

**SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY
OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the
City of Fresno, California)**

Independent Auditor's Reports,
Basic Financial Statements and Supplemental Information

For the Year Ended June 30, 2018



Certified
Public
Accountants

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)**

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Independent Auditor's Report

Members of the Oversight Board
Successor Agency to the Redevelopment Agency of the City of Fresno
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency to the Redevelopment Agency of the City of Fresno (the Successor Agency), a fiduciary component unit of the City of Fresno, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Successor Agency'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

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 Successor Agency to the Redevelopment Agency of the City of Fresno, as of June 30, 2018, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of the Successor Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Successor Agency's 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 Successor Agency's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, California
December 20, 2018

BASIC FINANCIAL STATEMENTS

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SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Statement of Fiduciary Net Position
June 30, 2018

Assets

Current assets:

Cash and investments	\$ 6,997,791
Restricted assets - cash and investments with trustee	915,704
Accounts receivable	46,485
Other assets	2,295

Noncurrent assets:

Property held for resale	2,090,946
Total assets	<u>10,053,221</u>

Deferred Outflows of Resources

Charge on refunding	24,539
Pension related amounts	149,914
Total deferred outflows of resources	<u>174,453</u>

Liabilities

Current liabilities:

Accounts payable	81,715
Accrued interest	63,839
Long-term liabilities due within one year	410,658

Noncurrent liabilities:

Loans payable to the City of Fresno	21,985,387
Long-term liabilities due in more than one year	2,949,439
Net pension liability	480,547
Total liabilities	<u>25,971,585</u>

Deferred Inflows of Resources

Pension related amounts	<u>92,082</u>
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Net position (deficit)

Unrestricted	<u><u>\$ (15,835,993)</u></u>
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See accompanying notes to the financial statements.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

Additions:

Property taxes	\$ 2,228,979
Other revenue	82,698
Interest	31,439
Gain on sale of property	4,503
Total additions	<u>2,347,619</u>

Deductions:

Redevelopment expenses	308,569
General and administrative expenses	304,663
Tax pass-throughs	61,420
Enforceable obligations	8,915
Interest on long-term liabilities and loans payable to the City	513,840
Remittances to County	1,584,226
Total deductions	<u>2,781,633</u>

Change in net position	(434,014)
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Net position (deficit), beginning of year	<u>(15,401,979)</u>
Net position (deficit), end of year	<u><u>\$ (15,835,993)</u></u>

See accompanying notes to the financial statements.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

On January 26, 2012, the City of Fresno (City) elected to become the Successor Agency to the Redevelopment Agency of the City of Fresno (Successor Agency) in accordance with ABx1 26 (Dissolution Act). An Oversight Board was appointed to oversee the dissolution process. A Private-Purpose Trust Fund, administered by the City, was established to account for the assets and liabilities of the former Redevelopment Agency of the City of Fresno (RDA). The RDA was dissolved on January 31, 2012.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of the Oversight Board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are only allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the RDA until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The accompanying financial statements 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.

Measurement Focus

Fiduciary fund financial statements are used to account for assets held in a trustee or agency capacity and cannot be used to support the City's own programs. Trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with operation of these funds are included on the statement of fiduciary net position. Additions are recorded when earned and deductions are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Investment Valuation

The Successor Agency reports their investments at fair value, except for highly liquid money market investments, guaranteed investment contracts, and other investments with maturities of one year or less at time of purchase, which are considered cash equivalents and are stated at amortized cost. Market value is used as fair value for those securities for which market quotations are readily available. Changes in fair value are reflected in the revenue of the period in which they occur.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Investment Valuation (Continued)

Statutes authorize the Successor Agency to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, money market mutual funds and the State Treasurer's investment pool.

Property Held for Resale

Pursuant to Health and Safety Code and within six months after receiving a Finding of Completion from the State Department of Finance, the Successor Agency was required to submit for approval a Long-Range Property Management Plan (LRPMP). The Plan addresses the disposition and use of the real properties of the RDA. The inventory is to present, among other information, the date of acquisition of the property and the value of the property at that time. In addition, the inventory is to include the estimate of the current value of the parcel and if available, any appraisal information.

