

**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, 2022



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)
For the Year Ended June 30, 2022

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Independent Auditor's Report

To the City Council of the City of Fresno,
in its capacity as the Housing Successor to
the Redevelopment Agency of the City of Fresno
Fresno, California

Report on the Audit of the Financial Statements

Opinion

We have audited 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, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2022, 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.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not

a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary 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 Fund's financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 January 11, 2023, on our consideration of the City'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 solely 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 the effectiveness of the City's internal control over the financial reporting or on compliance related to the Fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance related to the Fund.

Macias Gini & O'Connell LLP

Los Angeles, California
January 11, 2023

**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, 2022

Assets

Restricted cash held by financial institutions	\$ 10,003,934
Accounts receivable	62,208
Property held for resale	3,599,615
Loans and notes receivable, net	20,083,978
Total assets	<u>\$ 33,749,735</u>

Fund Balance

Restricted	<u>\$ 33,749,735</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, 2022

Revenues:

Use of money and property	\$ 14,090
City-Agency loan repayment contribution	433,123
Other revenue	27,437
Total revenues	<u>474,650</u>

Expenditures:

General government	228,836
Community development	24,838
Loss on forgiveness of loans	713
Loss on transfer of property	453,000
Loss on write-down of property	703,615
Total expenditures	<u>1,411,002</u>

Change in fund balance	(936,352)
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Fund balance, beginning	34,686,087
Fund balance, ending	<u><u>\$ 33,749,735</u></u>

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
For the Year Ended June 30, 2022**

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 accordance with 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 (Fund) 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.

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.

**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)
For the Year Ended June 30, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

The City, in its capacity as the Housing Successor to the Redevelopment Agency of the City of Fresno, adopts an annual budget for the Fund 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 Fund. 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, 2022, encumbrances totaled \$6,917,367 in the Fund.

Restricted Cash Held by Financial Institutions

Deposits held by financial institutions in the name of the Fund totaled \$10,003,934 at June 30, 2022, and are restricted for housing activities by California Health and Safety Code Section 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 Fund maintains cash accounts with Wells Fargo Bank. Accounts in excess of federal depository insurance limits 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 by 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, 2022, the Fund's deposits with financial institutions with a bank balance of \$10,072,628 in excess of federal depository insurance limits of \$250,000 was \$9,822,628 and are 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 estimated conveyance value of a property based on current intended use. Property held for sale, during the period it is held by the Fund, may generate rental income, which is recognized as it becomes due and is considered collectable.

**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)
For the Year Ended June 30, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Fund did not have nonspendable fund balance at June 30, 2022.

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 Fund at June 30, 2022, in the amount of \$33,749,735 was considered restricted for housing activities.

Committed – Includes amounts that can only be used for specific purposes pursuant to Section 1212 of the City's Charter, which establishes a policy for managing City Reserves. The Fund did not have committed fund balance at June 30, 2022.

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 Fund did not have assigned fund balance at June 30, 2022.

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 Fund did not have an unassigned deficit fund balance at June 30, 2022.

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)
For the Year Ended June 30, 2022**

NOTE 3 – LOANS AND NOTES RECEIVABLE

Use of Estimates (Continued)

Loans and notes receivables are presented in the financial statements net of the allowance for uncollectible accounts. The allowance for uncollectible accounts reduces the reported amount of a receivable to net realizable value. Providing an allowance for uncollectible 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, 2022, the allowance for uncollectible amounts 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.

The composition of the loans and notes receivable balance at June 30, 2022, is as follows:

Loans Receivable	\$ 700,081
Notes Receivable	21,133,897
Subtotal	<u>21,833,978</u>
Allowance for doubtful accounts	<u>(1,750,000)</u>
Total loan and notes receivable, net	20,083,978
Amount not expected to be collected in one year	<u>(19,958,978)</u>
Current Amount	<u><u>\$ 125,000</u></u>

The net loans and notes receivable balance is included in restricted fund balance at June 30, 2022, as proceeds collected are restricted for housing activities. During fiscal year 2022, \$713 of loans were forgiven and written off.

NOTE 4 – CITY-AGENCY LOAN REPAYMENT AGREEMENT

The Successor Agency to the Redevelopment Agency of the City of Fresno (Successor Agency) transferred \$433,123 to the Fund for the year ended June 30, 2022, pursuant to paragraph (3) of subdivision (b) of Section 34191.4 of the California Health and Safety Code. This amount represents income of 20% of City/Successor Agency loan repayments made during the fiscal year ended June 30, 2022.

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, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budget To GAAP	Actual Amounts
	Original	Final	Budgetary Basis	Over (Under)	Reconciliation	GAAP Basis
Budgetary Fund Balance, July 1	\$ 6,620,689	\$ 6,620,689	\$ 6,620,689	\$ -	\$ (6,620,689)	\$ -
Resources (inflows):						
Use of money and property	530,132	530,132	546,217	16,085	(532,127)	14,090
City-Agency loan repayment contribution	433,123	433,123	433,123	-	-	433,123
Other revenue	-	-	27,437	27,437	-	27,437
Total available for appropriation	<u>7,583,944</u>	<u>7,583,944</u>	<u>7,627,466</u>	<u>43,522</u>	<u>(7,152,816)</u>	<u>474,650</u>
Charges to appropriations (outflows):						
General government	500,000	500,000	228,836	(271,164)	-	228,836
Community development	7,083,944	7,083,944	24,838	(7,059,106)	-	24,838
Loss on forgiveness of loans	-	-	-	-	713	713
Loss on sale of property	-	-	453,000	(453,000)	-	453,000
Loss on sale of property	-	-	703,615	(703,615)	-	703,615
Total charges to appropriations	<u>7,583,944</u>	<u>7,583,944</u>	<u>1,410,289</u>	<u>(8,486,885)</u>	<u>713</u>	<u>1,411,002</u>
Excess (deficit) resources over (under) appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,217,177</u>	<u>\$ 8,530,407</u>	<u>\$ (7,153,529)</u>	<u>\$ (936,352)</u>

**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 of the City of Fresno,
in its capacity as the Housing Successor 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 Low and Moderate Income Housing Asset Special Revenue Fund (the Fund) of the City of Fresno, California (the City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2023. Our report includes an emphasis of matter paragraph indicating that the financial statements present only the Fund's financial statements.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the Fund financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the Fund, as a basis for designing 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 City's internal control related to the Fund. Accordingly, we do not express an opinion on the effectiveness of the City's internal control related to the Fund.

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.

Report on 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 Fund's financial statements. 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 City's internal control or on compliance related to the Fund. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance related to the Fund. Accordingly, this communication is not suitable for any other purpose.

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

Los Angeles, California
January 11, 2023