

Renewal Enterprise District

Sonoma County, California

Independent Auditor's Reports and Basic Financial Statements

*For the fiscal year ended
June 30, 2021*



PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

An independently owned member
RSM US Alliance



**Renewal Enterprise District
For the Fiscal Year Ended June 30, 2021**

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Independent Auditor's Report

Board of Directors
Renewal Enterprise District
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the governmental-type fund of the Renewal Enterprise District ("RED"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise RED'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 opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental-type fund of RED as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

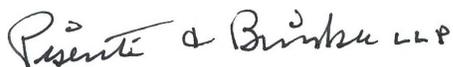
Other Matters

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, and the Note to the Budget and Actual Schedule, 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 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted 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 January 12, 2022, on our consideration of RED's internal control over financial reporting and 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 RED'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 RED's internal control over financial reporting and compliance.



Santa Rosa, California
January 12, 2022

Basic Financial Statements

**Renewal Enterprise District
Governmental Fund Balance Sheet and Statement of Net Position
June 30, 2021**

	<u>General Fund</u>		<u>Governmental</u>
	<u>Governmental</u>		<u>Activities</u>
	<u>Fund Balance</u>	<u>Adjustments</u>	<u>Statement of</u>
	<u>Sheet</u>		<u>Net Position</u>
Assets			
Cash and investments	\$ 408,558	\$ -	\$ 408,558
Total assets	<u>408,558</u>	<u>-</u>	<u>408,558</u>
Liabilities			
Accounts payable	45,586	-	45,586
Unearned revenue	<u>354,566</u>	<u>-</u>	<u>354,566</u>
Total liabilities	<u>\$ 400,152</u>	<u>-</u>	<u>400,152</u>
Fund Balance/Net Position			
Fund Balance			
Restricted	\$ 8,406		8,406
Total fund balance	<u>8,406</u>	<u>-</u>	<u>8,406</u>
Total liabilities and fund balance	<u>\$ 408,558</u>	<u>-</u>	
Net Position			
Restricted		<u>8,406</u>	<u>8,406</u>
Total net position		<u>\$ 8,406</u>	<u>\$ 8,406</u>

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

Renewal Enterprise District
Statement of Revenues, Expenditures, and Changes in Fund Balance /
Statement of Activities
For the Fiscal Year Ended June 30, 2021

			<u>Statement of Activities</u>
	General Fund	Adjustments	Governmental Activities
Expenditures/Expenses			
Current:			
Services and supplies	\$ 341,106	\$ -	\$ 341,106
Total expenditures/expenses	<u>341,106</u>	<u>-</u>	<u>341,106</u>
 Program revenues:			
Operating grants and contributions	<u>333,953</u>	<u>-</u>	<u>333,953</u>
Total program revenues	<u>333,953</u>	<u>-</u>	<u>333,953</u>
Excess of expenditures/expenses over program revenues	<u>(7,153)</u>	<u>-</u>	<u>(7,153)</u>
 General revenues:			
Investment income	<u>1,974</u>	<u>-</u>	<u>1,974</u>
Net change in fund balance/net position	<u>(5,179)</u>	<u>-</u>	<u>(5,179)</u>
 Fund balance/Net position			
June 30, 2020	<u>13,585</u>	<u>-</u>	<u>13,585</u>
June 30, 2021	<u>\$ 8,406</u>	<u>\$ -</u>	<u>\$ 8,406</u>

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

**Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021**

Note A. Summary of Significant Accounting Policies

Reporting Entity

The Renewal Enterprise District (the RED) was formed in December 2018 by a joint exercise of powers agreement (JPA) between the City of Santa Rosa and County of Sonoma.

The RED was established to work across jurisdictions to market and attract developers, blend private financing and public funds, leverage state and federal grant funds, and facilitate the creation of housing that meets established public policy goals for increased density, access to transit, protection of open space and community separators; improved energy efficiency, climate resilience, and affordability; and to advance and ensure equitable access to housing.

