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Housing Authority of the City of Santa Rosa

Annual **F**inancial **R**eport

For the Fiscal Year Ended June 30, 2017



Housing Authority of
The City of Santa Rosa
(A component Unit of the City of Santa Rosa)

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

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Housing Authority of the City of Santa Rosa Annual Financial Report For the Year Ended June 30, 2017

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Introductory Section



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March 29, 2018

Honorable Mayor and Members of the City Council
Members of the Housing Authority of the City of Santa Rosa
Santa Rosa, California

The Annual Financial Report of the Housing Authority of the City of Santa Rosa (the Authority), a component unit of the City of Santa Rosa (the City), for the fiscal year ended June 30, 2017 is submitted herewith. This report was prepared by the City's Finance Department and is included as a discretely presented component unit of the City in its basic financial statements. The June 30, 2017 basic financial statements have been audited by Macias Gini & O'Connell LLP, independent auditors. The Independent Auditor's Report is included in this report.

Housing Authority

The City established the Housing Authority in 1971.

The purpose of the Authority is to seek to ensure that there is adequate, decent, safe and sanitary housing for low income persons. State law specifies all rights, duties, privileges, and immunities for housing authorities. The Authority staff provides administration and support for adopted plans, approved projects, programs and activities. Activities include administering the budget; monitoring legislation and complying with changes in state and federal law; overseeing consultant contracts and services; monitoring various projects; and providing the research and planning for continued housing and community revitalization efforts within the City.

There are seven members appointed by the City Council, two of whom are participants in the Authority's Rental Housing Assistance Program. Authority staff members are City personnel.

Programs

The major programs and functions of the Authority are rental housing assistance and a variety of programs administered through the Santa Rosa Housing Trust.

RENTAL HOUSING ASSISTANCE

Through the federally funded Housing and Urban Development (HUD) Section 8 Housing Choice Vouchers program, rental assistance is provided to extremely low- and very low-income families. The Section 8 Housing Choice Vouchers program serves approximately 1,900 families. Assistance to renters in the form of direct payments to landlords totaled approximately \$17.1 million this year.

HOUSING & COMMUNITY SERVICES
90 Santa Rosa Avenue □ PO Box 1806, Santa Rosa, CA 95402-1806
Phone (707) 543-3300 □ Fax: (707) 543-3317

www.srcity.org

Major accomplishments of the Rental Housing Assistance program during fiscal year 2016/17 included:

- The Section 8 Housing Choice Voucher (HCV) program maintained a 95% voucher utilization rate and used 100% of Housing Assistance Payments (HAP) budget towards rental payments during 2016/17. The vacancy rate in Santa Rosa is less than 2%. We implemented payment standards at 110% of the Fair Market Rents to ensure that the Housing Choice Voucher program participants have the best opportunity to find housing in a challenging rental market.
- The Veterans Affairs Supportive Housing (VASH) program, a special program of the Section 8 Housing Choice Voucher program, maintained 389 vouchers under contract with HUD. The Authority's \$50,000 set aside for VASH security deposits is still active; over 3/4 the funds have been used or are being held by landlords under the program.
- The Family Self Sufficiency (FSS) Program competed for and received a \$68,800 grant from HUD for the salary and benefits of a FSS case management worker. We have 37 FSS participants, 83% of whom have earned escrow. Twelve families have graduated from the program, two of whom went directly to homeownership.
- The Section 8 Housing Choice Voucher Program received an award from HUD as a 2016 Housing Choice Voucher Program High Performer.

SANTA ROSA HOUSING TRUST

Housing Production and Conversion/Preservation

The Housing Production program assists in the development, conversion and preservation of affordable housing units for extremely low, very low and low-income households. Loans are provided as available and allowed per regulations from HUD Community Development Block Grant (CDBG) and HOME funds, and the City's Housing Allocation Plan (HAP) Housing Impact Fees and General Funds.

Special Needs

The purpose of the Special Needs program is to assist the development or acquisition-rehabilitation of permanent and transitional housing for special populations, such as adults with mental, physical, or developmental disabilities; veterans; and youth exiting the foster care system.

Homebuyer Financing

Homebuyer assistance is provided through silent second "roll-over" mortgages for income-eligible purchasers of previously assisted affordable housing units.

Public Services

The Authority administers contracts with nonprofit organizations which provide services to homeless individuals and families; persons with HIV/AIDS and their families; and fair housing services for qualified residents. The funding comes from HUD CDBG, HUD Housing Opportunities for Persons with AIDS (HOPWA), and the City General Fund.

Housing Services and Compliance

Contract compliance is provided for the Authority's affordable housing loans, as well as for contracts administered on behalf of the City for affordable housing purposes, including Housing Allocation Plan, Density Increase, Rezoning Exemption, In-Fill, Multi-family Housing Revenue Bonds and Fast Track. Compliance activities include reviewing owner occupancy, income levels of occupants, sales prices and rent levels.

Major accomplishments of the Santa Rosa Housing Trust programs during the fiscal year 2016-17 included:

- Provided funding for the third year for the rehabilitation of three (3) existing affordable housing complexes totaling 48 multi-family units.
- \$0.8 million committed for the development of affordable units. These funds will leverage other sources such as tax credits and proceeds from the issuance of tax exempt Multi-Family Housing Revenue Bonds. Projects receiving commitments in FY 2016-17 included Benton Veteran's Village (\$833,641).
- Completed 60 ownership units for low income households; project funded in prior years.
- Five Authority contracts with four nonprofit organizations for homeless services, fair housing services, and services benefiting persons with HIV/AIDS.
- Active compliance monitoring of 3,118 restricted housing units.

HOUSING AUTHORITY OF
THE CITY OF SANTA ROSA



DAVID E. GOUIN
Executive Director

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
A Component Unit of the City of Santa Rosa

Members
June 30, 2017

**Wayne
Downey**
Chair

David Harris
Vice Chair

Stephen Burke
Commissioner

Helga Lemke
Commissioner

Delia Gaitan
Commissioner

Fran Bolduc
Commissioner

Phil Olsen
Commissioner

Financial Section



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Independent Auditor's Report

Members of Housing Authority
of the City of Santa Rosa, California
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Housing Authority of the City of Santa Rosa, California (Authority), a component unit of the City of Santa Rosa, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority, as of June 30, 2017 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of revenues, expenditures and changes in fund balance – budget and actual for the general fund and major special revenue funds, as listed in the table of contents, be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018 on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 29, 2018

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)****June 30, 2017**

As management of the Housing Authority of the City of Santa Rosa (the Authority), a component unit of the City of Santa Rosa (the City), we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017. Readers are encouraged to consider the following information in conjunction with the Authority's basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities by \$146,201,966 (net position). Of this amount, \$140,091,978 (restricted net position) is restricted for affordable housing programs and \$585,963 is invested in capital assets. The remaining amount of \$5,524,025 (unrestricted net position) is available to provide future program services.
- The Authority's governmental funds reported ending fund balances of \$118,223,436, representing an increase of \$4,334,149 compared to the prior year. This increase is primarily due to an increase in the HOME Program Grant funds, increase in the City contributions, and an increase in the State Grant revenues.
- Notes and loans receivables increased by \$821,960 to \$104,645,433 due primarily to new individual loans of \$3,804,000 from BEGIN Program for the Catalina Townhomes project and a loan to Burbank Housing Development Corporation for \$2,198,012 for the Crossroads project, partially offset by a \$5,000,000 repayment received for a loan to Burbank Housing Development Corporation.
- During the year, the Authority had an increase in net position of \$11,827,081. The increase was primarily due to the increase in grant funds from the HOME Program, the State BEGIN Program and an increase in contributions from the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's annual financial report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and other required supplementary information.