In fiscal year 2015, the Successor Agency completed its LRPMP. Property held for resale is recorded at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

Property held for sale may, during the period it is held by the Successor Agency, generate rental income, which is recognized as it becomes earned and is considered collectable.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position reports a separate section for deferred outflows of resources and deferred inflows of resources, which represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/expenditure) until then. The Successor Agency records deferred outflows of resources related to deferred charges on refunding, as well as, deferred outflows of resources and deferred inflows of resources related to pension.

The deferred charges on refunding are deferred and amortized over the life of the Successor Agency Tax Allocation Refunding Bonds, Series 2003.

The deferred outflows of resources and deferred inflows of resources related to pension are discussed in detail in Note 5.

Bond Premium and Discount

The bond premium and discount is amortized over the life of the Successor Agency Tax Allocation Revenue Bonds, Series 2001 and the Successor Agency Tax Allocation Refunding Bonds Series 2003, respectively, using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

The bond premium is recorded annually as a reduction of interest expense while the bond discount is recorded annually as an increase to interest expense.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Property Taxes

The Dissolution Act amended the allocation of property tax revenue to successor agencies. Property taxes that formerly would have been apportioned to RDA are deposited into a trust fund with the County of Fresno (County), known as the Redevelopment Property Tax Trust Fund (RPTTF). The County administers the RPTTF on behalf of the RDA debt holders, and taxing entities that receive pass-through payments and property tax distributions. This fund is used to pay obligations listed on the Recognized Obligation Payment Schedule (ROPS), including bond debt service, approved by the Successor Agency's Oversight Board, and the California Department of Finance. Any remaining monies in the RPTTF after the approved amounts listed on the ROPS have been paid are distributed to the appropriate taxing entities.

Net Pension Liability and Related Balances

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value by CalPERS and not reported by the Successor Agency. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications (www.calpers.ca.gov). Reported results pertain to liability and asset information within the following defined timeframes:

Valuation Date (VD) - June 30, 2016
Measurement Date (MD) - June 30, 2017
Measurement Period (MP) - July 1, 2016 to June 30, 2017

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Cash and Investments

At June 30, 2018, cash and investments of the Successor Agency are summarized as follows:

Cash deposits	\$ 6,997,691
Cash on hand	100
Investments:	
Money market mutual funds	<u>915,704</u>
	<u>\$ 7,913,495</u>

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

Restricted	\$ 915,704
Unrestricted	<u>6,997,791</u>
	<u><u>\$ 7,913,495</u></u>

Custodial Credit Risk related to Cash Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Successor Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the 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. Deposits held by financial institutions in the name of the Fund totaled \$7,425,077 at June 30, 2018. As of June 30, 2018, the Fund's deposits with financial institutions in excess of federal depository insurance limits was \$7,175,077 held in accounts collateralized in accordance with State law as described above.

Cash and Investments with Trustee

Cash and investments with trustee represent amounts held by a trustee bank, which are restricted for servicing long-term debt of the Successor Agency as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the types of authorized investments. All investments with the trustee are recorded at fair value. At June 30, 2018, the investments held by trustee in the name of the Successor Agency totaled \$915,704.

Investment Disclosures

Investments Authorized by the California Government Code and the City's Investment Policy

The Successor Agency investments are pursuant to investment policy guidelines established by the City Controller/Treasurer, subject to review by the City Council. The objectives of the investment policy are preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

California statutes and the City's investment policy authorize investments in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, negotiable certificates of deposit, GC53601.8 CD's, repurchase agreements and the State Treasurer's investment fund. The City's investment policy also authorizes reverse repurchase agreements, but the Successor Agency did not enter into any reverse repurchase agreement transactions during fiscal year 2018.

The following table identifies the investment types that are authorized for the City's Investment Policy by the California Government Code or the City's investment policy, where more restrictive. The City's maximum percent limit of portfolio for government sponsored enterprises agency notes is 70% versus 100% for California Government Code. The table identifies the investment type, the maximum length of time to maturity for each investment, the maximum percentage of the portfolio that can be invested in each type of security and the maximum amount of the portfolio that can be invested in any single issuer of investments.

