

**CITY OF SANTA FE SPRINGS
LOW AND MODERATE INCOME
HOUSING ASSETS FUND**

SANTA FE SPRINGS, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2015

SANTA FE SPRINGS LOW AND MODERATE INCOME
HOUSING ASSETS FUND

JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Santa Fe Springs Housing Authority
City of Santa Fe Springs, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Santa Fe Springs Low and Moderate Income Housing Assets Fund, (the Housing Successor), a special revenue fund of the Santa Fe Springs Housing Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Housing Successor'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.

Auditors' Responsibility

Our responsibility is to express opinions 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 opinions.



To the Board of Directors
Santa Fe Springs Low and Moderate Income Housing Assets Fund
City of Santa Fe Springs, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Santa Fe Springs Low and Moderate Income Housing Assets Fund, as of June 30, 2015, and the respective changes in financial 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 30, 2015 on our consideration of the Housing Successor'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Successor's internal control over financial reporting and compliance.

Brea, California
December 30, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE
REQUIREMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, California

Report on Compliance for the Housing Successor

We have audited the Santa Fe Springs Low and Moderate Income Housing Assets Fund (the Housing Successor) compliance with the type of compliance requirements described in the California Health and Safety Code sections applicable to California Housing Successor Agencies for the year ending June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies.

Auditors' Responsibility

Our responsibility is to express an opinion on the Housing Successor's compliance with the California Health and Safety Code sections applicable to California Housing Successor Agencies. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *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 noncompliance with the types of compliance requirements referred above that could have a direct and material effect on Housing Successor occurred. An audit includes examining, on a test basis, evidence about the Housing Successor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Housing Successor. However, our audit does not provide a legal determination of the Housing Successor's compliance with those requirements.

Opinion

In our opinion, the Housing Successor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Housing Successor for the year ending June 30, 2015.

Report on Internal Control over Compliance

Management of the Housing Successor is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Successor's internal control over compliance with the types of requirements that could have a direct and material effect on the Housing Successor to determine the auditing procedures that are appropriate in the circumstances for the



To the Honorable Mayor and Members of the City Council
City of Santa Fe Springs, California

purpose of expressing an opinion on compliance and to test and report on internal controls over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Successor's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance of California Health and Safety Code sections applicable to California Housing Successor Agencies on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of California Health and Safety Code sections applicable to California Housing Successor Agencies will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we noted the following that we consider a significant deficiency:

Timely Submission of the Housing Annual Report

As of the date of this report, the Housing and Community Development (HCD) annual report for fiscal year ended June 30, 2014 due on April 1, 2015 has not submitted. Senate Bill 341 required annual submission of the Housing Successor annual report by April 1 of each year.

Management's Response:

The Annual Housing Element Report due April 1, 2015 containing the required information for the Housing Successor was not filed. The City is currently working to retain the services of a consultant to assist the City in preparing the report.

City's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of California Health and Safety Code sections applicable to California Housing Successor Agencies. Accordingly, this communication is not suitable for any other purpose.

Brea, California
December 30, 2015

CITY OF SANTA FE SPRINGS LOW AND MODERATE INCOME HOUSING ASSETS FUND

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
 JUNE 30, 2015

	Governmental Fund	Reclassifications and Eliminations	Statement of Net Position
Assets:			
Pooled cash and investments	\$ 1,264,525	\$ -	\$ 1,264,525
Receivables:			
Accounts	29,098	-	29,098
Notes and loans	1,054,667	-	1,054,667
Advances to successor agency	3,193,445	-	3,193,445
Advances to other funds	1,437,861	-	1,437,861
Land held for resale	801,800	-	801,800
Total Assets	\$ 7,781,396	\$ -	\$ 7,781,396
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 1,214	\$ -	\$ 1,214
Total Liabilities	1,214	-	1,214
Deferred Inflows of Resources:			
Unavailable revenues	1,000,000	(1,000,000)	-
Total Deferred Inflows of Resources	1,000,000	(1,000,000)	-
Fund Balances/Net Position:			
Nonspendable:			
Land held for resale	801,800	(801,800)	-
Notes and loans	54,667	(54,667)	-
Advances	3,193,445	(3,193,445)	-
Restricted for:			
Low and moderate income housing	2,730,270	5,049,912	7,780,182
Total Fund Balances/Net Position	6,780,182	1,000,000	7,780,182
Total Liabilities, Deferred Inflows of Resources, and Fund Balances/Net Position	\$ 7,781,396	\$ -	\$ 7,781,396

CITY OF SANTA FE SPRINGS LOW AND MODERATE INCOME HOUSING ASSETS FUND

STATEMENT OF ACTIVITIES AND GOVERNMENTAL STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2015

	<u>Governmental Fund</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Position</u>
Revenues:			
Use of money and property	\$ 174,491	\$ -	\$ 174,491
Total Revenues	<u>174,491</u>	<u>-</u>	<u>174,491</u>
Expenditures:			
Current:			
Community development	229,201	(193,000)	36,201
Total Expenditures	<u>229,201</u>	<u>(193,000)</u>	<u>36,201</u>
Net Change in Fund Balances	(54,710)	193,000	138,290
Fund Balances/Net Position:			
Beginning of year	6,834,892	807,000	7,641,892
End of Year	<u>\$ 6,780,182</u>	<u>\$ 1,000,000</u>	<u>\$ 7,780,182</u>

**SANTA FE SPRINGS LOW AND MODERATE INCOME
HOUSING ASSETS FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The accompanying financial statements present only the Low and Moderate Income Housing Assets Special Revenue Fund of the City of Santa Fe Springs, California (City) and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. The Bill impacted the reporting entity of the City that previously had reported a redevelopment agency within the report entity of the City as a blended component unit.