The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as accrued interest.

The government-wide financial statements report on the functions of the Authority that are principally supported by intergovernmental revenues. The Authority's purpose is to provide decent, safe, and sanitary housing to low-income and special needs populations, which is funded primarily with grant revenues received from the U.S. Department of Housing and Urban Development (HUD). The Authority fulfills its purpose through the following functions: housing services and compliance, housing conversion/preservation, housing production, public services and rental housing assistance.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The general fund and the special revenue funds *are governmental funds* used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Authority maintains one general fund and nine major special revenue funds in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances.

The governmental funds focus is narrower than that of the government-wide financial statements. It is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. This comparison will facilitate a better understanding of the long-term impacts of the government's near-term financial decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances each provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

Agency funds

The agency fund is a fiduciary fund held by the Authority as an agent for private organizations. The agency funds is custodial in nature and does not involve measurement of results of operations.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's improving or deteriorating financial position. In the case of the Authority, assets exceeded liabilities by \$146,201,966.

Net Position June 30

	2017	2016	Total Dollar Change	Total Percentage Change
Assets:				
Current and other assets	\$ 146,152,908	\$ 140,068,501	\$ 6,084,407	4.3%
Capital assets, net	585,963	616,278	(30,315)	-4.9%
Total assets	<u>146,738,871</u>	<u>140,684,779</u>	<u>6,054,092</u>	4.3%
Liabilities:				
Current and other liabilities	536,905	609,894	(72,989)	-12.0%
Long-term debt	-	5,700,000	(5,700,000)	-100.0%
Total liabilities	<u>536,905</u>	<u>6,309,894</u>	<u>(5,772,989)</u>	-91.5%
Net Position:				
Net investment in capital assets	585,963	616,278	(30,315)	-4.9%
Restricted	140,091,978	131,233,633	8,858,345	6.8%
Unrestricted	5,524,025	2,524,974	2,999,051	118.8%
Total net position	<u>\$ 146,201,966</u>	<u>\$ 134,374,885</u>	<u>\$ 11,827,081</u>	8.8%

The Authority's restricted net position (\$140,091,978) represent resources that are subject to external restrictions for affordable housing programs. By far the largest portion of the Authority's restricted net position (95.8 percent) reflects its investment in notes, loans and interest receivables. There was an increase of \$8,858,345 in restricted net position. A large portion of this increase is due to the increase in grant funds from the HOME Program and the State BEGIN Program. Additionally, the Housing Authority experienced an increase of \$1,823,247 in its interest receivables due to the various significant developer loans and the silent second program and a \$1,046,537 surplus in Housing in Lieu Fees.

The unrestricted net position of the Authority (\$5,524,025) is available to provide future program services. There was an increase of \$2,999,051 in unrestricted net position during the current fiscal year. This increase is primarily due to increases in contributions from the City.

**Change in Net Position
For the Fiscal Year Ended June 30**

	2017	2016	Total Dollar Change	Total Percentage Change
Revenues:				
Program revenues:				
Charges for services	\$ 202,864	\$ 189,785	\$ 13,079	6.9%
Operating grants and contributions	21,948,577	20,336,152	1,612,425	7.9%
General revenues:				
Grants and contributions not restricted to specific programs	9,514,005	3,748,608	5,765,397	153.8%
Unrestricted investment income	3,342,058	3,018,062	323,996	10.7%
Other	402,591	162,794	239,797	147.3%
Total revenues	<u>35,410,095</u>	<u>27,455,401</u>	<u>7,954,694</u>	29.0%
Expenses:				
Rental housing assistance	21,644,601	20,129,187	1,515,414	7.5%
Housing production	882,263	898,810	(16,547)	-1.8%
Housing conversion/preservation	177,925	121,852	56,073	46.0%
Public services	234,980	234,980	-	0.0%
Housing services and compliance	643,245	309,239	334,006	108.0%
Total expenses	<u>23,583,014</u>	<u>21,694,068</u>	<u>1,888,946</u>	8.7%
Change in net position	11,827,081	5,761,333	6,065,748	105.2%
Net position, beginning of year	<u>134,374,885</u>	<u>128,613,552</u>	<u>5,761,333</u>	4.5%
Net position, end of year	<u>\$ 146,201,966</u>	<u>\$ 134,374,885</u>	<u>\$ 11,827,081</u>	8.8%

The net position of the Authority increased by \$11,827,081 during the current fiscal year. The Authority's revenues are largely intergovernmental revenues received from cost reimbursement grants. The Authority draws down monies from the grants' awards for allowable program expenses, except for non-cash transactions, such as depreciation expense. The Authority's intergovernmental revenues and charges for services were sufficient to cover all operational expenses incurred during the year.

The table above reflects an increase in operating grants and contributions (\$1,612,425) and an increase in rental housing assistance expense of \$1,515,414 which was primarily due to an increase in housing assistance payments in the Housing Choice Voucher program. The increases in expenditures are due to the higher costs of rents in the area. The increase in operating grants and contributions are due to the per unit cost increasing from an average of \$780 per unit in FY 2015-16 to an average of \$841 per unit in FY 2016-17 for the Housing Choice Voucher program.

The increase in grants and contributions not restricted to specific programs (\$5,765,397) is due to an increase in activity in the HOME program due to the Crossroads Apartments development, the State BEGIN program for loans to first time homebuyers, the Federal HOPWA funding for housing services for people living with AIDS and an increase in contributions from the City for affordable housing.

The increase in unrestricted investment income (\$323,996) was primarily due to the combination of an increase in interest earned (\$1,046,749) and a decrease in interest deferred (\$722,753).

The increase in other revenue (\$239,797) was primarily due to a decrease in Fraud Recovery restitution and Family Self Sufficiency forfeiture revenues in the Housing Choice Voucher Program and the payoff of three Parkside loans.

The increase in housing conversion and preservation expenditures (\$56,073) was primarily due to an increase in the number of clients (one in 2015-16 and three in 2016-17) receiving services in the Housing Access Modification program and more time spent by administration in the conversion and preservation programs than production.

The increase in the housing services and compliance expenditures (\$334,006) was due to the new Federal HOPWA program for housing services for people living with AIDS.