The table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investments	Maximum Maturity	Maximum % Limit of Portfolio	Maximum % Limit of Portfolio Per Single Issuer
City of Fresno Debt	5 Years	100%	100%
U.S. Treasuries	5 Years	100%	100%
California Debt	5 Years	100%	100%
Other 49 States Debt	5 Years	100%	100%
Cal Local Agency Debt	5 Years	100%	100%
Government Sponsored Enterprises Agency Notes	5 Years	70%	50%
Bankers' Acceptances	180 Days	40%	30%
Commercial Paper	270 Days	25%	10%
Negotiable CD's	5 Years	30%	30%
Time Deposits	5 Years	100%	100%
Shares of Section 6509.7 JPA's	N/A	100%	100%
GC 53601.8 CD's	5 Year	30%	30%
Repurchase Agreements	1 Year	100%	100%
Reverse Repurchase Agreements	92 Days	20%	N/A
Securities Lending Agreements	92 Days	20%	N/A
Medium-Term Notes	5 Years	30%	20%
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	20%
Mortgage/Asset Backed Debt	5 Years	20%	20%
State Local Agency Investment Fund	N/A	\$65 million	100%

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk

The investment policy of the City contains the following limitations on the amount that can be invested in any one issuer which is more restrictive than those stipulated by the California Government Code. While the State has no limit on the percentage of the Portfolio that can be invested in a single U.S. Government Agency Security, the City's Investment Policy limits investment in any one issuer to 50% of the Portfolio. Also, while the State limits investments to 30% of the Portfolio for any single issuer of Medium Term Notes, the City's Investment Policy limits investments to 20% of the Portfolio invested in any single issuer.

Investments in any one issuer that represent 5% or more of the total unrestricted investments or investments with trustees are as follows:

Investments Held by Trustee:
Money Market Mutual Funds: INVESCO GOVT AGENCY INSTL 1901 100%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater will be the sensitivity of its fair value to changes in market interest rates. One of the ways that the Successor Agency manages its exposure to interest rate risk is by purchasing shorter term investments to provide immediate cash flow and liquidity needed for operations.

Interest rate risk related to the Successor Agency's investments is disclosed in the following table. As of June 30, 2018, the City had the following cash and investments in its portfolio:

Investment Type	Fair Value	Investment Maturities	
		Less than 1 Year	1 to 5 Years
Investment Held by Trustee:			
Money Market Mutual Funds	915,704	915,704	-

Fair Value Hierarchy

The Successor Agency categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. No investments were subject to fair value hierarchy.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Successor Agency will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Successor Agency's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk

The City's investment policy sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. The investments held by the Successor Agency are unrated.

Note 3 – Property Held for Resale

Property held for resale is recorded at the lower of estimated cost or estimated conveyance value. At June 30, 2018, the cost of land and improvements is \$9,278,777 with an estimated net realizable value of \$2,090,946. The Successor Agency sold land parcels with an original cost of \$3,329,997 during the year ended June 30, 2018, and remitted \$1,584,226 in proceeds to the County.

Note 4 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the period July 1, 2017 through June 30, 2018.

	Balance July 1, 2017	Additions	Premium Amortization	Retirements	Balance June 30, 2018	Due Within One Year
Tax Allocation Bonds:						
Series 2001, Redevelopment Agency Merger 2	\$ 1,362,991	\$ -	\$ (2,991)	\$ (1,360,000)	\$ -	\$ -
Series 2003, Mariposa Project Area	2,175,393	-	1,788	(313,000)	1,864,181	331,000
Notes Payable:						
California Infrastructure Bank	1,487,602	-	-	(65,351)	1,422,251	67,658
Other Long-Term Liabilities						
Compensated Absences	78,825	22,490	-	(27,650)	73,665	12,000
Total long-term liabilities	<u>\$ 5,104,811</u>	<u>\$ 22,490</u>	<u>\$ (1,203)</u>	<u>\$ (1,766,001)</u>	<u>\$ 3,360,097</u>	<u>\$ 410,658</u>

Fresno Joint Powers Financing Authority: Tax Allocation Revenue Bonds, Series 2001

