RESOLUTION NO. 2018-40

RESOLUTION NO. 2018-01(PPSC-NPC)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA AND PRESTON PARK SUSTAINABLE COMMUNITY NON-PROFIT CORPORATION BOARD RECEIVING AND FILING THE AUDITED SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION OF PRESTON PARK HOUSING FOR THE FISCAL YEAR ENDED JUNE 30, 2017 AND JUNE 30, 2016

WHEREAS, Alliance Residential Company (Alliance) administers the rental programs of Preston Park Housing on behalf of the City of Marina, and;

WHEREAS, as part of their management contract, Alliance was required to engage independent auditors to examine their books and records with respect to Preston Park Housing operations, test the underlying controls, fiscal and accounting records and financial transactions from which the Preston Park Housing Financial Reports are prepared, and to issue their opinion on the special-purpose financial statements contained in those reports, and;

WHEREAS, the purpose of the audit was to determine whether, in the auditor's opinion, the special-purpose financial statements present fairly in all material respects the park’s financial position, results of operations and cash flows for the fiscal year ended June 30, 2017 and June 30, 2016, and;

WHEREAS, the auditors, Mann, Urrutia, Nelson CPAs, have concluded their examination and issued unqualified (“clean”) opinions as of and for the fiscal year ended June 30, 2017 and the June 30, 2016, on Preston Park Housing Special-Purpose Statements of Financial Position; Activities and Net Assets; and Cash Flows, and;

NOW, THEREFORE IT BE RESOLVED, that the City Council of the City of Marina and Preston Park Sustainable Community Non-Profit Corporation Board receive and file the audited special-purpose statements of financial position of Preston Park Housing for the fiscal year ended June 30, 2017 and June 30, 2016 **(EXHIBIT A)**.

PASSED AND ADOPTED by the City Council of the City of Marina and Preston Park Sustainable Community Non-Profit Corporation Board at a regular meeting duly held on the 1st day of May 2018, by the following vote:

AYES, COUNCIL/BOARD MEMBERS: Amadeo, Morton, O’Connell, Brown, Delgado
NOES, COUNCIL/BOARD MEMBERS: None
ABSENT, COUNCIL/BOARD MEMBERS: None
ABSTAIN, COUNCIL/BOARD MEMBERS: None

____
Bruce C. Delgado, Mayor

ATTEST:

____
Anita Sharp, Deputy City Clerk

EXHIBIT A

PRESTON PARK

SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2017 and 2016

MANN, URRUTIA, NELSON CPAS & ASSOCIATES, LLP
2515 VENTURE OAKS WAY, SUITE 135
SACRAMENTO, CALIFORNIA 95833

PRESTON PARK
SPECIAL-PURPOSE FINANCIAL STATEMENTS
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Marina, California

We have audited the special-purpose financial statements of Preston Park (the Property) as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Property'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 the basis of accounting described in Note 1 to the financial statements; 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 an opinion on these special-purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose 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 special-purpose 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 special-purpose 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 special-purpose financial statements of Preston Park, as of June 30, 2017 and 2016, and the respective changes in financial position and its cash flows for the years then ended, in accordance with the basis of accounting described in Note 1 to the financial statements.

Basis of Accounting

The special-purpose financial statements were prepared to present the financial position of Preston Park as of June 30, 2017 and 2016, excluding land, building, improvements and equipment, and the changes in its net position and cash flows for the years ended June 30, 2017 and 2016, for the purpose of complying with the management agreement dated December 7, 2007 between Alliance Communities, Inc. and the City of Marina (See Note 1) and are not intended to be a complete presentation of the Property's assets, liabilities, and activities. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming opinions on the special-purpose financial statements that collectively comprise the Property's special-purpose financial statements as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. The schedule of operating expenses is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mann Urrutia Nelson CPAs