FUND FINANCIAL ANALYSIS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority's governmental funds are discussed below:

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes in future years.

As of the end of the current fiscal year, the Authority reported combined ending fund balances of \$118,223,436 an increase of \$4,334,149 in comparison with the prior year. Approximately 4.7% of this total amount (\$5,524,025) constitutes *unassigned fund balance*, which is available for spending at the Authority's discretion. The remainder of fund balance is *restricted* to indicate that it is not available for general spending because 1) it is restricted for the special revenue fund (\$8,053,978) and 2) the proceeds from long-term notes and loans receivables (\$104,645,433) are restricted.

The Authority's major sources of revenues are cost-reimbursement grant revenues, Section 8 program contracts, developer fees and loan interest repayments. The major uses of these funds are to provide rental assistance to low and very low-income families, loans for building or rehabilitating affordable housing and program administration. The increase in notes and loans receivable of \$821,960 represents the net change between payments received on existing loans and the awarding of new loans. Among the significant loans made were loans from the BEGIN program to sixty homeowners in the Catalina Townhomes project and a loan to Burbank Housing Development Corporation for the Crossroads Apartments. These loans were offset by a loan paid by Burbank Housing Development Corporation for the Catalina Townhomes project.

The fund balances primarily represent the accumulation of administrative fees and loan repayments in excess of expenditures.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,524,025, while total fund balance was \$19,893,371. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 86% of total general fund expenditures, while total fund balance represents 309% of that same amount. Expenditure for 2016-17 included a \$5,700,000 one-time debt service payment. Without that one-time payment, the unassigned fund balance would be 739% of total general fund expenditures, while the total fund balance would represent 2,663% of that same amount.

The restricted fund balance of the Authority's HOME Program Fund increased by \$1,084,928 during the fiscal year. This increase was primarily due to a loan made to Burbank Development Corporation for the Crossroads Apartment project.

The restricted fund balance of the Authority's Housing Impact Fee Fund increased by \$1,046,537 during the fiscal year. This increase is due to the collection of Impact Fee revenue of \$1,211,581 which included

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, there were changes in appropriations between the original and final amended budget for the General Fund, Southwest Low and Moderate Housing Fund, and Housing Impact Fee Fund.

During the year there was a net positive variance between the final amended expenditure budget and the final amended revenue budget for the General Fund and the actual amounts (presented using the budgetary basis) in the amount of \$2,281,577. Following are the main components of the variance:

- State grants intergovernmental revenue final budget of \$4,586,000 compared to \$3,999,500 actually recognized. This \$586,500 variance was caused by the timing of grant funding.
- Interest revenue final budget of \$703,500 compared to \$840,721 actually recognized. This \$137,221 variance was caused by interest revenue from deferred loan payoffs. Interest earnings recognized from the borrowers varies each year and cannot be reasonably estimated by the Authority, so a conservative budget approach is used.
- Collection of loans receivables final budget of \$5,000,500 compared to \$5,202,850 actually recognized. This \$202,350 variance was caused by principal balance payoffs. Loan payoffs recognized from borrowers varies each year and cannot be reasonable estimated by the Authority, so a conservative budget approach is used.
- Other revenue final budget of \$98,809 compared to \$342,522 recognized. This \$243,713 variance was caused by three Parkside loan payoffs. The number of loans processed varies each year and cannot be reasonably estimated by the Authority, so a conservative budget approach is used.
- Housing services and compliance expenditure final budget of \$630,909 compared to the \$574,451 expended. This \$56,458 variance is primarily a result of the property maintenance budget for the Brookwood Shelter being held for unforeseeable property maintenance issues.
- Housing loans expenditure final budget of \$6,616,056 compared to \$4,375,983 expended. This \$2,240,073 variance was caused primarily by holding available \$1,159,538 to Urban Housing Communities, LLC for the Crossings on Aston project and remaining appropriations of CalHome grant funds of \$767,000.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital assets. The Authority's investment in capital assets for its governmental activities was \$585,963 (net of accumulated depreciation) for land, equipment, buildings and construction in progress.

Additional information on the Authority's capital assets can be found in Note 4 to the Basic Financial Statements.

Long-term debt. The Authority's loan with the California Housing Finance Agency for the Catalina Self-Help Project was amended June 25, 2013 to extend the time to repay the loan. The term of the agreement was extended to August 14, 2018. As a condition of the extension interest accrual was capped at \$750,000, which was reached June 30, 2014. During the year ended June 30, 2017, the Authority fully repaid the loan in the amount of \$5,700,000.

Additional information on the Authority's long-term debt can be found in Note 5 to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The following factors were considered in preparing the Authority's budget for the 2017-18 fiscal year:

- After a series of study sessions and community outreach, the City Council adopted the Housing Action Plan in June 2016 to address the City's ongoing unmet housing needs. The plan outlined five goals in an effort to achieve the Council's objective of "Housing for All." After developing program criteria and a workplan, Housing Authority, City staff, and City Council members reviewed eight applications received in response to the Notice of Funding Availability and selected four housing development projects to fund in May 2017. Housing Authority staff will continue working with City staff to monitor these projects in FY 2017/18.
- Per City Council Policy 000-48, a portion of City General Fund real property transfer tax is designated for homeless services and affordable housing production. Due to a projected increase in revenue, plus an increase in the total allocation per Council direction, the Authority received \$845,287 for affordable housing production. Housing Impact Fee (formerly In-Lieu Fee) revenue is expected to increase as new home development increases in the coming year, which will provide additional capital for production. The HOME grant, Community Development Block Grant, and the Housing Opportunities for Persons with AIDs (HOPWA) grant are consistent with prior year funding, although the Authority continues to monitor Federal announcements regarding these funding sources.
- The Authority has an objective of providing rental assistance to approximately 2,000 families in 2017-2018 and will continue outreach to landlords. The Authority hopes to increase the use of Project-Based Vouchers to help spur development of new affordable units. Rents continue to increase so staff will closely monitor HAP expenditures to match HUD budget received in 2017. HUD budgets on a calendar basis while the City and Housing Authority budget by fiscal year, so staff will closely monitor expenditures throughout the year.
- Per HUD guidelines, the inspection protocol for Section 8 assisted-units is changing from Housing Quality Standards to Uniform Physical Condition Standards- Voucher to enhance the consistency and objectivity of the inspection process. Section 8 staff will participate in a HUD-sponsored demonstration which will allow Santa Rosa to have a voice in determining national implementation standards. Additional training and new computer software and hardware may be needed.
- In October 2017, the Tubbs/Adobe Fire (the most destructive wildfire in California history) burned through Sonoma and Napa Counties, destroying over 6,900 buildings, including over, 2,900 in Santa Rosa alone, with the vast majority being residential. To address the loss of housing inventory, the City is partnering with the County of Sonoma, State of California, and Federal government in a Housing Task Force which will focus on short- and long-term housing solutions. The Authority will continue to address low-income housing development, conversion, and preservation as part of this recovery effort. It is anticipated that the loss of housing inventory will affect Section 8 voucher holders who will be competing with non-low-income residents for rental housing. The reduced number of available units could drive up rental prices, and it is uncertain if HUD funding will keep pace with the cost of rent.