The goals of this joint effort include:

- Achieving Sonoma County’s fire recovery rebuild goals and meeting current and previously unmet regional housing needs
- Honoring community separators and urban growth boundaries, and implementing existing and in-progress General Plans and Specific Plans
- Incentivizing higher density, infill, and transit-oriented housing in Priority Development Areas, Transit Priority Areas, Designated Opportunity Zones, and Employment Investment Areas
- Promoting zero net energy development and advancing climate resiliency at the regional, neighborhood, and homeowner scale
- Ensuring affordability and equity in housing development
- Improving opportunities for area employers to recruit and retain a skilled workforce
- Ensuring transparency and accountability regarding achievement of housing goals

Formation of the RED did not shift any land use approval authority to the RED. It is anticipated that the RED eventually may attract and pool financing tools to help further an aggressive housing production agenda.

The RED is governed by a Board of Directors, with two directors from each of the founding member local governments. After two years from the formation of the RED, upon submittal of an application for membership, new members may be admitted to the RED so long as: 1) the new member is an incorporated city or town located within the jurisdictional boundaries of the County of Sonoma; and 2) the new member agrees to the terms of the JPA.

**Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021**

Note A. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The RED has been supported primarily through a grant from the William and Flora Hewlett Foundation to fund startup costs. Since its inception, additional grants and donations have been received, primarily to plan and launch the RED Housing Fund. Future funding for the RED is expected from some combination of revenue generated by the RED Housing Fund; voluntary contributions from third parties, such as grants; advances or loans from the members or other sources; contributions from an infrastructure financing district or another tax increment generating mechanism; or assessments on the members.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the government-wide statement of net position and the statement of activities) report information on the activities of the RED.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include grants and contributions that are restricted to meeting operational or capital requirements of a particular function or program. Investment income is reported as general revenues.

The RED is engaged in a single program and has chosen to present combined government-wide and fund statements with a reconciliation of the individual line items in a separate column on each statement.

Measurement focus and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered available when they are collectible within the period or soon enough thereafter to pay liabilities of the current period. For this purpose, the RED considers revenues available if they are collected within 365 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

**Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021**

Note A. Summary of Significant Accounting Policies (continued)

Measurement focus and Financial Statement Presentation (continued)

The RED has no noncurrent assets or liabilities. Accordingly, net position and fund balance are equal at year end. Additionally, the change in net position on the statement of activities is equal to the change in fund balance.

Cash and Investments

In accordance with GASB Statement No. 31 and No. 72, the RED reports cash and investments at fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred.

Unearned revenue

Unearned revenue represents amounts collected before revenue recognition criteria are met.

Net Position

Net position is classified into three components: 1) invested in capital assets, 2) restricted, and 3) unrestricted. These classifications are defined as follows:

- Invested in capital assets – This component of net position consists of capital assets, net of accumulated depreciation. The RED has no capital assets and therefore this amount was zero at year end.
- Restricted net position – This component of net position consists of net position with limits on its use that are imposed by outside parties or enabling legislation.
- Unrestricted net position – This component of net position consists of net position that does not meet the definitions of "restricted" or "invested in capital assets."

When both restricted and unrestricted resources are available, unrestricted resources are used only after restricted resources are depleted.

**Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021**

Note A. Summary of Significant Accounting Policies (continued)

Fund Balance

Governmental funds report fund balance as non-spendable, restricted, committed, assigned or unassigned based primarily on the extent to which the RED is bound to honor constraints on how specific amounts can be spent. The fund balance classifications are defined below:

- Non-spendable – amounts that are not in a spendable form or are to be maintained intact
- Restricted – amounts that can be spent only for the specific purpose stipulated by external resource providers or through enabling legislation
- Committed – amounts that can be used only for the specific purpose determined by a formal action of the entity's highest level of decision-making authority
- Assigned – amounts intended to be used by the government for specific purpose determined either by the governing body or by an official or body to which the governing body delegates the authority
- Unassigned – the residual classification is used for the general fund and includes all amounts not contained in the other classifications. This amount is technically available for any purpose

In general, when both restricted and unrestricted resources are available, restricted resources are used first. When expenditures are made of unrestricted resources, the RED first applies committed, then assigned, and then unassigned resources.

Use of 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. Actual results could differ from those estimates.

