SAN JUAN CAPISTRANO
HOUSING AUTHORITY

(A COMPONENT UNIT OF THE
CITY OF SAN JUAN CAPISTRANO)

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017
SAN JUAN CAPISTRANO HOUSING AUTHORITY

TABLE OF CONTENTS

June 30, 2017

<table>
<thead>
<tr>
<th>Page Number</th>
</tr>
</thead>
</table>

Independent Auditors’ Report 1

Basic Financial Statements:

Statement of Net Position 3

Statement of Revenues, Expenses and Changes in Net Position 4

Statement of Cash Flows 5

Notes to Basic Financial Statements 6

Independent Auditors’ 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 18
INDEPENDENT AUDITORS’ REPORT

The Honorable Chair and Members of the Commission
San Juan Capistrano Housing Authority
San Juan Capistrano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Juan Capistrano Housing Authority (the Authority), a component unit of the City of San Juan Capistrano, 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.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ 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 auditors consider internal control relevant to the Authority’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 Authority’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not present fairly, the financial position of the City of San Juan Capistrano, California, as of June 30, 2017, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

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 November 21, 2017, 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 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 Authority’s internal control over financial reporting and compliance.

Irvine, California
November 21, 2017
ASSETS:
CURRENT ASSETS:
Cash and cash equivalents $1,553,407
Investments 103,105
Accounts receivable 102
Interest receivable 11,069
Notes receivable 32,000
TOTAL CURRENT ASSETS 1,699,683

RESTRICTED ASSETS:
Investments 6,756,132

NONCURRENT ASSETS:
Capital assets:
Not being depreciated 784,008
Being depreciated, net 3,820,431
Net capital assets 4,604,439
Other noncurrent assets:
Notes receivable, net of current portion 5,035,012
TOTAL NONCURRENT ASSETS 9,639,451
TOTAL ASSETS 18,095,266

LIABILITIES:
CURRENT LIABILITIES:
Accounts payable and accrued liabilities 10,715
Deposits payable 29,235
TOTAL CURRENT LIABILITIES 39,950
TOTAL LIABILITIES 39,950

NET POSITION:
Net investment in capital assets 4,604,439
Restricted - affordable housing projects 6,756,132
Unrestricted 6,694,745
TOTAL NET POSITION $18,055,316

See accompanying notes to basic financial statements.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING REVENUES:</td>
<td></td>
</tr>
<tr>
<td>Rental income and other revenues</td>
<td>$217,945</td>
</tr>
<tr>
<td>TOTAL OPERATING REVENUES</td>
<td>217,945</td>
</tr>
<tr>
<td>OPERATING EXPENSES:</td>
<td></td>
</tr>
<tr>
<td>Maintenance and operations</td>
<td>349,275</td>
</tr>
<tr>
<td>General and administrative</td>
<td>153,512</td>
</tr>
<tr>
<td>Rental subsidies</td>
<td>27,715</td>
</tr>
<tr>
<td>Legal services</td>
<td>13,071</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>97,604</td>
</tr>
<tr>
<td>TOTAL OPERATING EXPENSES</td>
<td>641,177</td>
</tr>
<tr>
<td>OPERATING LOSS</td>
<td>(423,232)</td>
</tr>
<tr>
<td>NONOPERATING REVENUES:</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>174,208</td>
</tr>
<tr>
<td>Transfer of loan balances from the City</td>
<td>300,685</td>
</tr>
<tr>
<td>TOTAL NONOPERATING REVENUES</td>
<td>474,893</td>
</tr>
<tr>
<td>CHANGE IN NET POSITION</td>
<td>51,661</td>
</tr>
<tr>
<td>TOTAL NET POSITION - BEGINNING OF YEAR</td>
<td>18,003,655</td>
</tr>
<tr>
<td>TOTAL NET POSITION - END OF YEAR</td>
<td>$18,055,316</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
CASH FLOWS FROM OPERATING ACTIVITIES:
- Receipts from customers and user departments $219,828
- Payments to suppliers of goods or services $(253,691)

NET CASH USED BY OPERATING ACTIVITIES $(33,863)

CASH FLOWS FROM INVESTING ACTIVITIES:
- Purchase of investments 3,186,197
- Sale of investments (3,017,793)
- Collection on notes receivable 202,809
- Interest received 30,006

NET CASH PROVIDED BY INVESTING ACTIVITIES 401,219

NET INCREASE IN CASH AND CASH EQUIVALENTS 367,356

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 1,186,051

CASH AND CASH EQUIVALENTS - END OF YEAR $1,553,407

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:
- Operating loss $(423,232)
- Adjustments to reconcile operating loss to net cash used by operating activities:
  - Depreciation and amortization 97,604
  - Current year expense for prior capital outlay 292,462
- (Increase) decrease in operating assets:
  - Accounts receivable (102)
- Increase (decrease) in operating liabilities:
  - Accounts payable and accrued liabilities (2,580)
  - Deposits payable 1,985