2001 Tax Allocation Revenue Bonds were issued March 1, 2001. Proceeds were used for redevelopment purposes within the RDA's Merger No. 2 Project Area and to repay a loan from the City of Fresno. Interest ranges from 5.25% to 5.50% on bonds outstanding. The remaining principal in the amount of \$1,360,000 was retired during the fiscal year ended June 30, 2018.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 4 – Long-Term Liabilities (Continued)

2003 Tax Allocation Refunding Bonds, Series 2003: Mariposa Project Area

2003 Tax Allocation Refunding Bonds, Series 2003 (Mariposa Project Area) were issued August 22, 2003. Proceeds were used to refund the RDA's 1993 Tax Allocation Bonds, Series A (Mariposa Redevelopment Project). Interest ranges from 5.125% to 5.625% on bonds outstanding. Principal is due in annual installments of \$331,000 to \$418,000 through February 1, 2023; interest is due annually. The principal amount due is reported net of an issuance discount of \$4,819.

Repayment of the bonds is payable solely from tax increment revenues allocated to the Successor Agency to the City of Fresno Redevelopment Agency's Mariposa Project Area. All of the above revenues are pledged. Revenues are pledged until fiscal year 2023 for a total debt service of \$2,195,360. During fiscal year 2018, \$431,889 Mariposa Project Area tax increment revenue was recognized, while the 2018 debt service was \$434,100.

California Infrastructure and Economic Development Bank Loan

On March 18, 2004, the RDA entered into a thirty year tax allocation loan from the California Infrastructure and Economic Development Bank in the amount of \$2,118,000. Proceeds were used to complete the Roeding Business Park. Principal is due in semi-annual installments ranging from \$67,658 to \$113,845 through August 1, 2033; interest at 3.53% is due semi-annually.

Repayment of the loan is payable solely from tax increment revenues allocated to the Successor Agency to the City of Fresno Redevelopment Agency's Roeding Project Area. Revenues are pledged for a total debt service of \$1,880,716 until the year 2034. During fiscal year 2018, \$122,131 Roeding Project Area tax increment revenue was recognized, while the debt service was \$116,710.

The annual requirements to amortize outstanding bonds and loans included in the Statement of Fiduciary Net Position as of June 30, 2018, including interest, are as follows:

Year(s) Ending June 30	2003 Tax Allocation Refunding Bonds		California Infrastructure and Economic Development Bank Loan	
	Principal	Interest	Principal	Interest
2019	331,000	104,276	67,658	49,011
2020	353,000	86,071	70,047	46,581
2021	370,000	66,656	72,519	44,065
2022-2026	815,000	69,357	402,851	179,357
2027-2031	-	-	479,154	101,707
2032-2034	-	-	330,022	17,744
	<u>\$ 1,869,000</u>	<u>\$ 326,360</u>	<u>\$ 1,422,251</u>	<u>\$ 438,465</u>

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Retirement Plan

Plan Description - The Successor Agency participates in a public agency cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS). The Successor Agency is part of the miscellaneous pool.

CalPERS is governed by the Board of Administration (the Board), which consists of 13 members; two elected by CalPERS members, one elected by active State members, one elected by active CalPERS school members, one elected by active CalPERS public agency members, one elected by retired members of CalPERS, two appointed by the Governor, one public representative appointed jointly by Speaker of the Assembly and Senate Rules Committee and four ex officio members: State Treasurer, State Controller, Director of California Department of Human Resources and Designee of the State Personnel Board. The Board of Administration is responsible for the management and control of CalPERS, including the exclusive control of the administration and investment of the Plan. CalPERS acts as the common investment and administrative agency for the Plan.

The Plan was established to provide retirement, death and disability benefits, and the benefit provisions for Plan employees are established by statute. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Contributions – In January 2013, the California Public Employees' Pension Act (PEPRA) took effect which changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. Individuals hired on or after January 2013 are under PEPRA. All members, who do not fall under this category, are considered classic member. Classic member will retain existing benefit levels for future service with the same employer.

