



City of Simi Valley
Audited Financial Statements
Successor Housing Agency (SHA) to Community
Development Agency Housing Administration Fund
As of and for the Year Ended June 30, 2018
with Report of Independent Auditors

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Report of Independent Auditors

**The Honorable City Council
City of Simi Valley, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Housing Agency (SHA) to Community Development Agency Housing Administration Fund of the City of Simi Valley, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SHA Fund's 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.

Auditors' 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 Housing Agency to Community Development Agency Housing Administration Fund of the City of Simi Valley, California as of June 30, 2018, 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.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Successor Housing Agency to Community Development Agency Housing Administration Fund and do not purport to, and do not, present fairly the financial position of the City of Simi Valley, California, as of June 30, 2018, 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. Our opinion is not modified with respect to this matter.

Vasquez + Company LLP

**Glendale, California
December 17, 2018**

City of Simi Valley
SHA to Community Development Agency Housing Administration Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments	\$	4,560,630
Accounts receivable		54,919
Interest receivable		17,828
Loans receivable		16,775,875
Due from General Fund		298
Total assets	\$	<u><u>21,409,550</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued expenses	\$	76,263
Total liabilities		<u>76,263</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue	<u>16,775,875</u>
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FUND BALANCES

Restricted for housing programs	4,557,412
Total fund balances	<u>4,557,412</u>

Total liabilities, deferred inflows of resources and fund balances	\$	<u><u>21,409,550</u></u>
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See notes to financial statements.

City of Simi Valley
SHA to Community Development Agency Housing Administration Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2018

Revenues

Use of money and property	\$	300,521
Service charges		18,154
		318,675
Total revenues		318,675

Expenditures

Current:		
Housing and Community Development		822,178
		822,178
Total expenditures		822,178

Deficiency of revenues over expenditures (503,503)

Change in fund balance (503,503)

Fund balance, beginning of year		5,060,915
Fund balance, end of year	\$	4,557,412

See notes to financial statements.

NOTE 1 GENERAL

The Successor Housing Agency (SHA) to Community Development Agency Housing Administration Fund of the City of Simi Valley, California (City) accounts for the housing assets and housing-related functions of the City's former Community Development Agency (the Agency). The SHA to Community Development Agency Housing Administration Fund is a Low and Moderate Income Housing Asset Fund and, as such, the City is required by Senate Bill No. 341, approved by the Governor on October 13, 2013, to provide an independent auditor's report on the financial statements of the Low and Moderate Income Housing Asset Fund within six months after the end of each fiscal year.

Pursuant to the provisions of California Assembly Bill X1 26 (ABX1 26) (as subsequently amended from time to time, the "Dissolution Law"), on January 30, 2012, the City Council of the City passed and adopted Resolution No. 2012-07 electing to retain the housing assets and functions previously performed by the former Simi Valley Community Development Agency, and thereby manage the housing assets and functions of the former Community Development Agency in accordance with the California Housing Authority Law and other applicable housing-related regulations.

The transfer of the housing assets was made to the Successor Housing Agency on February 1, 2012, and subsequently approved by the California Department of Finance in accordance with the requirements of the Dissolution Law.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of the City of Simi Valley are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. The SHA to Community Development Agency Housing Administration Fund is accounted for as a Special Revenue Fund of the City. As such, the accompanying financial statements present only the Successor Housing Agency Fund and do not purport to, and do not, present fairly the financial position and the changes in financial position of the City of Simi Valley, California as of and for the year ended June 30, 2018.

Basis of Accounting

Special Revenue Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

Special Revenue Funds are accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Receivables

Receivables represent amounts owed to the SHA to Community Development Agency Housing Administration Fund pursuant to agreements for the development and operation of housing properties. These receivables are long-term in nature and as such these assets are considered to represent a restricted portion of the SHA Fund's fund balance.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The SHA to Community Development Agency Housing Administration Fund's fund balance classification as of June 30, 2018 is classified as:

- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The SHA Fund's remaining fund balances are restricted for eligible housing and community development costs as required by grantor agreements, laws and regulations.