Additional information regarding the impacts of the Tubbs/Adobe fire can be found in the City's Comprehensive Annual Financial Statements (CAFR).

FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE AUTHORITY

Regarding affordable housing development, conversion, preservation, and rehabilitation, there continues to be an increased need for local subsidy due to: 1) the loss of Redevelopment 20% tax increment housing set-aside funds 2) increased competition for 9% tax credits; and 3) prevailing wage requirements. Additionally, the continued availability of Federal funds such as CDBG, HOME, and HOPWA is less stable than in previous years, as the Federal government originally eliminated the CDBG program in its draft budget. While funding was ultimately granted, the Authority will closely monitor this situation in the future.

For the Section 8 Housing Choice Voucher Program, HUD directed housing authorities to adopt Uniform Physical Condition Standards - Voucher (UPCS-V) inspection protocol to replace Housing Quality Standards inspection protocols, to provide clear, objective, updated safety standards for housing authorities, landlords, and tenants. The new UPCS-V inspections require authorities to utilize a new electronic inspection process and a new data exchange platform to share information with HUD. There may be costs associated with this new inspection protocol implementation.

The Tubbs/Adobe Fire destroyed over 2,900 building in Santa Rosa in October 2017, most of them residential. The City Council had already prioritized "Housing For All" with its Housing Action Plan adoption in 2016; the additional loss of housing stock due to the fire highlights the importance of this goal. As noted above, the loss of housing stock means Section 8 voucher holders will be competing with non-low-income-residents for units. Additionally, the scarcity of units may drive up rental costs and it is uncertain if HUD funding will keep pace with the rising costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 90 Santa Rosa Ave., 2nd Floor, Santa Rosa, CA 95404.

Basic Financial Statements



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HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

ASSETS	
Cash and short-term investments	\$ 12,868,121
Receivables:	
Accounts (net of allowance for doubtful accounts)	84,224
Interest	37,986
Intergovernmental	825,339
Restricted assets:	
Family self-sufficiency program investment	299,238
Interest receivable on loans	27,392,567
Notes and loans receivable	104,645,433
Capital assets:	
Non-depreciable	198,002
Depreciable, net of accumulated depreciation	<u>387,961</u>
Total assets	<u>146,738,871</u>
LIABILITIES	
Accounts payable	233,616
Intergovernmental payable	2,349
Payable from restricted assets:	
Deposits	1,702
Family self-sufficiency program escrows	<u>299,238</u>
Total liabilities	<u>536,905</u>
NET POSITION	
Net investment in capital assets	585,963
Restricted for affordable housing programs	140,091,978
Unrestricted	<u>5,524,025</u>
Total net position	<u>\$ 146,201,966</u>

The notes to the basic financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
FUNCTIONS/PROGRAMS:				
Housing services and compliance	\$ 643,245	\$ 34,178	\$ 391,313	\$ (217,754)
Housing conversion/preservation	177,925	-	-	(177,925)
Housing production	882,263	-	-	(882,263)
Public services	234,980	-	36,000	(198,980)
Rental housing assistance	21,644,601	168,686	21,521,264	45,349
TOTAL	<u>\$ 23,583,014</u>	<u>\$ 202,864</u>	<u>\$ 21,948,577</u>	<u>(1,431,573)</u>
GENERAL REVENUES				
Grants and contributions not restricted to specific programs				9,514,005
Unrestricted investment income				3,342,058
Other				402,591
Total general revenues				<u>13,258,654</u>
Change in net position				11,827,081
Net position, beginning of year				<u>134,374,885</u>
NET POSITION, END OF YEAR				<u>\$ 146,201,966</u>

The notes to the basic financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Revenue Funds				
	General Fund	Choice Voucher Program	Moderate Rehabilitation Program #2	Community Development Block Grant	Rental Rehabilitation
ASSETS					
Cash and short-term investments	\$ 5,233,468	\$ 1,993,336	\$ 20,923	\$ 114,994	\$ 20,216
Receivables:					
Accounts (net of allowance for doubtful accounts)	2,575	81,649	-	-	-
Interest	18,727	-	-	-	71
Intergovernmental	106,794	215,395	-	64,124	-
Due from other funds	320,249	-	-	-	-
Restricted assets:					
Family self-sufficiency program investments	-	299,238	-	-	-
Interest receivable on loans	3,130,733	-	-	6,237,371	34,500
Notes and loans receivable	14,369,346	-	-	23,980,483	143,307
TOTAL ASSETS	\$ 23,181,892	\$ 2,589,618	\$ 20,923	\$ 30,396,972	\$ 198,094
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 157,788	\$ 24,460	\$ -	\$ 10,986	\$ -
Intergovernmental payable	-	-	2,349	-	-
Due to other funds	-	-	-	-	-
Payable from restricted assets:					
Deposits	-	1,702	-	-	-
Family self-sufficiency program escrows	-	299,238	-	-	-
TOTAL LIABILITIES	157,788	325,400	2,349	10,986	-
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues	3,130,733	-	-	6,237,371	34,500
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,288,521	325,400	2,349	6,248,357	34,500
FUND BALANCES					
Restricted:					
Affordable housing programs	14,369,346	2,264,218	18,574	24,148,615	163,594
Unassigned	5,524,025	-	-	-	-
TOTAL FUND BALANCES	19,893,371	2,264,218	18,574	24,148,615	163,594
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,181,892	\$ 2,589,618	\$ 20,923	\$ 30,396,972	\$ 198,094

(Continued)

The notes to the basic financial statements are an integral part of this statement.

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds				
	General Fund	Choice Voucher Program	Moderate Rehabilitation Program #2	Community Development Block Grant	Rental Rehabilitation
REVENUES:					
Intergovernmental:					
Federal Housing Assistance	\$ -	\$ 18,757,425	\$ 108,556	\$ -	\$ -
City of Santa Rosa Block Grant Contributions	-	-	-	254,571	-
City of Santa Rosa HOME Contributions	-	-	-	-	-
City of Santa Rosa General Fund Contributions	3,042,471	-	-	-	-
Federal HOPWA Grant	391,313	-	-	-	-
State Grants	3,999,500	-	-	-	-
Housing assistance payments - portability	-	2,655,283	-	-	-
Interest	840,721	668	7	256,888	1,466
Net change in the fair value of investments	(25,257)	-	-	-	(143)
Charges for service	28,038	168,686	-	6,140	-
Housing in lieu fee	-	-	-	-	-
Other	342,522	60,069	-	-	-
TOTAL REVENUES	8,619,308	21,642,131	108,563	517,599	1,323
EXPENDITURES:					
Current:					
Housing services and compliance	574,451	-	-	7,938	-
Housing conversion/preservation	-	-	-	-	-
Housing production	136,673	-	-	241,582	-
Public services	36,000	-	-	198,980	-
Rental housing assistance	-	21,537,701	106,900	-	-
Debt service:					
Principal	5,000,000	-	-	-	-
Interest	700,000	-	-	-	-
TOTAL EXPENDITURES	6,447,124	21,537,701	106,900	448,500	-
NET CHANGE IN FUND BALANCES	2,172,184	104,430	1,663	69,099	1,323
FUND BALANCES, beginning of year	17,721,187	2,159,788	16,911	24,079,516	162,271
FUND BALANCES, end of year	\$ 19,893,371	\$ 2,264,218	\$ 18,574	\$ 24,148,615	\$ 163,594

(Continued)

The notes to the basic financial statements are an integral part of this statement.