On January 10, 2012, and in accordance with California Health and Safety Code Section 34176, the City Council elected to retain the housing assets and function of the former redevelopment agency. The City continues to report the housing assets and functions in the government special revenue fund designated Low and Moderate Income Housing Assets Fund.

The attached basic financial statements contain information relative only to the Santa Fe Springs Low and Moderate Income Housing Assets Fund (the Housing Successor).

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (Statement of Net position and Statement of Activities) report information on all activities of the Housing Successor. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental special revenue fund.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. For this purpose, the government considers 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.

**SANTA FE SPRINGS LOW AND MODERATE INCOME
HOUSING ASSETS FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

When both restricted and unrestricted resources are available for use, it is the Housing Successor's policy to use restricted resources first, and then unrestricted resources as they are needed.

d. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

1. Cash and Investments

The Housing Successor's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value. The Housing Successor pools its cash and investments with the City.

2. Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible accounts.

3. Land Held for Resale

Land purchased for resale is capitalized as inventory at acquisition costs or net realizable value, if lower.

4. Deferred Inflow of Resources

The balance sheet of the governmental fund is reporting deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The item, unavailable revenue, is reported in the governmental funds balance sheet for grant receivable that will be recognized as an inflow of resources in the period when the amounts become available.

5. Fund Balance

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

Nonspendable fund balance (inherently nonspendable)
Restricted fund balance (externally enforceable limitations on use)
Committed fund balance (self-imposed limitations on use)
Assigned fund balance (limitation resulting from intended use)
Unassigned fund balance (residual net resources)

**SANTA FE SPRINGS LOW AND MODERATE INCOME
HOUSING ASSETS FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

The City's Council may commit fund balance for specific purposes pursuant to constraints imposed by the adoption of a resolution. These committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use through the same type of formal action taken to establish the commitment. The Board of Director's action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. The Board of Directors has delegated the authority to assign amounts to be used for specific purposes to the City Manager or the Finance Director of the City of Santa Fe Springs for the purpose of reporting these amounts in the annual financial statements.

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

The net position reported on the Statement of Net Position in the government-wide financial statements consists of the following three categories:

Investment in capital assets - This amount consists of capital assets, net of accumulated depreciation.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that do not meet the definition of "investment in capital assets" or "restricted net position."

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**SANTA FE SPRINGS LOW AND MODERATE INCOME
HOUSING ASSETS FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 2: Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	<u>\$ 1,264,525</u>
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The Housing Successor's cash and investments are pooled with the City of Santa Fe Spring's cash and investments in order to generate optimum interest income. The City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the annual report of the City.

Note 3: Loans and Notes Receivable

Contracts and notes receivable as of June 30, 2015, totaled \$1,054,667 and consist of the following:

The Low and Moderate Income Housing Assets Special Revenue Fund has three notes outstanding for "silent second" mortgage notes issued to qualified buyers to assist with housing acquisition. The loans are for \$20,000 and have a term of 15 years. The loans have no payments for the first 10 years and bear simple interest at 6% per annum. The loans are secured by a deed of trust and must be repaid upon sale or refinance of the home. The balance outstanding at June 30, 2014, is \$54,667. In addition, the Low and Moderate Income Housing Assets Special Revenue Fund has ten notes outstanding related to housing for qualified buyers. The loans are secured by a deed of trust and must be repaid upon sale or refinance of the home. The balance outstanding at June 30, 2015, is \$1,000,000.

Note 4: Inter-Fund Activity

Advances to other funds of the City at June 30, 2015, consist of loans as follows:

Advances from	Advances to
	Low and Moderate Income Housing Assets Fund
General Fund	\$ 1,437,861

An advance payable/receivable was set up between the General Fund of the City and the Housing Successor to account for costs originally charged to the Housing Fund but later determined to belong to the General Fund. The advance does not bear interest. There is not a defined repayment schedule at this time but the City expects repayment to be made in the next 5 years

**SANTA FE SPRINGS LOW AND MODERATE INCOME
HOUSING ASSETS FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 5: Advances to the Successor Agency

Advances to the Successor Agency at June 30, 2015, consist of the following:

Low and Moderate Income Housing Assets Fund	<u>\$ 3,193,445</u>
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In May 2012, the former Low and Moderate Income Housing Special Revenue Fund advanced \$3,162,737 to the former Consolidated Redevelopment Project Debt Service Fund and \$30,708 to the Washington Boulevard Redevelopment Project Debt Service Fund. These advances were made to provide the former Commission sufficient funds to make payments to Supplemental Educational Revenue Augmentation Fund (SERAF) to satisfy State payment to public schools through local redevelopment funds as required by AB26 4X. The amount outstanding at June 30, 2015, is \$3,193,445. This advance will be repaid by May 2016. Upon the dissolution of the former redevelopment agency on February 1, 2012, the outstanding receivable was transferred to the Low and Moderate Income Housing Assets Special Revenue Fund, and outstanding payable was transferred to the Successor Agency Private-Purpose Trust Fund.

Pursuant to the Assembly Bill 1484 (AB 1484), the Washington Blvd. and Low and Moderate Income Housing Assets loans are considered "interagency loans" and will only be considered eligible for repayment beginning in fiscal year ending June 30, 2015, subject to annual limitations, once the California Department of Finance issues a "finding of completion". A finding of completion is issued once the Successor Agency has paid all required available balances to the Los Angeles County Auditor-Controller for distribution to various other taxing entities. The available balances consist of three components, including (1) the overpayment of tax increment revenue to the former Commission during the fiscal year ended June 30, 2014, (2) the available balance of unrestricted liquid funds in the former low-moderate income housing fund, and (3) the available balance of unrestricted liquid funds in the former Commission's non-housing funds. The Successor Agency made all required payments and was issued a finding of completion on December 5, 2013.