Information regarding the fund balance reporting policy adopted by the City is described in Note I to the City of Simi Valley's Comprehensive Annual Financial Report.

NOTE 3 LOANS RECEIVABLE

The City utilizes multiple sources for funding projects designed to improve, produce and preserve low-and moderate-income housing units. This includes the SHA to Community Development Agency Housing Administration Fund. One of the primary means of providing affordable housing is through negotiation with developers to incorporate affordable units within new residential developments. In addition, the City maintains an active home rehabilitation program, offering 2% interest, deferred payment loans to very-low, and low-income homeowners to preserve the City's housing stock.

Affordable Housing Program

- Casa de Paz Housing, Inc., an affiliate of Many Mansions (Casa de Paz Apartments)
In July 2001, the Agency entered into an affordable housing agreement with Casa de Paz Housing, Inc. to provide financial assistance for the acquisition and rehabilitation of a 14-unit apartment complex, restricting occupancy to very low-income persons with disabilities. The City and Agency approved an amended affordable agreement on November 20, 2001, to incorporate additional provisions required by HUD. The loan is due 50 years from the certificate of occupancy dated October 25, 2002.
- ARC of Ventura County, Inc. (Vista Del Monte Rental Condominiums)
In April 2002, the Agency entered into an affordable housing agreement with ARC of Ventura County, Inc., to provide financial assistance for the acquisition of four condominium units for occupancy by very low-income, developmentally disabled persons. The loan is due and payable 55 years from the affordable housing agreement dated August 16, 2002, or within 60 days after HUD provides notice to the developer that it will no longer provide project-based rental assistance.
- Paseo Simi Senior Apartments, LP., an affiliate of USA Properties Fund Inc. (Vintage Paseo Apartments)
In December 2002, the Agency entered into an affordable housing agreement with Paseo Simi Senior Apartments, L.P. to provide financial assistance for the construction and operation of a 176-unit multifamily senior apartment complex located at the southeast corner of Tapo Canyon Road and Avenida Simi. The agreement restricts the rental of 86 units to very low- and low-income senior households. Interest accrues up to the end of the 7th year following the commencement of bond amortization. Repayment of the note is to be made from residual receipts and begins in the 8th year following commencement of bond amortization; the note becomes due and payable 55 years from the last certificate of occupancy dated December 16, 2004.

NOTE 3 LOANS RECEIVABLE (CONTINUED)

- Alamo & Fairbanks Associates, an affiliate of Cabrillo Economic Development Corporation (Plaza del Sol Apartments)
In September 2003, the Agency entered into an amended affordable housing agreement with Alamo & Fairbanks Associates, to assist with the financing for constructing and operating a 70-unit multi-family apartment project, Plaza del Sol Apartments. The agreement restricts the rental of 34 units to very low- and low-income households. The note is to be repaid from residual receipts and is due and payable 55 years from the last certificate of occupancy dated August 11, 2005.

- La Rahada, LLC., an affiliate of Many Mansions (La Rahada Apartments)
In June 2008, the Agency entered into an affordable housing agreement with Many Mansions to provide financial assistance for the acquisition and rehabilitation of an 8-unit apartment complex, La Rahada Apartments, for occupancy by extremely low-income, mentally disabled, and homeless individuals. The note is due and payable 55 years from issuance of the promissory note dated June 17, 2008.

- Peppertree SV, LLC., an affiliate of Many Mansions (Peppertree Apartments)
In June 2011, the Agency entered into an affordable housing agreement with Many Mansions to provide financial assistance in the form of both a bridge and permanent loan for the acquisition and rehabilitation of a 12-unit apartment complex, Peppertree Apartments, for occupancy by extremely low-income, mentally disabled, and homeless individuals. The bridge loan, with terms of due and payable 18 months from issuance, was paid off in January 2015. The permanent loan is due and payable 55 years from issuance of the promissory note dated October 14, 2013.