Special Revenue Funds					
Southwest Low and Moderate Income Housing	Low and Moderate Income Housing	HOME	Mortgage Revenue Bonds	Housing Impact Fee	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,865,981
-	-	-	-	-	254,571
-	-	1,041,882	-	-	1,041,882
-	-	-	-	-	3,042,471
-	-	-	-	-	391,313
-	-	-	-	-	3,999,500
-	-	-	-	-	2,655,283
64,297	110,512	87,730	6,298	217,101	1,585,688
(10,080)	(6,999)	-	(884)	(23,514)	(66,877)
-	-	-	-	-	202,864
-	-	-	-	1,211,581	1,211,581
-	-	-	-	-	402,591
<u>54,217</u>	<u>103,513</u>	<u>1,129,612</u>	<u>5,414</u>	<u>1,405,168</u>	<u>33,586,848</u>
38,241	-	-	-	22,615	643,245
-	177,925	-	-	-	177,925
92,993	-	44,684	-	336,016	851,948
-	-	-	-	-	234,980
-	-	-	-	-	21,644,601
-	-	-	-	-	5,000,000
-	-	-	-	-	700,000
<u>131,234</u>	<u>177,925</u>	<u>44,684</u>	<u>-</u>	<u>358,631</u>	<u>29,252,699</u>
(77,017)	(74,412)	1,084,928	5,414	1,046,537	4,334,149
<u>16,576,536</u>	<u>13,548,750</u>	<u>15,080,589</u>	<u>894,723</u>	<u>23,649,016</u>	
<u>\$ 16,499,519</u>	<u>\$ 13,474,338</u>	<u>\$ 16,165,517</u>	<u>\$ 900,137</u>	<u>\$ 24,695,553</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	\$ (30,315)
Interest on deferred loans in the statement of activities do not provide current financial resources and are not reported as revenues in the funds.	1,823,247
Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net position.	5,000,000
Long-term interest accrued on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources.	<u>700,000</u>
Change in net position of governmental activities:	<u>\$ 11,827,081</u>

(Concluded)

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2017

ASSETS	
Cash and short-term investments	\$ 357,666
Interest receivable	<u>1,216</u>
Total assets	<u>358,882</u>
LIABILITIES	
Deposits payable	<u>358,882</u>
NET POSITION	<u><u>\$ -</u></u>

The notes to the basic financial statements are an integral part of this statement.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The Housing Authority of the City of Santa Rosa (the Authority), a component unit of the City of Santa Rosa (the City), was formed on July 27, 1971 pursuant to the Housing Authorities Law of the State of California, and particularly Article 2, Chapter 1, Part 2, Division 24 of the Health and Safety Code of the State of California (Health and Safety Code Section 34240 et. seq.).

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The following is a summary of the significant policies:

Reporting Entity and Related Parties

These basic financial statements contain the financial data of the Authority. The Authority is governed by seven members who are appointed by the City of Santa Rosa's City Council. The City exercises significant financial and management control over the Authority. Therefore, the financial data of the Authority has also been included as a discretely presented component unit within the City's basic financial statements for the year ended June 30, 2017.

(a) Government-wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the Authority's activities except for fiduciary activities. The effect of interfund activity has been removed from these statements. All of the activities of the Authority are governmental or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and contributions not restricted to specific programs, unrestricted investment income and other items not properly included among program revenues are reported instead as general revenues.

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements and fiduciary funds 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 cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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 Authority considers intergovernmental, charges for service and interest revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Authority reports the following major governmental funds:

- **General Fund** is used to account for all financial resources except those required to be accounted for in another fund.
- **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and include:
 - The **Choice Voucher Program Fund** records annual contributions from the U.S. Department of Housing and Urban Development (HUD) under provisions of its Section 8 Housing Choice Vouchers program and rental subsidies to low and very low-income families through direct subsidy payments to landlords.
 - The **Moderate Rehabilitation Program #2 Fund** records annual contributions from HUD under provisions of its Section 8 Project-based Assistance Program which provides unit-based rental subsidies for low- to moderate-income individuals and families.
 - The **Community Development Block Grant Fund** records the City's HUD Community Development Block Grant (CDBG) award that is contributed to the Authority for purposes of providing loans for rehabilitation of existing property and to facilitate construction of low cost housing.
 - The **Rental Rehabilitation Fund** records the program revenue from the HUD Rental Rehabilitation program and the loans for rehabilitation of existing property and to facilitate construction of low cost housing.
 - The **Southwest Low and Moderate Income Housing Fund** records the loan repayments received from the Southwest Project Area of the former Redevelopment Agency of the City of Santa Rosa for the purpose of providing loans for rehabilitation of existing property and to facilitate construction of low cost housing.
 - The **Low and Moderate Income Housing Fund** records the loan repayments received for the purpose of providing loans for rehabilitation of existing property and to facilitate construction of low cost housing.
 - The **HOME Fund** records the program revenue from the City's HUD HOME award that is contributed to the Authority for the purposes of providing loans for rehabilitation of existing property, facilitating construction of low cost housing, and assisting first-time home buyers.
 - The **Mortgage Revenue Bonds Fund** records the program revenue from loan repayments for the purpose of providing loans for rehabilitation of existing property and to facilitate construction of low cost housing.

- The **Housing Impact Fee Fund** records the developer fees received in lieu of constructing low cost housing for the purpose of providing loans to facilitate construction of low cost housing.

The **Agency Fund** is a fiduciary fund used to account for funds held by the Authority as an agent for private organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

(c) Investments

Investments are stated at fair value. Under accounting principles generally accepted in the United States of America, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the 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. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

(d) Capital Assets

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value. Capital assets include land and buildings. The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The estimated useful lives of the Authority’s buildings are 30 years and equipment is 5 years. Buildings and equipment used in operations are depreciated using the straight-line method over the estimated lives in the government-wide statements.

(e) Accounts Receivable

At June 30, 2017, the Authority’s accounts receivable are shown net of an estimated allowance for doubtful accounts for the Choice Voucher Program fund in the amount of \$11,663.

(f) Unavailable Revenues

Unavailable revenues of \$27,392,567 reflects accrued interest on notes and loans receivable. Accrued interest on notes and loans is considered unavailable as it will not be collected within 60 days of the end of the reporting period.