Sacramento, California
April 13, 2018

PRESTON PARK
SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 1,155,506	$ 1,758,009
Prepaid expenses	102,928	93,688
Total Current Assets	1,258,434	1,851,697
NON-CURRENT ASSETS		
Cash restricted for equipment purchases (Note 2)	2,065,611	722,979
Escrow accounts	221,537	114,487
Loan costs	713,139	-
Total Non-Current Assets	3,000,287	837,466
TOTAL ASSETS	$ 4,258,721	$ 2,689,163

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 189,920	$ 196,545
Deferred revenue	25,363	42,116
Total Current Liabilities	215,283	238,661
NON-CURRENT LIABILITIES		
Tenant security deposits	523,997	511,541
Total Liabilities	739,280	750,202
Net assets - unrestricted	3,519,441	1,938,961
TOTAL LIABILITIES AND NET ASSETS	$ 4,258,721	$ 2,689,163

PRESTON PARK
SPECIAL-PURPOSE STATEMENTS OF ACTIVITIES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Rental income, net	$ 6,327,783	$ 4,934,062
OPERATING EXPENSES		
Administrative	497,320	456,777
Utilities	93,557	85,810
Operating and maintenance	670,937	446,774
Taxes and insurance	347,571	290,073
Debt Service	1,512,647	625,779
Total Operating Expenses	3,122,032	1,905,213
Net Operating income	3,205,751	3,028,849
OTHER INCOME		
Miscellaneous revenue	379	65
Total Other Income	379	65
CHANGE IN NET ASSETS BEFORE DISTRIBUTIONS TO OWNER	3,206,130	3,028,914
Distributions to Owner	1,625,650	1,017,172
CHANGE IN NET ASSETS	1,580,480	2,011,742
NET ASSETS, BEGINNING OF PERIOD	1,938,961	(72,781)
NET ASSETS, END OF PERIOD	$ 3,519,441	$ 1,938,961

See Notes to Special-Purpose Financial Statements

PRESTON PARK
SPECIAL-PURPOSE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets before distributions to owners	$ 3,206,130	$ 3,028,914
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities:		
Decrease (increase) in operating assets:		
Tenant receivables	-	5,932
Escrow accounts	(107,050)	(114,487)
Loan costs	(713,139)	-
Prepaid Expenses	(9,240)	5,391
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(6,625)	82,726
Deferred revenue	(16,753)	13,431
Tenant security deposits	12,456	4,356
Net cash flows provided by operating activities	2,365,779	3,026,263
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to owners	(1,625,650)	(1,017,172)
Net cash flows used for financing activities	(1,625,650)	(1,017,172)
NET INCREASE IN CASH AND CASH EQUIVALENTS	740,129	2,009,091
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,480,988	471,897
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 3,221,117	$ 2,480,988

Cash and cash equivalents consist of the following at June 30, 2017 and 2016:

	2017	2016
Cash and cash equivalents	$ 1,155,506	$ 1,758,009
Cash restricted for equipment purchases	2,065,611	722,979
Total cash and cash equivalents	$ 3,221,117	$ 2,480,988

See Notes to Special-Purpose Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Preston Park (the Property) consists of 354 apartment units and is located at 682 Wahl Court, Marina, California. The complex is owned by the City of Marina who has a management agreement with Alliance Communities, Inc.

Basis of Accounting

The Property has prepared the accompanying special-purpose financial statements to present the assets, liabilities, activities and cash flows of Preston Park pursuant to the management agreement (Management Agreement) between the Fort Ord Reuse Authority, City of Marina, and Alliance Communities, Inc. dated December 7, 2007. The agreement specifies that the Property prepare special-purpose financial statements in which the activities of the housing units are presented in accordance with United States generally accepted accounting principles, excluding land, building, improvements and equipment used by the Property.

Use of Estimates

The preparation of these special-purpose financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short term maturities of those financial instruments.

Concentration of Credit Risk

Financial instruments that potentially subject the Property to concentrations of credit risk consist of cash and cash equivalents, to the extent they exceed federal insurance limits. The Property mitigates risks to its cash and cash equivalents by banking with creditworthy financial institutions.

