CFRS REALTY HOLDING CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CFRS Realty Holding Corporation
Fresno, California

Opinion

We have audited the accompanying financial statements of CFRS Realty Holding Corporation (the Corporation), which comprise the statements of financial position as of June 30, 2022 and 2021; the related statements of activities, changes in financial position, and cash flows for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards

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INDEPENDENT AUDITOR'S REPORT

generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

As discussed in Note 2, the rental property has been valued by management at estimated current appraisal values. These current values incorporate independent appraisals by designated Members of the Appraisal Institute. We have reviewed the procedures used in arriving at the estimates of current value of such investments and we believe the procedures to be reasonable. However, because of the inherent limitations of such valuation methodology, the estimated fair values may differ materially from the values that would have been realized had a sale transaction for the investments actually occurred.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 14, 2022

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	June 30, 2022	June 30, 2021
Assets:		
Cash	$ 25,577	$ 236,512
Prepaid Insurance	—	7,485
Accounts Receivable	480	721
Rental Property at Fair Value (Cost of $6,198,209 as of June 30, 2022 and 2021)	7,000,000	6,795,000
Total Assets:	$ 7,026,057	$ 7,039,718
Liabilities:		
Accounts Payable	$ 1,358	$ 274,375
Security Deposits and Refunds Due	18,226	18,226
Total Liabilities	19,584	292,601
Net Position without Donor Restrictions	$ 7,006,473	$ 6,747,117

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	June 30, 2022	June 30, 2021
Revenues:		
Rental Income	$ 522,912	$ 512,657
Other Income	239,400	297,449
Total Revenues	762,312	810,106
Expenses:		
Professional Services	35,170	27,342
Operating	510,786	870,163
Total Expenses	545,956	897,505
Increase/(Decrease) in Net Position	216,356	(87,399)
Unrealized Appreciation/(Depreciation) on Rental Property	205,000	—
Net Increase/(Decrease) in Net Position	$ 421,356	$ (87,399)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	June 30, 2022	June 30, 2021
Net Position, Beginning of Year	$ 6,747,117	$ 6,834,516
Increase/(Decrease) in Net Position	216,356	(87,399)
Unrealized Appreciation/(Depreciation) on Rental Property	205,000	—
Net Increase/(Decrease) in Net Position	$ 421,356	$ (87,399)
Capital Contribution	240,000	—
Distribution to Shareholders	(402,000)	—
Net Position, End of Year	$ 7,006,473	$ 6,747,117

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	June 30, 2022	June 30, 2021
Cash Flows from Operating Activities		
Increase/(Decrease) in Net Position	$ 216,356	$ (87,399)
Adjustments to Reconcile Increase/(Decrease) in Net Position to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable	241	(421)
(Increase)/Decrease in Prepaid Insurance	7,485	(406)
(Increase)/Decrease in Accounts Payable	(273,017)	274,375
Net Cash Provided by Operating Activities	$ (48,935)	$ 186,149
Cash Flows from Financing Activities		
Capital Contributions	240,000	—
Distribution to Shareholders	(402,000)	—
Net Increase/(Decrease) in Cash	(210,935)	186,149
Cash, Beginning of Year	236,512	50,363
Cash, End of Year	$ 25,577	$ 236,512
Supplemental Disclosures of Cash Flow Information		
Non-Cash Investing Activities:		
Net Unrealized Appreciation/(Depreciation) on Rental Property	$ 205,000	—

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1 | ORGANIZATION

Ownership

CFRS Realty Holding Corporation, a nonprofit corporation, (the Corporation) was incorporated in the state of California on April 3, 2003 for the purpose of acquiring the rental property. The Corporation has authorized 1,000 shares of common stock with no par value and has issued 212 shares for a total value of $6,360,000. The shareholders of the Corporation are the City of Fresno Retirement Systems, which are qualified pension plans. On May 28, 2003, the Corporation acquired the 2828 Fresno Street Office Building, which is a 24,300 square foot office building, located in Fresno, California.

Management

Certain directors and officers of the Corporation are also Trustees of the City of Fresno Retirement Systems. The City of Fresno Retirement Systems also provide administrative services and support to the Corporation. Refer to Note 7 for a full description of related party transactions.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting. Accordingly, revenues are recognized as earned and expenses are recognized as incurred. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) Topic 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASU Topic 958-205 was effective January 1, 2018. Under the provisions of the Guide, net position, and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Corporation has no donors and, as stated in Note 1, was incorporated for the purpose of acquiring rental property. The rents collected represent the Corporation's only form of revenue. Accordingly, the net position of the Corporation and changes therein are classified as without donor restrictions.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net position without donor restrictions – This includes net position balances that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers(Topic 606). The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. There was no material impact on the Corporation's financial statements as result of the implementation of FASB ASU No. 2014-09 (Topic 606).