(f) Interfund Transactions

Interfund transactions are reflected as loans, reimbursements, or transfers. Loans reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as “due to/from other funds” (i.e., the current portion of interfund loans).

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers within governmental funds are netted as part of the reconciliation to the government-wide presentation. There were no transfers made during the current fiscal year.

(g) Net Position/Fund Balances

The government-wide financial statements utilize a net position presentation. Net position is categorized as Net investment in capital assets, restricted, and unrestricted.

- Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted for Affordable Housing Programs – This category represents assets restricted for the creation and preservation of low- and moderate-income housing within the City of Santa Rosa reduced by liabilities related to those assets.
- Unrestricted – This category represents net position of the Authority, not restricted for any project or other purpose.

In the governmental fund financial statements, fund balances are categorized as nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable – to reflect amounts that cannot be spent because they are (1) not in spendable form, such as prepaid items, inventories, and long-term receivables for which the payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund, or (2) legally or contractually required to remain intact. As of June 30, 2017, the Authority had no nonspendable fund balance.
- Restricted – to reflect amounts that are restricted by external parties such as creditors or imposed by grants, laws, or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed – to reflect amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action by the entity’s “highest level of decision-making authority,” which the Authority considers to be the Authority’s Board. As of June 30, 2017, the Authority had no committed fund balance.
- Assigned – to reflect amounts that have been allocated by action of the Authority Board in which the Authority’s intent is to use the funds for a specific purpose. As of June 30, 2017, the Authority had no assigned fund balance.
- Unassigned – to reflect amounts that constitute the residual balances that have no restrictions placed on them in the General Fund. For other governmental funds, as restrictions exceed available resources, only deficit amounts are reported in the unassigned category.

The Authority does not have a policy on the order of spending unrestricted resources when an expenditure is incurred for which resources in any of the unrestricted fund balance classifications could be used. Therefore, by default under GASB Statement No. 54, the Authority uses committed resources first, then assigned resources, and unassigned resources last as they are needed.

(h) Estimates

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

NOTE 2 – CASH AND SHORT-TERM INVESTMENTS

Total Authority cash and short-term investments are reported as follows:

Statement of Net Position:	
Cash and short-term investments	\$12,868,121
Restricted assets:	
Family self-sufficiency program investments	299,238
Statement of Fiduciary Net Position	<u>357,666</u>
Total cash and short-term investments	<u>\$13,525,025</u>

The Authority participates in a cash and investment pool with the City. The City pool invests Authority funds (\$11,141,743 at June 30, 2017) in accordance with the California Government Code, which limits the Authority to investments in obligations of the U.S. government and its agencies and instrumentalities, California municipalities, negotiable certificates of deposit, time deposits/time certificates of deposit, corporate notes, mortgage-backed securities, commercial paper, bankers' acceptances, repurchase agreements, mutual funds, money market funds, government pools, and the State Local Agency Investment Fund. At June 30, 2017, the City's cash and investment pool is unrated and has a weighted average maturity of 671 days. The Authority's investment in the City's Treasurer's Pool is exempt from fair value hierarchy disclosures. Additional information regarding investment risks (such as interest rate, credit, and concentration of credit risks), and fair value hierarchy for the City's cash and investment pool can be found in the City's Comprehensive Annual Financial Report.

City pool deposits were covered by federal depository insurance or were collateralized in accordance with section 53652 of the California Government Code. Information regarding interest rate risk, credit risk, and concentration of credit risk of the City's pooled cash and investments is presented in the City's basic financial statements.

Although statutes permit the Authority and the City to enter into reverse repurchase agreements, the Authority and the City did not do so during the year ended June 30, 2017.

In addition, the Authority has \$2,383,282 held in separate bank accounts for its Section 8 funds and Family Self Sufficiency (FSS) Escrows. The bank balance was collateralized in accordance with Section 53652 of the California Government Code.

The California Government Code requires California banks and savings and loan associations to secure the Authority's deposits not covered by federal depository insurance by pledging government securities or mortgage notes as collateral. The fair value of pledged securities must equal 110% of the Authority's deposits or 150% for mortgage-backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the Authority's name. The Authority has no custodial credit risk as of June 30, 2017.

Each fund's portion of the cash and investment pool and of the Section 8 account is displayed on the Balance Sheet and the Statement of Fiduciary Net Position as "Cash and Short-Term Investments."

NOTE 3 – NOTES AND LOANS RECEIVABLE

The long-term notes and loans receivable (\$104,645,433 at June 30, 2017) consist of housing rehabilitation and housing opportunity notes and loans, including: principal repayment only, 3% and 5% interest deferred repayment, principal repayment deferred, mortgage loans receivable, and other principal and interest repayment loans bearing interest at 3% to 10.7% and maturing at various dates through 2068. The notes and loans receivable are recorded as assets and fund balances have been restricted in the fund financial statements for the total of future principal payments to indicate that the receipt of those payments is restricted for affordable housing programs.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Reduction	Balance June 30, 2017
<i>Capital assets, not being depreciated</i>				
Land	\$ 198,002	\$ -	\$ -	\$ 198,002
<i>Capital assets, being depreciated</i>				
Buildings and improvements	662,869	-	-	662,869
Equipment	106,296	-	-	106,296
Total capital assets, being depreciated	769,165	-	-	769,165
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	314,460	22,096	-	336,556
Equipment	36,429	8,219	-	44,648
Less accumulated depreciation	350,889	30,315	-	381,204
Total depreciable capital assets, net	418,276	(30,315)	-	387,961
Total capital assets, net	\$ 616,278	\$ (30,315)	\$ -	\$ 585,963

Depreciation expense in the amount of \$30,315 was charged to the housing production function.

NOTE 5 – LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Amounts Due Within One Year
CalHFA loan ^(a)	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -	\$ -
Accrued interest	700,000	-	700,000	-	-
Total long-term debt	<u>\$ 5,700,000</u>	<u>\$ -</u>	<u>\$ 5,700,000</u>	<u>\$ -</u>	<u>\$ -</u>

(a) The California Housing Finance Agency (CalHFA) loan bears interest at 3% per annum. The scheduled final maturity of the loan was August 14, 2018. The loan proceeds were loaned to Burbank Housing Development Corporation to assist with predevelopment and construction costs of Catalina Townhomes, a 60-unit ownership development self-help project. The total loan amount is \$5,000,000 (\$3,607,143 for predevelopment and \$1,392,857 for construction costs). The third amendment dated June 25, 2013 extended the term to August 14, 2018. As a condition of this extension, borrower shall make a partial payment to the CalHFA on or before July 1, 2013 in the sum \$50,000, which the CalHFA will apply toward accrued interest. Interest accrual will be capped at \$750,000 (of which \$50,000 was repaid in prior years), provided the entire balance is paid no later than August 14, 2018. During the year ended June 30, 2017, Catalina Townhomes project was completed and sold and Burbank Housing Development Corporation fully repaid the Authority for the outstanding balances. Upon receipt of the funds from Burbank Housing, the Authority fully repaid the loan to CalHFA.