Revenue Recognition

Rental income is recorded at maximum gross potential. Vacancy loss is recorded as a reduction in rental income. Rental units occupied by employees are included in gross rental income and as an offset through a revenue contra account to derive the net rental income as presented in the special-purpose Statement of Activities and Net Assets.

Deferred Revenue

Deferred revenue consists of tenant rental prepayments.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense totaled $11,587 for the year ended June 30, 2017 and $9,432 for the year ended June 30, 2016.

Rental Units Below Market Value

In accordance with the Management Agreement, tenants may qualify for rental rates below current market values according to household size and income. For the year ended June 30, 2017, the Property had 48 units rented below market value. For the year ending June 30, 2016, the Property had 49 units rented below market value.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The Property has evaluated subsequent events through April 13, 2018, which is the date the financial statements were available to be issued.

NOTE 2: CASH AND CASH EQUIVALENTS

The Property maintains three accounts at one financial institution. As of June 30, 2017 and 2016, book balances totaled $3,221,117 and $2,480,988, respectively. Bank balances totaled $3,248,391 and $2,505,066 as of June 30, 2017 and 2016, respectively.

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 government 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. As the Property's bank accounts are held by the City of Marina, collateral is pledged to cover the deposits at a margin of 110% as required.

Cash Restricted for Equipment Purchases

As required by the City of Marina, the Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2017 and 2016, the reserve balance was $2,065,611 and $722,979, respectively, and was included in the book and bank balances above.

NOTE 3: MANAGEMENT AGREEMENT

As discussed in Note 1, the Property is managed under a management agreement between the City of Marina and Alliance Communities, Inc. Management fees paid to Alliance Communities, Inc., for the years ended June 30, 2017 and 2016 totaled $158,106 and $142,500, respectively.

SUPPLEMENTAL INFORMATION

PRESTON PARK
SCHEDULE OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Administrative		
Office salaries	$ 141,584	$ 156,917
Office supplies	11,151	9,655
Office support and development	14,692	9,735
Bank and credit bureau fees	5,554	6,311
Management fees	158,106	142,500
Management salaries	84,296	74,951
Management consulting fees	35,839	15,427
Legal	13,329	9,932
Audit	-	6,150
Telephone	20,598	14,082
Advertising and renting	11,587	9,432
Miscellaneous	584	1,685
Total Administrative	497,320	456,777
Utilities		
Electricity	17,321	15,371
Gas	531	583
Water, trash and sewer	75,705	69,856
Total Utilities	93,557	85,810
Operating and maintenance		
Janitorial services and supplies	3,754	2,654
Maintenance payroll	180,287	144,207
Maintenance services and supplies	308,053	178,656
Exterminating contract and supplies	6,424	8,040
Grounds contract and supplies	47,751	38,248
Security	970	875
Carpet cleaning and replacement	4,139	3,792
Other replacements	55,434	43,453
Miscellaneous	64,125	26,849
Total Operating and Maintenance	670,937	446,774
Taxes and insurance		
Payroll taxes	31,411	27,982
Property taxes	173,340	159,414
Property and liability insurance	111,293	87,344
Other insurance	31,527	15,333
Total Taxes and Insurance	347,571	290,073
Debt service	1,512,647	625,779
Total Operating Expenses	$ 3,122,032	$ 1,905,213

MUN CPAs

MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

April 13, 2018

To the City Council
City of Marina
Preston Park Properties

We have audited the special-purpose financial statements of Preston Park (the "Property") for the years ended June 30, 2017 and 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Property are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017 or 2016. We noted no transactions entered into by the Property during 2017 or 2016 for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. There are no significant accounting estimates which need to be brought to your attention.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Attachment A summarize material misstatements detected as a result of audit procedures and were corrected by management. There were no uncorrected misstatements identified.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 13, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Property's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Property's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the schedule of operating expenses accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the of the financial statements. We compared and reconciled the schedule of operating expenses to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the City Council and management of the City of Marina and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Mann Urrutia Nelson CPAs