NET CASH USED BY OPERATING ACTIVITIES $(33,863)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:
- City contributions that represent a note receivable $300,685
- Expense of prior year construction in progress balance for costs that are no longer usable for the project $(292,462)

See accompanying notes to basic financial statements.
1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the San Juan Capistrano Housing Authority (the Authority) have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

This report only includes the financial statements of the Authority. The Authority carries out the City’s affordable housing obligations. These financial statements do not purport to represent the financial position or results of operations of the City of San Juan Capistrano (the City).

A. Reporting Entity:

The San Juan Capistrano Housing Authority was formed by the City of San Juan Capistrano on January 17, 2012, after being assigned the housing functions of the former Community Redevelopment Agency of the City of San Juan Capistrano. The primary purpose of the Authority is to develop affordable housing for families of low and moderate income within the City. The Authority operates under a chair-member form of government.

The Authority is considered to be a blended component unit of the City. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and so data from these units are reported with the interfund data of the City. The governing boards of the component units are comprised of the same membership as the City Council. The City may impose its will on the component units, including the ability to appoint, hire, reassign or dismiss management. There are also financial benefit/burden relationships between the City and these entities.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Proprietary fund types are accounted for using the economic resources measurement focus and accrual basis of accounting. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the statement of net position. Their reported fund equity presents total net position. The operating statement of the proprietary funds present increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.
1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Authority are rental payments. Operating expenses for include the cost of maintaining properties, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Authority’s significant nonoperating items consist of investment income and contributions from the City to support the Authority.

C. New Accounting Pronouncements:

Current Year Standards

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016, and did not impact the Authority.

GASB 77 - Tax Abatement Disclosure, effective for periods beginning after December 15, 2015, and did not impact the Authority.

GASB 79 - Certain External Investment Pools and Pool Participants, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015, and did not impact the Authority.

GASB 80 - Blending Requirements for Certain Component Units, effective for periods beginning after June 15, 2016, and did not impact the Authority.

Pending Accounting Standards

GASB has issued the following statements, which may impact the Authority’s financial reporting requirements in the future:

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   C. New Accounting Pronouncements (Continued):

   **Pending Accounting Standards (Continued)**

   - GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.


   D. Cash and Cash Equivalents:

   For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

   E. Investments:

   Investments are recorded at fair value, except for investment contracts that are reported at cost because, they are not transferable and they have terms that are not affected by changes in market interest rates. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

   F. Capital Assets:

   Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the Authority as assets with an initial, individual cost of more than $5,000 to $15,000 depending upon the type of asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at acquisition value on the date donated.
1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. Capital Assets (Continued):

Depreciation is charged to operations using the straight-line method of depreciation over the following estimated useful lives:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>3 - 10 years</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>10 - 50 years</td>
</tr>
</tbody>
</table>

G. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. The Authority currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflow of resources. This separate element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently has no items that qualify for reporting in this category.

H. Net Position:

The financial statements utilize a net position presentation. Net position is classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - This amount is restricted by enabling legislation (such as external creditors, grantors, contributors, or laws or regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The Authority has restricted net position representing unspent bond proceeds transferred from the former Community Redevelopment Agency in prior years that must be spent on affordable housing projects.

Unrestricted net position - This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

- 9 -
1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Net Position (Continued):

Sometimes the Authority 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, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s practice to consider restricted net position to have been depleted before unrestricted net position is applied, unless otherwise directed by the Commission.

I. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2017, are classified in the accompanying financial statements as follows:

- Cash and cash equivalents $1,553,407
- Investments 103,105
- Restricted assets:
  - Investments - unspent bond proceeds 6,756,132

Total Cash and Investments $8,412,644

Cash and investments at June 30, 2017, consisted of the following:

- Deposits with financial institutions $1,553,407
- Investments 6,859,237

Total Cash and Investments $8,412,644
2. CASH AND INVESTMENTS (CONTINUED):