- Camino Esperanza, LP., an affiliate of Cabrillo Economic Development Corporation (Camino Esperanza Senior Apartments)
In December 2015, the Agency entered into an affordable housing agreement with Cabrillo Economic Development Corporation to provide a \$500,000 permanent loan to develop a 31-unit senior housing complex. The permanent loan shall bear 3% simple interest per annum beginning on the 18th anniversary of the promissory note dated December 1, 2015. Subsequently, the Agency provided an additional \$186,279 interest-free loan for the project in May 2018, and amended the affordable housing agreement terms to add an additional 10 years of affordability. The first note is due and payable 55 years from issuance of the promissory note dated December 1, 2015. The second note is due and payable 65 years from issuance of the final Certificate of Occupancy dated June 28, 2016.

City of Simi Valley
SHA to Community Development Agency Housing Administration Fund
Notes to Financial Statements
Year ended June 30, 2018

NOTE 3 LOANS RECEIVABLE (CONTINUED)

Home Rehabilitation Program

This Program was established in 1981. The Program offers low interest deferred loans to lower-income homeowners. Qualified owners of detached single-family residences are eligible for a deferred 2% loan that accrues interest for a maximum of 15 years. Full repayment is required when the property is sold, refinanced, leased, changes title, or 30 years from issuance of the promissory note, whichever occurs first. The maximum loan amount is \$50,000.

In response to the dissolution of state redevelopment program funding (a result of AB X1 26) the City Council authorized suspension of two affordable housing programs - the First Time Home Buyer Program (FTHB) and the Mobile Home Rehabilitation Program. Over its many years of operation, the FTHB program generated several different loan types, the most recent of which would provide \$50,000 per bedroom up to \$200,000. The City maintains over 90 loans generated by this program, many of which are due and payable at the end of a 55-year term of affordability.

The Mobile Home Rehabilitation Program provided \$10,000 rehabilitation loans to low-income mobile home owners. These loans were generated from 2008 to 2011 and are forgiven 20% for each year that the owner remained in the home. The final loan was forgiven in June 2017.

Below is the summary of the loans receivable of the SHA to Community Development Agency Housing Administration Fund as of June 30, 2018:

	<u>Interest</u> <u>Rate</u>	<u>Term</u> <u>(Yrs)</u>	<u>Year</u> <u>Due</u>	<u>Outstandin</u> <u>g Principal</u>	<u>Accrued</u> <u>Interest</u>	<u>Total</u>
Affordable Housing Program:						
Casa de Paz Apartments	0.0%	50	2052	\$ 122,551	\$ -	\$ 122,551
ARC of Ventura Co.	0.0%	55	2057	175,000	-	175,000
Vintage Paseo Apartments	3.0%	55	2059	1,672,500	116,495	1,788,995
Plaza del Sol Apartments	3.0%	55	2060	1,900,000	572,944	2,472,944
La Rahada Apartments	3.0%	55	2063	250,000	75,292	325,292
Peppertree Apartments	3.0%	55	2068	575,000	81,051	656,051
Camino Esperanza	3.0%	55	2071	500,000	-	500,000
Camino Esperanza Amendment #1	0.0%	65	2083	186,279	-	186,279
Total Affordable Housing Program				5,381,330	845,782	6,227,112
First Time Homebuyer Program	Equity Share			10,187,038	-	10,187,038
Home Rehabilitation Program	0.0 - 3.0%			303,973	57,752	361,725
Housing loans receivable				\$ 15,872,341	\$ 903,534	\$ 16,775,875

NOTE 4 DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”* and GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities,”* the Successor Housing Agency Fund recognized deferred inflows of resources in the Successor Housing Agency Fund’s financial statements. The deferred inflows of resources, amounting to \$16,775,875 pertain to unavailable revenues which represent loans receivable that are not collectable within the availability period.

NOTE 5 SUBSEQUENT EVENTS

The City of Simi Valley has evaluated events subsequent to June 30, 2018 to assess the need for potential recognition or disclosure in the financial statements of the SHA Fund. Such events were evaluated through December 17, 2018, the date the financial statement was available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the notes to financial statements of the SHA to Community Development Agency Housing Administration Fund.



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