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017 (measurement date), the active employee contribution rate was 7.000 percent of annual pay while the average employer's contributions rate was 8.512 percent of annual payroll.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Retirement Plan (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability - For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. Both the June 30, 2016 total pension liability and the June 30, 2017 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% net of pension plan administrative expenses
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report (based on CalPERS demographic data from 1997 to 2011).

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The experience study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Retirement Plan (Continued)

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position - The plan fiduciary net position disclosed in the Successor Agency's GASB 68 accounting valuation report may differ from the plan assets reported in the Successor Agency's funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and other postemployment benefits expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the Successor Agency's funding actuarial valuation. In addition, differences may result from timing of financial reporting by CalPERS and final reconciled reserves.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Retirement Plan (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Plans - The Successor Agency's net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2017, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The Successor Agency's proportion of the net pension liability was based on a projection of the Successor Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Successor Agency's proportionate share of the net pension liability for the plan as of June 30, 2016 and 2017 was as follows:

At June 30, 2016 (MD):		
Net Pension Liability	\$	400,742
Proportion		0.00463%
At June 30, 2017 (MD):		
Net Pension Liability	\$	480,547
Proportion		0.00485%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability	\$ 791,615	\$ 480,547	\$ 222,916

Recognition of Gains and Losses - Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Retirement Plan (Continued)

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARS�) is calculated by dividing the total future service years by the total number of participants (active, inactive and retired) in PERF C.

The EARS� for the June 30, 2017 measurement date is 3.8 years, which was obtained by dividing the total service years 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows - As of the beginning of the measurement period (July 1, 2016), the net pension liability/(asset) for the plan is \$400,742 (The net pension liability of the Miscellaneous Risk Pool as of June 30, 2017 is \$3,942,047,621).

For the measurement period ended June 30, 2017 (the measurement date), the Successor Agency incurred a pension expense of \$48,241 for the Plan (the pension expense for the risk pool for the measurement period is \$719,747,608). Pension expense is recorded as part of general and administrative expense.

As of June 30, 2018, the Successor Agency reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 33,442	\$ -
Difference between expected and actual experience	94,369	7,196
Changes in assumptions	761	10,897
Net difference between projected and actual earnings on pension plan investments	21,342	-
Changes in employer's proportions	-	25,046
Difference between the employer's contributions and the employer's proportionate share of contributions	-	48,943
Total	<u>\$ 149,914</u>	<u>\$ 92,082</u>

The amounts above are net of outflows and inflows recognized in the 2016-17 measurement period expense.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Retirement Plan (Continued)

In addition to the figures shown in the table above, each employer is required to recognize an employer-specific expense item and a deferred outflow or deferred inflow of resources related to pensions. This is derived from the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions. At July 1, 2017, this difference was \$48,943 and is reported as a deferred outflow of resources as the actual contributions of the Successor Agency exceed the employer's proportionate share of the risk pool's total contributions recognized by the Plan.

\$33,442 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	(20,293)
2020	34,204
2021	23,151
2022	(12,672)

Note 6 – Loans from the City of Fresno

Loans over the years between the City and the former RDA were made to provide funds to eliminate blight and to develop, construct, rehabilitate and revitalize Fresno's inner city neighborhood, downtown and industrial areas. The loans were all secured by and payable from the incremental property tax revenues of the redeveloped properties. Interest rates varied between 5% and 9% with payments on the loan and related interest based upon budgetary priority as approved by the former RDA. Redevelopment Agencies were structured such that incremental property tax revenues would continue to be received during the period that the debt remained outstanding.

With the dissolution of the former RDA under ABx1 26, the State established a process whereby Successor Agencies (SAs) are required to draft a Recognized Obligation Payments Schedule (ROPS) delineating enforceable obligations of former RDAs and their source of payment. These schedules are subject to the approval of the local oversight board. Once approved by the oversight board, they are submitted to the Department of Finance (DOF). The DOF has had many issues with the ROPS submitted by SAs, particularly previous agreements between cities and RDAs showing the cities as payee.