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

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Maximum Maturity*</th>
<th>Maximum Percentage Allowed*</th>
<th>Maximum Investment in One Issuer*</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Treasury Bills, Bonds and Notes</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>United States Government Sponsored Agency Securities</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Securities issued by the State of California or local agencies within the State of California</td>
<td>5 years</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>Nonnegotiable Certificates of Deposit</td>
<td>5 years</td>
<td>25%</td>
<td>None</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>5 years</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Passbook Savings Account: Demand Deposits</td>
<td>N/A</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>N/A</td>
<td>20%</td>
<td>None</td>
</tr>
<tr>
<td>Orange County Investment Pool</td>
<td>N/A</td>
<td>40%</td>
<td>None</td>
</tr>
<tr>
<td>Local government investment pools</td>
<td>N/A</td>
<td>40%</td>
<td>None</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>N/A</td>
<td>None</td>
<td>$65 million per entity</td>
</tr>
<tr>
<td>Banker’s Acceptance</td>
<td>180 days</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>270 days</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>Medium-Term Notes</td>
<td>5 years</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Supranational</td>
<td>5 years</td>
<td>15%</td>
<td>None</td>
</tr>
<tr>
<td>Asset backed securities</td>
<td>5 years</td>
<td>20%</td>
<td>5%</td>
</tr>
</tbody>
</table>

* - Based on state law requirements or the City’s investment policy requirements, whichever is more restrictive.

N/A - Not Applicable
2. CASH AND INVESTMENTS (CONTINUED):

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity:

<table>
<thead>
<tr>
<th>Remaining Maturity</th>
<th>12 Months or Less</th>
<th>13 - 24 Months</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Type</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Agency Investment Fund (LAIF)</td>
<td>$5,653,357</td>
<td>-</td>
<td>$5,653,357</td>
</tr>
<tr>
<td>United States (U.S.) Government Sponsored Agency Securities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Farm Credit Bank (FFCB)</td>
<td>-</td>
<td>249,693</td>
<td>249,693</td>
</tr>
<tr>
<td>U.S. Treasury Notes</td>
<td>-</td>
<td>497,110</td>
<td>497,110</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>459,077</td>
<td>-</td>
<td>459,077</td>
</tr>
<tr>
<td>Total</td>
<td>$6,362,127</td>
<td>$497,110</td>
<td>$6,859,237</td>
</tr>
</tbody>
</table>
Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, and the actual rating, as reported by Standard & Poor’s and Moody’s as of year-end for each investment type:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Total as of June 30, 2017</th>
<th>Minimum Legal Rating</th>
<th>S&amp;P’s Rating</th>
<th>Moody’s Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAIF</td>
<td>$5,653,357</td>
<td>None</td>
<td>Not Rated</td>
<td>Not Rated</td>
</tr>
<tr>
<td>U.S. Government Sponsored Agency Securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFCB</td>
<td>249,693</td>
<td>None</td>
<td>AA+</td>
<td>Aaa</td>
</tr>
<tr>
<td>U.S. Treasury Notes</td>
<td>497,110</td>
<td>None</td>
<td>AA+</td>
<td>Aaa</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>459,077</td>
<td>None</td>
<td>AAA</td>
<td>Aaa</td>
</tr>
<tr>
<td>Total</td>
<td>$6,859,237</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Concentration of Credit Risk

The City’s investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of the Authority’s total investments consisted of LAIF, U.S. Treasury Notes, and Money Market Mutual Funds, which represented 82%, 7%, and 7%, respectively, of the Authority’s investments at the year ended June 30, 2017.
2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Demand deposits held in noninterest bearing checking accounts are fully insured by the Federal Depository Insurance Corporation.

At June 30, 2017, the Authority deposits (bank balances) were collateralized under California Law.

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority’s prorated share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF.
2. CASH AND INVESTMENTS (CONTINUED):

**Fair Value Measurements**

The Authority categorizes its fair value measurement 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 active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2017:

<table>
<thead>
<tr>
<th></th>
<th>Quoted Prices</th>
<th>Observable Inputs</th>
<th>Unobservable Inputs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td></td>
</tr>
<tr>
<td>U.S. Government Sponsored</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency Securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFCB</td>
<td>$ -</td>
<td>$ 249,693</td>
<td>$ -</td>
<td>$ 249,693</td>
</tr>
<tr>
<td>U.S. Treasury Notes</td>
<td>-</td>
<td>497,110</td>
<td>-</td>
<td>497,110</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>-</td>
<td>459,077</td>
<td>-</td>
<td>459,077</td>
</tr>
<tr>
<td>Total Leveled Investments</td>
<td>$ -</td>
<td>$ 1,205,880</td>
<td>$ -</td>
<td>1,205,880</td>
</tr>
<tr>
<td>LAIF*</td>
<td></td>
<td></td>
<td></td>
<td>5,653,357</td>
</tr>
<tr>
<td>Total Investment Portfolio</td>
<td></td>
<td></td>
<td></td>
<td>6,859,237</td>
</tr>
</tbody>
</table>

* Not subject to fair value measurement hierarchy.