Estimates

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

Cash

For the purpose of the cash flow statements, cash consists of deposits held with banks.

Valuation of Rental Property

The Corporation's policy is to perform independent appraisals of the property every three years. The appraisals include a complete property and market inspection and analysis by designated Members of the Appraisal Institute (MAI). Calculations used in the independent appraisals are generally based on a discounted cash flow analysis.

The rental property's stated fair value can be defined as the most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale with the buyer and seller each acting prudently, knowledgeably, and assuming that neither is in undue duress.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated fair value is based on acquisition cost, plus capital improvements, until first appraised.

Because of the inherent uncertainty of real estate valuations related to assumptions regarding highest and best use, capitalization rates, discount rates, leasing, and other factors, the estimated fair values reflected in the financial statements may differ from values that would be determined by negotiation between independent parties in sales transactions, and the difference could be material.

The Corporation does not provide for depreciation or amortization on its rental property. Any difference between cost and fair value of rental property held as of the reporting year-end period is reported as a change in unrealized appreciation/(depreciation) on rental property.

Any difference between cost and fair value of rental property disposed of during a year or reporting period is reported as a realized gain/(loss) on rental property.

Expenses for major renewals and betterments are capitalized and expenses for repairs and maintenance are expensed when incurred.

Security Deposits and Rental Income

The Corporation recognizes rental income based on the contractual rents due under the terms of the related leases. Security deposits consist of tenant payments made on the first month's rent as stipulated in the agreements.

Income Taxes

The Corporation qualifies for exemption from federal income tax under Section 501(c)(25) of the Internal Revenue Code. Accordingly, there is no provision for income taxes made in the accompanying financial statements.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain tax position that, more likely than not, would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of June 30, 2022 and 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2017.

Operating Expenses

Operating expenses consist of administrative expenses, property management fees, repairs and maintenance, gardening, janitorial and other services in connection with managing the property. Property management fees are described below.

The FASB ASU Topic 958 also requires expenses to be classified by both their natural and functional classifications. Due to the nature of the Corporation's activities, program services do not apply; as such, the Corporation did not present a statement of functional expenses.

Property Management Fees

The Corporation has entered into a management agreement with an independent management company to operate the rental property. This agreement provides for a monthly management fee equal to $2,000 per month.

Common Area Maintenance (CAM) Expense

In addition to base rent, tenants are responsible for additional payments related to certain operating expenses including utilities, janitorial services and Common Area Maintenance (CAM) expenses. CAM expenses are budgeted yearly and collected monthly with the base rent. The expenses are calculated based upon a prorated share of each tenant’s office space.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Distribution to Shareholders

The Corporation is a qualified tax-exempt realty holding corporation under Section 501(c)(25), and as such is required to remit the entire amount of income received from real property held by the Corporation, less expenses, to its shareholders. By resolution, the Board of Director's appointed Distribution Committee was authorized to determine and set criteria for the periodic distributions of income to the Corporation's shareholders and to authorize such periodic distributions of income in accordance with the criteria it established.

The Distribution Committee is authorized to make a distribution if the amount of retained earnings of the Corporation immediately prior to the distribution equals or exceeds the amount of the proposed distribution. Distributions shall be net of an operating cash reserve equal to a minimum of five percent of the Corporation's annual budgeted operating expenses.

Determination of the amount available is made based on the most recent internally prepared unaudited financial statements. For the fiscal year ended June 30, 2022, $402,000 in distributions were made; for the fiscal year ended June 30, 2021, distributions were $0.

Subsequent Events

Subsequent events were evaluated through November 14, 2022, which is the date the financial statements were available to be issued. There were no subsequent events identified by management which require disclosure in the financial statements.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Leases

Since June 30, 2007, the rental property has been 100% leased and 100% occupied. The following table depicts the approximate percentage of office space each tenant occupies.

Tenant	Approximate Percentage of Total Rental Space
City of Fresno Retirement Systems	48.60%
Fresno Dental Surgery Center	51.40%

3 | CASH

Cash consisted of the following as of June 30, 2022 and 2021:

	June 30, 2022	June 30, 2021
Cash In Bank	$25,577	$236,512
Total Cash	$25,577	$236,512

4 | CONCENTRATION OF CREDIT RISK

The Corporation maintains all cash in a bank account with one institution. The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, permanently raised the standard maximum deposit insurance amount to $250,000, the FDIC insurance limit per depositor, per depository institution or insured bank in an effort to increase consumer confidence in the banking system. At times balances could exceed the insured limit. The Corporation has not experienced any losses in such accounts, nor has it had any cash balances in excess of the applicable insured limit. Therefore, the Corporation does not feel that it is exposed to any significant risk in this area.