NOTE 6 – INTERFUND TRANSACTIONS

During the year, the General Fund loaned \$320,249 to the HOME Fund to cover program expenditures until reimbursed by HUD grants.

NOTE 7 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority is named insured on the City's excess policies and participates in the City's self-funded liability programs and property insurance programs. Additionally, the Authority carries commercial auto liability insurance for the auto, registered in the name of the Authority as follows:

	Limits	Deductible
Automotive Liability	\$ 1,000,000	\$ 500

Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

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Required Supplementary Information



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HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (BUDGET BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Intergovernmental:				
City of Santa Rosa General Fund Contributions	\$ 3,292,471	\$ 3,042,471	\$ 3,042,471	\$ -
Federal HOPWA Grant	396,830	396,830	391,313	(5,517)
State Grants	782,000	4,586,000	3,999,500	(586,500)
Interest	703,500	703,500	840,721	137,221
Net change in the fair value of investments	-	-	(25,257)	(25,257)
Collection of loans receivables	500	5,000,500	5,202,850	202,350
Charges for service	20,232	20,232	28,038	7,806
Other	98,809	98,809	342,522	243,713
TOTAL REVENUES	5,294,342	13,848,342	13,822,158	(26,184)
EXPENDITURES:				
Current:				
Housing services and compliance	630,909	630,909	574,451	56,458
Housing production	136,917	136,917	136,673	244
Public services	46,986	46,986	36,000	10,986
Housing loans	2,812,055	6,616,056	4,375,983	2,240,073
Debt service:				
Principal	-	5,000,000	5,000,000	-
Interest	-	700,000	700,000	-
TOTAL EXPENDITURES	3,626,867	13,130,868	10,823,107	2,307,761
DEFICIENCY OF REVENUES UNDER EXPENDITURES	1,667,475	717,474	2,999,051	2,281,577
NET CHANGE IN FUND BALANCE	\$ 1,667,475	\$ 717,474	2,999,051	\$ 2,281,577
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans disbursed			4,375,983	
Collection of loans receivable			(5,202,850)	
TOTAL ADJUSTMENTS TO GAAP BASIS			(826,867)	
FUND BALANCE, beginning of year			17,721,187	
FUND BALANCE, end of year			\$ 19,893,371	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (BUDGET BASIS)
 CHOICE VOUCHER PROGRAM
 FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Intergovernmental:				
Federal Housing Assistance	\$ 20,535,968	\$ 20,535,968	\$ 18,757,425	\$ (1,778,543)
Housing assistance payments - portability	3,465,000	3,465,000	2,655,283	(809,717)
Interest	-	-	668	668
Charges for service	276,864	276,864	168,686	(108,178)
Other	5,000	5,000	60,069	55,069
TOTAL REVENUES	<u>24,282,832</u>	<u>24,282,832</u>	<u>21,642,131</u>	<u>(2,640,701)</u>
EXPENDITURES - CURRENT:				
Rental housing assistance	<u>23,762,716</u>	<u>23,762,716</u>	<u>21,537,701</u>	<u>2,225,015</u>
TOTAL EXPENDITURES	<u>23,762,716</u>	<u>23,762,716</u>	<u>21,537,701</u>	<u>2,225,015</u>
NET CHANGE IN FUND BALANCE	<u>\$ 520,116</u>	<u>\$ 520,116</u>	104,430	<u>\$ (415,686)</u>
FUND BALANCE, beginning of year			<u>2,159,788</u>	
FUND BALANCE, end of year			<u>\$ 2,264,218</u>	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
MODERATE REHABILITATION PROGRAM #2
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Intergovernmental:				
Federal Housing Assistance	\$ 155,265	\$ 155,265	\$ 108,556	\$ (46,709)
Interest	-	-	7	7
TOTAL REVENUES	155,265	155,265	108,563	(46,702)
EXPENDITURES - CURRENT:				
Rental housing assistance	154,979	154,979	106,900	48,079
NET CHANGE IN FUND BALANCE	\$ 286	\$ 286	1,663	\$ 1,377
FUND BALANCE, beginning of year			16,911	
FUND BALANCE, end of year			\$ 18,574	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGET BASIS)
COMMUNITY DEVELOPMENT BLOCK GRANT
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Intergovernmental:				
City of Santa Rosa Block Grant Contributions	\$ 1,945,285	\$ 1,945,285	\$ 254,571	\$ (1,690,714)
Interest	17,000	17,000	256,888	239,888
Collection of loans receivables	5,000	5,000	115,824	110,824
Charges for service	-	-	6,140	6,140
TOTAL REVENUES	<u>1,967,285</u>	<u>1,967,285</u>	<u>633,423</u>	<u>(1,333,862)</u>
EXPENDITURES:				
Housing services and compliance	52,921	52,921	7,938	44,983
Housing production	459,058	359,058	241,582	117,476
Public services	198,980	198,980	198,980	-
Housing loans	1,212,438	1,312,438	16,792	1,295,646
TOTAL EXPENDITURES	<u>1,923,397</u>	<u>1,923,397</u>	<u>465,292</u>	<u>1,458,105</u>
NET CHANGE IN FUND BALANCE	<u>\$ 43,888</u>	<u>\$ 43,888</u>	168,131	<u>\$ 124,243</u>
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans disbursed			16,792	
Collection of loans receivable			(115,824)	
TOTAL ADJUSTMENTS TO GAAP BASIS			<u>(99,032)</u>	
FUND BALANCE, beginning of year			<u>24,079,516</u>	
FUND BALANCE, end of year			<u>\$ 24,148,615</u>	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (BUDGET BASIS)
 RENTAL REHABILITATION
 FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Interest	\$ -	\$ -	\$ 1,466	\$ 1,466
Net change in the fair value of investments	-	-	(143)	(143)
Collection of loans receivables	-	-	1,817	1,817
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>3,140</u>	<u>3,140</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>3,140</u>	<u>\$ 3,140</u>
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Collection of loans receivable			<u>(1,817)</u>	
FUND BALANCE, beginning of year			<u>162,271</u>	
FUND BALANCE, end of year			<u>\$ 163,594</u>	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGET BASIS)
SOUTHWEST LOW AND MODERATE INCOME HOUSING
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Interest	\$ 8,000	\$ 8,000	\$ 64,297	\$ 56,297
Net change in the fair value of investments	-	-	(10,080)	(10,080)
Collection of loans receivables	-	-	73,537	73,537
TOTAL REVENUES	<u>8,000</u>	<u>8,000</u>	<u>127,754</u>	<u>119,754</u>
EXPENDITURES - CURRENT:				
Housing services and compliance	79,362	79,362	38,241	41,121
Housing production	75,053	75,053	92,993	(17,940)
Housing loans	<u>1,037,507</u>	<u>1,249,551</u>	<u>232,553</u>	<u>1,016,998</u>
TOTAL EXPENDITURES	<u>1,191,922</u>	<u>1,403,966</u>	<u>363,787</u>	<u>1,040,179</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,183,922)</u>	<u>\$ (1,395,966)</u>	<u>(236,033)</u>	<u>\$ 1,159,933</u>
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans recorded as expenditures			232,553	
Collection of loans receivable			<u>(73,537)</u>	
TOTAL ADJUSTMENTS TO GAAP BASIS			<u>159,016</u>	
FUND BALANCE, beginning of year			<u>16,576,536</u>	
FUND BALANCE, end of year			<u>\$ 16,499,519</u>	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGET BASIS)
LOW AND MODERATE INCOME HOUSING
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Interest	\$ 4,000	\$ 4,000	\$ 110,512	\$ 106,512
Net change in the fair value of investments	-	-	(6,999)	(6,999)
Collection of loans receivables	2,000	2,000	42,395	40,395
TOTAL REVENUES	6,000	6,000	145,908	139,908
EXPENDITURES:				
Housing conversion/preservation	191,630	191,630	177,925	13,705
Mobilehome assistance loans	56,742	56,742	1,920	54,822
Housing loans	466,248	466,248	99,484	366,764
TOTAL EXPENDITURES	714,620	714,620	279,329	435,291
NET CHANGE IN FUND BALANCE	\$ (708,620)	\$ (708,620)	(133,421)	\$ 575,199
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans disbursed			101,404	
Collection of loans receivable			(42,395)	
TOTAL ADJUSTMENTS TO GAAP BASIS			59,009	
FUND BALANCE, beginning of year			13,548,750	
FUND BALANCE, end of year			\$ 13,474,338	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (BUDGET BASIS)
 HOME
 FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Intergovernmental:				
City of Santa Rosa HOME Contributions	\$ 2,136,148	\$ 2,136,148	\$ 1,041,882	\$ (1,094,266)
Interest	19,300	19,300	87,730	68,430
Collection of loans receivables	14,000	14,000	27,159	13,159
TOTAL REVENUES	<u>2,169,448</u>	<u>2,169,448</u>	<u>1,156,771</u>	<u>(1,012,677)</u>
EXPENDITURES:				
Housing production	93,587	93,587	44,684	48,903
Housing loans	2,197,183	2,197,183	1,177,827	1,019,356
TOTAL EXPENDITURES	<u>2,290,770</u>	<u>2,290,770</u>	<u>1,222,511</u>	<u>1,068,259</u>
NET CHANGE IN FUND BALANCE	<u>\$ (121,322)</u>	<u>\$ (121,322)</u>	(65,740)	<u>\$ 55,582</u>
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans disbursed			1,177,827	
Collection of loans receivable			(27,159)	
TOTAL ADJUSTMENTS TO GAAP BASIS			<u>1,150,668</u>	
FUND BALANCE, beginning of year			<u>15,080,589</u>	
FUND BALANCE, end of year			<u>\$ 16,165,517</u>	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGET BASIS)
MORTGAGE REVENUE BONDS
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Interest	\$ 1,000	\$ 1,000	\$ 6,298	\$ 5,298
Net change in the fair value of investments	-	-	(884)	(884)
Collection of loan receivables	-	-	16,560	16,560
TOTAL REVENUES	1,000	1,000	21,974	20,974
EXPENDITURES - CURRENT:				
Housing loans	136,325	136,325	136,325	-
TOTAL EXPENDITURES	136,325	136,325	136,325	-
NET CHANGE IN FUND BALANCE	\$ (135,325)	\$ (135,325)	(114,351)	\$ 20,974
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans recorded as expenditures			136,325	
Collection of loans receivable			(16,560)	
TOTAL ADJUSTMENTS TO GAAP BASIS			119,765	
FUND BALANCE, beginning of year			894,723	
FUND BALANCE, end of year			\$ 900,137	

