
Amount not expected to be collected in one year	<u>(19,045,978)</u>
Current amount	<u><u>\$ 241,037</u></u>

The net loans and notes receivable balance is included in restricted fund balance at June 30, 2016, as proceeds collected are restricted for housing activities. During fiscal year 2016, the City forgave \$30,593 of loans between the LMIHAF and the City.

**LOW AND MODERATE INCOME HOUSING ASSET
SPECIAL REVENUE FUND OF THE CITY OF FRESNO, CALIFORNIA
(The Housing Successor of the City of Fresno, California)**

Supplementary Information

Schedule of Revenues and Expenditures - Budget and Actual

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Resources (inflows):				
Use of money and property	\$ 694,698	\$ 694,698	\$ 694,698	\$ -
Total available for appropriation	<u>694,698</u>	<u>694,698</u>	<u>694,698</u>	<u>-</u>
Charges to appropriations (outflows):				
General government	67,966	67,966	67,966	-
Community development	110,155	110,155	110,155	-
Loss on forgiveness of loans	30,593	30,593	30,593	-
Loss on sale of property	1,154,222	1,154,222	1,154,222	-
Write down of property held for resale - cost to value	1,206,986	1,206,986	1,206,986	-
Total charges to appropriations	<u>2,569,922</u>	<u>2,569,922</u>	<u>2,569,922</u>	<u>-</u>
Excess (deficit) resources over (under) appropriations				
	<u>\$ (1,875,224)</u>	<u>\$ (1,875,224)</u>	<u>\$ (1,875,224)</u>	\$ -

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Independent Auditor’s Report 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*

To the City Council
City of Fresno, California

We 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 financial statements of the Low and Moderate Income Housing Asset Special Revenue Fund (Fund) of the City of Fresno, California (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund’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.

Our 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California
November 18, 2016