Mann, Urrutia, Nelson, CPAs & Associates, LLP

Attachment A

PRESTON PARK
SUMMARY OF AUDIT ADJUSTMENTS
June 30, 2016

	Effect - Increase (Decrease)				
Description	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Expenses**
Current Year Differences					
To remove other receivables	$ (48,678)		$ (48,678)		
To remove other prepaids	$ (24,103)		$ (24,103)		
To correct debt service balance		$ 252,798			$ 252,798
Total Income Statement Effect			$ (252,798)	$ -	$ 252,798
Balance Sheet Effect	$ (72,781)	$ 252,798	$ (325,579)		

PRESTON PARK
SUMMARY OF AUDIT ADJUSTMENTS
June 30, 2017

	Effect - Increase (Decrease)				
Description	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Expenses**
Current Year Differences					
To adjust for 2016 AJE to remove other receivables	$ (48,678)		$ (48,678)		
To adjust for 2016 AJE to remove other prepaids	$ (24,103)		$ (24,103)		
To adjust for 2016 AJE for debt service payments			$ (252,798)		$ (252,798)
Total Income Statement Effect			$ 252,798	$ -	$ (252,798)
Balance Sheet Effect	$ (72,781)	$ -	$ (72,781)		

April 26, 2018 Item No. **8j(1)**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of May 1, 2018

Chair and Board Members of
Preston Park Sustainable Community
Non-Profit Corporation

PPSC-NPC Corporation Meeting
of May 1, 2018

CITY COUNCIL AND PRESTON PARK SUSTAINABLE COMMUNITY NON-PROFIT CORPORATION BOARD CONSIDER ADOPTING RESOLUTION NO. 2018 -, AND 2018 – (PPSC-NPC), RECEIVING AND FILING AUDITED SPECIAL-PURPOSE STATEMENTS OF FINANCIAL POSITION OF PRESTON PARK HOUSING FOR FISCAL YEAR ENDED JUNE 30, 2017 AND JUNE 30, 2016

REQUEST:
It is requested that the City Council and Corporation Board:

1. Consider adopting Resolution No. 2018-, and 2018- (PPSC-NPC), receiving and filing the audited special-purpose statements of financial position of Preston Park for fiscal year ended June 30, 2017 and June 30, 2016.

BACKGROUND:
Alliance Residential Company (Alliance) administers the rental programs of Preston Park Housing on behalf of the City of Marina. As part of their management contract, Alliance was required to engage independent auditors to examine their books and records with respect to Preston Park Housing operations, test the underlying controls, fiscal and accounting records and financial transactions from which the Preston Park Housing Financial Reports are prepared, and to issue their opinion on the special-purpose financial statements contained in those reports.

The purpose of the audit was to determine whether, in the auditor's opinion, the special-purpose financial statements present fairly in all material respects the park's financial position, results of operations and cash flows for the fiscal year ended June 30, 2017 and June 30, 2016.

ANALYSIS:
The auditors, Mann, Urrutia, Nelson CPAs, have concluded their examination and issued unqualified ("clean") opinions as of and for the fiscal year ended June 30, 2017 and June 30, 2016, on Preston Park Special-Purpose Statements of Financial Position; Activities and Net Assets; and Cash Flows ("**EXHIBIT A**").

The Governance Letter (SAS 114) includes discussion regarding the auditors' responsibility, City accounting practices, difficulties and/or disagreements encountered, corrected and/or uncorrected misstatements, management representation, management consultation with other independent accountants and other audit findings or issues (**"EXHIBIT B"**). Nothing adverse was noted in the letter.

FISCAL IMPACT: None

CONCLUSION:

This request is submitted for City Council and Corporation Board consideration and possible action.

Respectfully submitted,

____

Lauren Lai, CPA
Finance Director
City of Marina

REVIEWED/CONCUR:

____

Layne P. Long
City Manager
City of Marina