HOUSING AUTHORITY OF THE CITY OF SANTA ROSA
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (BUDGET BASIS)
 HOUSING IMPACT FEE
 FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance With Final Budget Positive (Negative)
REVENUES:				
Intergovernmental:				
City of Santa Rosa General Fund Contributions	-	14,462	-	(14,462)
Interest	\$ 13,000	\$ 13,000	\$ 217,101	\$ 204,101
Net change in the fair value of investments	-	-	(23,514)	(23,514)
Collection of loans receivables	-	-	74,785	74,785
Housing impact fee	650,000	650,000	1,211,581	561,581
TOTAL REVENUES	<u>663,000</u>	<u>677,462</u>	<u>1,479,953</u>	<u>802,491</u>
EXPENDITURES:				
Housing services and compliance	21,591	21,591	22,615	(1,024)
Housing production	336,799	322,336	336,016	(13,680)
Housing loans	2,037,933	2,037,933	336,003	1,701,930
TOTAL EXPENDITURES	<u>2,396,323</u>	<u>2,381,860</u>	<u>694,634</u>	<u>1,687,226</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,733,323)</u>	<u>\$ (1,704,398)</u>	785,319	<u>\$ 2,489,717</u>
ADJUSTMENTS TO GAAP BASIS:				
Basis differences due to:				
Long-term loans disbursed			336,003	
FUND BALANCE, beginning of year			<u>23,649,016</u>	
FUND BALANCE, end of year			<u>\$ 24,695,553</u>	

NOTE 1 - BUDGETS

Budgets are adopted for all Authority's funds. All budgets are adopted on a basis consistent with GAAP with the following exceptions:

1. Long-term loans disbursed are budgeted as expenditures,
2. Interest reclassified as loans receivable are not budgeted as revenues, and
3. Collections of loans receivable are budgeted as revenues.

The budget is legally required to be adopted prior to July 1 for the ensuing year.

The City Manager is authorized to transfer an unlimited amount of appropriations within any fund so long as the total appropriations are not increased. The City Manager is also authorized to transfer up to \$50,000 of appropriations between funds. In addition, the City Manager is authorized to transfer up to \$100,000 of appropriations between funds within one Enterprise activity. Only the City Council has the authority to increase total appropriations subject to the appropriation limitations established by state law. Budget appropriations lapse at the end of the fiscal year, with the exception of contract commitments and capital improvements, which are carried over until the commitment is met, or the project has been completed.

The legal level of budgetary control is by fund, although budgets are adopted within funds at the department or division level in all funds.

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Compliance Section



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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 Housing Authority
of the City of Santa Rosa, California
Santa Rosa, 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 governmental activities, each major fund and the aggregate remaining fund information of the Housing Authority of the City of Santa Rosa, California (Authority), a component unit of City of Santa Rosa, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 29, 2018.

Internal Control Over Financial Reporting

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

Macias Gini & O'Connell LLP

Walnut Creek, California
March 29, 2018

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City of
Santa Rosa

100 Santa Rosa Avenue, Santa Rosa, CA 95404