The initial dissolution law provided that the Successor Agency would pay "enforceable obligations" of the former RDA. Enforceable obligations primarily included pending contractual commitments of the former RDA. However, the law initially excluded from the definition of enforceable obligations, debt a former agency owed to the city that created it, unless the debt was created in the first two years following the agency's creation or debt that represented third party obligations, such as bonds. Subsequent legislation AB1484 allows limited, conditional repayment of loans by the Successor Agency to the Sponsoring Community (City) through a process that includes approval by the Oversight Board and the State DOF.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Loans from the City of Fresno (Continued)

The Successor Agency and the City were adamant that the debt owed to the City was ultimately due and owing, subject to the final decision by the DOF, the judgment of a court case (the City of Cerritos), and additional litigation based upon as applied challenges as were being brought. A lawsuit was filed in the Sacramento Superior Court by the City of Cerritos, its redevelopment agency, and nine other Cities and agencies, challenging State legislation. Ultimately, the Courts ruled in favor of the cities.

As it was considered premature to consider the debt owed to the City as being current, an allowance for doubtful accounts was created at June 30, 2011, which totaled \$80,113,531. This amount was reflective primarily of principal and interest accrued over the years on the loans. The allowance was recorded at the full amount of the debt, including principal and interest as the timing of receipt was undeterminable.

On June 2, 2014, the former RDA received a letter from the State Department of Finance in which they notified the former RDA that they had completed their Finding of Completion for the Successor Agency. They noted that they had concluded their review of the Successor Agency's documentation and related supporting schedules submitted to substantiate or confirm former RDA's transactions with its sponsoring entity, the City of Fresno. The letter went on to authorize the Successor Agency to place the loan agreements between the former RDA and the City on the ROPS as an enforceable obligation, provided that the Oversight Board made a finding that loans were for legitimate redevelopment purposes pursuant to Health Safety Code (HSC) Section 34191.4(b)(1). It went on to further state that loan repayments would be governed by criteria in HSC Section 34191.4(a)(2). The letter also authorized the use the bond proceeds related to bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants per HSC Section 34191.4(c).

During the process of researching and providing documentation to the State to support former RDA debt to the City, loans in one project area were revised which resulted in a reduction to the obligation in the amount of \$4,766,817. In certain instances, the State denied several individual loan balances. The Successor Agency also added a payment commitment to the ROPS that arose out of a Disposition and Development Agreement entered into by the City and the former RDA. This commitment added \$1,600,000 to the schedule. Several other adjustments were noted and made which increased the loans by an additional \$88,746.

As of June 30, 2018, the Department of Finance has approved \$21,985,387 of the outstanding loan balance. The Successor Agency requests and receives tax increment as part of the annual ROPS approval process to fund loan repayments. During fiscal year 2018, the Successor Agency used tax increment in the amount of \$4,003,621 to repay \$1,965,636 and \$2,037,985 in principal and interest, respectively.

Twenty percent of any loan repayment received by the City must be deducted from the loan repayment amount and be paid to the City's Low and Moderate Income Housing Asset Fund. Payments to the City's Low and Moderate Income Housing Asset Fund are required under Senate Bill (SB) 107 and are subject to the reporting requirements of subdivision (f) of Section 34176.1. In fiscal year 2018, this amount totaled \$800,724.

The Department of Finance continues to deny \$6,078,659 of the loans, including accrued interest, which are currently under litigation or dispute. As future collectability of this amount is undeterminable, a corresponding allowance for doubtful accounts has been recorded at the end of fiscal year 2018.

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – New Accounting Pronouncements

The Successor Agency to the Redevelopment Agency of the City of Fresno did not implement any recent Governmental Accounting Standards Board (GASB) pronouncements during the fiscal year ended June 30, 2018.

The following pronouncements were issued by GASB but were determined to not have an impact on the Successor Agency's financial statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016.
- GASB Statement No. 85, *Omnibus*, effective for fiscal years beginning after June 15, 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017.

The GASB pronouncements issued that may have an impact on future financial presentation include:

- GASB Statement No. 83, *Certain Assets Retirement Obligations*, effective for fiscal years beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018.
- GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for fiscal years beginning after June 15, 2018.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2019.
- GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, effective for fiscal years beginning after December 15, 2018.