3. NOTES RECEIVABLE:

Notes receivable at June 30, 2017, include the following:

|                                |               |
|                                | $ 221,310     |
| SACRA Trust Fund               |               |
| Senior Seasons Apartments II, L.P. | 4,845,702   |
| Total                          | $ 5,067,012   |
3. NOTES RECEIVABLE (CONTINUED):

A. SACRA Trust Fund:

The former Community Redevelopment Agency borrowed $400,000 during fiscal year 1998-99 from the City for the purchase of Trulis property at an interest rate equal to the average rate earned by the City during the loan term. Due to the implementation of AB 1484, the interest is now calculated at the LAIF rate. The City opted to not utilize the higher 3% simple interest rate made available by SB 107. The note is payable from future tax increments and will be paid as funds become available. AB 1484 requires 20% of the proceeds from this loan to be provided to the Authority. As such, 20% of this note receivable balance is reflected in the Authority’s financial statements. The total balance due on this loan as of June 30, 2017 is $207,535, including $118 of accrued interest, of which 20%, or $41,507, is reflected in the Authority’s Statement of Net Position.

The former Community Redevelopment Agency borrowed $9,540,378 during fiscal year 1989-90 from the City at 9% interest to be paid on a quarterly basis. Due to the implementation of AB 1484, the interest is now calculated at the LAIF rate. The City opted to not utilize the higher 3% simple interest rate made available by SB 107. The note is payable from future tax increments and will be paid as funds become available. AB 1484 requires 20% of the proceeds from this loan to be provided to the Authority. As such, 20% of this note receivable balance is reflected in the Authority’s financial statements. The total balance due on this loan as of June 30, 2017 is $899,014, including $512 of accrued interest, of which 20%, or $179,803, is reflected in the Authority’s Statement of Net Position.

B. Senior Seasons Apartments II, L.P.:

The Former Community Redevelopment Agency agreed to loan $4,900,000, with an interest rate of 3% related to a disposition and development agreement dated November 6, 2006 and amended February 18, 2008. Under the agreement, the borrower agreed to acquire the site and construct and operate a housing project for low-income households. The loan amount is to be paid by the borrower annually in an amount equal to 50% of the residual receipts as defined in the agreement from operation of the housing project. Any remaining portion is due on the 55th anniversary of the date of the Former Community Redevelopment Agency’s issuance of a certificate of occupancy of the project. This receivable was transferred to the Authority by operation of law on February 1, 2012. At June 30, 2017, the total amount due of $4,845,702 included $4,735,791 in principal and $109,911 in interest.
4. CAPITAL ASSETS:

A summary of changes in the Authority’s capital assets at June 30, 2017, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance at July 1, 2016</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets, not being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 784,008</td>
<td>-</td>
<td>-</td>
<td>$ 784,008</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>292,462</td>
<td>-</td>
<td>(292,462)</td>
<td>-</td>
</tr>
<tr>
<td>Total capital assets,</td>
<td>1,076,470</td>
<td>-</td>
<td>(292,462)</td>
<td>784,008</td>
</tr>
<tr>
<td>not being depreciated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>4,878,900</td>
<td>-</td>
<td>-</td>
<td>4,878,900</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>4,878,900</td>
<td>-</td>
<td>-</td>
<td>4,878,900</td>
</tr>
<tr>
<td>Less accumulated depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>(960,865)</td>
<td>(97,604)</td>
<td>-</td>
<td>(1,058,469)</td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>(960,865)</td>
<td>(97,604)</td>
<td>-</td>
<td>(1,058,469)</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>3,918,035</td>
<td>(97,604)</td>
<td>-</td>
<td>3,820,431</td>
</tr>
<tr>
<td>being depreciated, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$ 4,994,505</td>
<td>(97,604)</td>
<td>(292,462)</td>
<td>$ 4,604,439</td>
</tr>
</tbody>
</table>

Total deletions for construction in progress exceed additions in land and buildings due to costs in a construction in progress project that were determined to be unusable for the project and were expensed in the fiscal year ended June 30, 2017.

5. SUBSEQUENT EVENTS:

Other events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosure as of November 21, 2017, which is the date these financial statements were available to be issued.
INDEPENDENT AUDITORS’ 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

The Honorable Chair and Members of the Commission
San Juan Capistrano Housing Authority
San Juan Capistrano, 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 San Juan Capistrano Housing Authority (the Authority), a component unit of the City of San Juan Capistrano, 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 November 21, 2017.

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 opinion 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 Authority’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 Authority’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 Authority’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Irvine, California
November 21, 2017