At June 30, 2022 and 2021, the Corporation's cash balances did not exceed the applicable insured limit of $250,000 for 2022 and 2021.

5 | LIQUIDITY AND AVAILABILITY

As of June 30, 2022 and 2021, the following table shows the total financial assets held by the Corporation and the amounts of those financial assets that could readily be made available within one-year of the statement of financial position date to meet general expenses:

Financial Assets Held at Year-End	June 30, 2022	June 30, 2021
Cash	$ 25,577	$ 236,512
Accounts Receivable	480	721
	$ 26,057	$ 237,233
Less: Donor Restrictions	—	—
Financial assets available to meet expenses over the next 12 months	$ 26,057	$ 237,233

The Corporation has no donors or grants, thus, there is no limited use or restrictions on the assets listed above or ongoing monthly revenue which is available to meet general expenses as they are incurred.

6 | SHARES ISSUED AND OUTSTANDING

As of June 30, 2022			
		Number of Shares	
	Amount	Authorized	Issued
City of Fresno Employees Retirement System	$ 3,180,000	500	106
City of Fresno Fire and Police Retirement System	3,180,000	500	106
Total	$ 6,360,000	1,000	212

As of June 30, 2021			
		Number of Shares	
	Amount	Authorized	Issued
City of Fresno Employees Retirement System	$ 3,060,000	500	102
City of Fresno Fire and Police Retirement System	3,060,000	500	102
Total	$ 6,120,000	1,000	204

7 | RELATED PARTY TRANSACTIONS

The following represent transactions between the Corporation and the related parties:

On September 19, 2005, the Corporation entered into a lease agreement with the City of Fresno Employees and Fire and Police Retirement Boards (the Retirement Boards) to lease a total of 8,964 square feet, consisting of 7,931 net square feet in the premises and 1,032 square feet in common area, of the second floor of the building for the Retirement Boards and their administrative staff. The term of the lease is ten years with an option for two additional five-year extensions. The first five (5) year extension was exercised effective September 1, 2015. On March 1, 2020, the Corporation amended the lease with the Retirement Boards. The amended lease agreement establishes the Retirement Boards as the sole tenant of the second floor, a total of 11,784 rentable square feet, consisting of 10,426 net square feet in the premises and 1,358 square feet in common area. The amendment also exercises the second five (5) year lease extension. The base rent, originally $1.35 per square feet per month, triple net, is as of June 30, 2022, $1.82 per square feet per month, triple net.

For the years ended June 30, 2022 and 2021, the Corporation received $234,521 and $229,922, respectively, as rental income from these related parties. In addition to the base rent, the tenant is responsible for a prorated share of the CAM Expenses and paid $122,400 and $147,246 for the years ended June 30, 2022 and 2021, respectively.

8 | FAIR VALUE MEASUREMENTS

The Corporation follows ASU Topic 820, *Fair Value Measurements and Disclosures,* which provides a framework for measuring fair value, and further defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Corporation determines the fair values of its financial instruments based on the fair value hierarchy established in ASU Topic 820 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

> Level 1: Quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
>
> Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly through corroboration with observable market data. Level 2 inputs include (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> Level 3: Unobservable inputs used to measure fair value to the extent that observable market based inputs are not available and that are supported by little or no market activity for the asset or liability. These unobservable inputs reflect the Corporation's own estimates about the assumptions that market participants would use in pricing the asset or liability.

8 | FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Corporation's investments as of June 30, 2022 and 2021:

Investments Measured Using Significant Other Observable Inputs (Level 2)		
	June 30, 2022	**June 30, 2021**
Rental Property	$7,000,000	$6,795,000
Total Investments Classified as Level 2	$7,000,000	$6,795,000

The Corporation's only investment asset is a 24,300 square foot office building rental property located at 2828 Fresno Street, in Fresno, California. In accordance with the policy set by the Corporation shareholders, an independent external appraisal of the property occurs every three years. The fair value of the property is defined as the most probable price in cash, for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale with the buyer and seller each acting prudently, knowledgeably, and assuming that neither is in undue duress.

The appraisal includes a complete property and market inspection, and analysis provided by designated MAI. The appraisal performed uses generally accepted valuation approaches applicable to the property type. Calculations used in the Corporation's independent appraisals include a discounted cash flow analysis.