Note B. Cash and Investments

Investment in the Sonoma County Treasurer's Investment Pool

Cash and investments are comprised of cash pooled with the Sonoma County Treasury Pool (the Treasury Pool), an external investment pool. The Sonoma County Treasurer's office also acts as a disbursing agent for the RED. The fair value of the RED's investment in this pool is based upon the RED's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio).

**Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021**

Note B. Cash and Investments (continued)

Investment in the Sonoma County Treasurer's Investment Pool (continued)

Interest earned on investments pooled with the Treasury Pool is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee of the Treasury Pool has oversight for all monies deposited into the Treasury Pool.

The RED's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity, and yield.

The policy addresses the soundness of financial institutions in which the county will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. A copy of the Sonoma County investment policy is available upon request from the Sonoma County Auditor-Controller-Treasurer-Tax Collector at 585 Fiscal Drive, Room 100, Santa Rosa, California 95403.

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. Due to the highly liquid nature of the RED's investment with the Treasury Pool, the RED's exposure to interest rate risk is deemed by management to be insignificant.

The weighted average maturity of Treasury Pool investments at June 30, 2021 was 749 days.

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. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

**Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021**

Note B. Cash and Investments (continued)

Concentration of Credit Risk

The investment policy of the RED contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no non-pooled investments in any one issuer that represent 5% or more of total RED investments.

Fair Value Measurements

The RED 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 asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The RED has a fair value measurement for its investment in the Sonoma County Treasury Pool of \$408,558 which is valued using significant other observable inputs (Level 2).

Note C. Unearned Revenue

The RED has received advanced funding related to several funding agreements. These amounts have been deferred and revenue is being recognized as qualified expenses are incurred. Unearned revenue balances at June 30, 2021 are as follows:

<u>Funding Source</u>	<u>Unearned Revenue June 30, 2021</u>
William and Flora Hewlett Foundation	\$ 349,055
Community Foundation Sonoma County	<u>5,511</u>
Total	<u>\$ 354,566</u>

Renewal Enterprise District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Note D. Contingencies

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the RED operates. While it is unknown how long these conditions will last and what the complete financial effect will be to RED, the outbreak has not had a material adverse impact to the RED's operations to date. However, the future impact of the outbreak is highly uncertain and cannot be predicted. Accordingly, there is no assurance that the outbreak will not have a material adverse impact in the future.

Note E. Risk Management

The RED 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 RED is covered for general liability, automobile liability, errors and omissions and workers compensation. Limits of the general liability and automobile liability coverage are \$1,000,000 per occurrence with \$0 deductible.

Required Supplementary Information

Renewal Enterprise District
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual – General Fund
For the Fiscal Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Operating grants and contributions	\$ 596,190	\$ 570,519	\$ 333,953	\$ (236,566)
Investment income	3,000	3,000	1,974	(1,026)
Total revenues	599,190	573,519	335,927	(237,592)
Expenditures				
Current:				
Services and supplies	308,930	467,300	341,106	126,194
Contributions to others	300,000	270,000	-	270,000
Total expenditures	608,930	737,300	341,106	396,194
Excess of expenditures over revenues	(9,740)	(163,781)	(5,179)	158,602
Net change in fund balance	(9,740)	(163,781)	(5,179)	158,602
Fund balance, June 30, 2020	13,585	13,585	13,585	-
Fund balance, June 30, 2021	\$ 3,845	\$ (150,196)	\$ 8,406	\$ 158,602

See Accompanying Note to the Budget and Actual Schedule

**Renewal Enterprise District
Note to the Budget and Actual Schedule
For the Fiscal Year Ended June 30, 2021**

Note A. Budgetary Information

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Compliance



**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***

Independent Auditor's Report

Board of Directors
Renewal Enterprise District
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 and the governmental-type fund of Renewal Enterprise District ("RED"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise RED's basic financial statements, and have issued our report thereon dated January 12, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered RED's internal control over financial reporting (internal control) as a basis for designing 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 RED's internal control. Accordingly, we do not express an opinion on the effectiveness of RED'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of RED'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.

**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 (continued)**

Independent Auditor's Report (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RED's financial statements are free of 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 financial statements. 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 RED's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RED's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Perenti & Brink LLP

Santa Rosa, California
January 12, 2022