Note 8 - Contingencies

The Successor Agency has filed a petition for writ of mandate in the Sacramento Superior Court seeking a court order that would require the California State Department of Finance to permit the reinstatement and repayment of 17 additional loans. The trial court ruled in favor of the Successor Agency, in part, and ordered the Department of Finance to reconsider its decision denying 13 of the 17 loans. The Department of Finance filed a notice of appeal on September 16, 2016. The appeal is fully briefed and the parties are awaiting oral argument and a decision.

REQUIRED SUPPLEMENTARY INFORMATION

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SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO
(A Fiduciary Component Unit of the City of Fresno, California)
Required Supplementary Information
For the Year Ended June 30, 2018

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Four Fiscal Years¹**

Fiscal Year End Measurement Date	6/30/2018 <u>6/30/2017</u>	6/30/2017 <u>6/30/2016</u>	6/30/2016 <u>6/30/2015</u>	6/30/2015 <u>6/30/2014</u>
Successor Agency's Proportion of the Net Pension Liability/(Asset)	0.00485%	0.00463%	0.00441%	0.00499%
Successor Agency's Proportionate Share of the Net Pension Liability/(Asset)	\$ 480,547	\$ 400,742	\$ 302,845	\$ 310,600
Successor Agency's Covered Payroll ²	\$ 195,701	\$ 189,299	\$ 322,826	\$ 268,977
Successor Agency's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	245.55%	211.70%	93.81%	115.47%
Successor Agency's Proportionate Share of the Fiduciary Net Position as a Percentage of Successor Agency's Total Pension Liability	73.31%	74.06%	78.40%	80.91%

**SCHEDULE OF CONTRIBUTIONS
Four Fiscal Years¹**

Fiscal Year	2018 <u> </u>	2017 <u> </u>	2016 <u> </u>	2015 <u> </u>
Contractually required contributions (actuarially determined) (CRC)	33,442	30,464	23,783	30,333
Contributions in Relation to the Actuarially Determined Contribution	<u>(33,442)</u>	<u>(30,464)</u>	<u>(23,783)</u>	<u>(30,333)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll ²	\$ 199,563	\$ 195,701	\$ 189,299	\$ 322,826
Contributions as a Percentage of Covered Payroll ²	16.76%	15.57%	12.56%	9.40%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered Payroll represents total pensionable payroll of employees that are provided pensions through the pension plan.

³ The Successor Agency's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The Successor Agency's proportionate share of aggregate contributions is based on the Successor Agency's proportion of fiduciary net position in the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

Change in Benefit Terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013, as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes). The Successor Agency does not have separately financed employer-specific liabilities at June 30, 2018.

Change in Discount Rate Subsequent to Year End – In December 2016, the CalPERS Board of Administration voted to lower the discount rate gradually to 7.0 percent by FY 2019-2020 measurement period.

Actuarial Assumptions

Valuation Dates:	6/30/14 (6/30/15 MD and 6/30/16 fiscal year) 6/30/15 (6/30/16 MD and 6/30/17 fiscal year) 6/30/16 (6/30/17 MD and 6/30/18 fiscal year)
Actuarial cost method:	Entry age normal cost method
Amortizations method:	Level of percentage of payroll
Remaining amortization period:	19 years as of valuation date
Asset valuation method:	15 year smoothed market
Inflation:	2.75%
Projected salary increases:	3.30% to 14.20% depending on age, service, and type of employment
Discount rate:	7.50% net of administrative expenses (6/30/14 VD) 7.65% (6/30/14 and 6/30/15 VD) 7.15% (6/30/15 and 6/30/16 VD)
Retirement age:	55 years
Mortality:	RP-2000 Healthy Annuitant Mortality Table

COMPLIANCE REPORT

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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***

Members of the Oversight Board
Successor Agency to the Redevelopment Agency of the City of Fresno
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 Successor Agency to the Redevelopment Agency of the City of Fresno (the Successor Agency), a fiduciary component unit of the City of Fresno, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Successor Agency'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Successor Agency'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 Successor Agency'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 Successor Agency'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 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 Successor Agency'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 Successor Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California
December 20, 2018