



CFRS
REALTY
HOLDING
CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2021 and 2020; 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.

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 an opinion on these 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 audits 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 Corporation'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 Corporation'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.

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Opinion

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, 2021 and 2020, 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.

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 12, 2021

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	June 30, 2021	June 30, 2020
Assets:		
Cash	\$ 236,512	\$ 50,363
Prepaid Insurance	7,485	7,079
Accounts Receivable	721	300
Rental Property at Fair Value (Cost of \$6,198,209 as of June 30, 2021 and 2020)	6,795,000	6,795,000
Total Assets:	<u>\$ 7,039,718</u>	<u>\$ 6,852,742</u>
Liabilities:		
Accounts Payable	\$ 274,375	\$ —
Security Deposits and Refunds Due	18,226	18,226
Total Liabilities	<u>292,601</u>	<u>18,226</u>
Net Position without Donor Restrictions	<u>\$ 6,747,117</u>	<u>\$ 6,834,516</u>

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	June 30, 2021	June 30, 2020
Revenues:		
Rental Income	\$ 512,657	\$ 504,689
Other Income	297,449	251,241
Total Revenues	<u>810,106</u>	<u>755,930</u>
Expenses:		
Professional Services	27,342	28,136
Operating	870,163	309,796
Total Expenses	<u>897,505</u>	<u>337,932</u>
Increase/(Decrease) in Net Position	(87,399)	417,998
Unrealized Appreciation/(Depreciation) on Rental Property	—	—
Net Increase/(Decrease) in Net Position	<u>\$ (87,399)</u>	<u>\$ 417,998</u>

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	June 30, 2021	June 30, 2020
Net Position, Beginning of Year	\$ 6,834,516	\$ 6,889,518
Increase/(Decrease) in Net Position	(87,399)	417,998
Unrealized Appreciation/(Depreciation) on Rental Property	—	—
Net Increase/(Decrease) in Net Position	\$ (87,399)	\$ 417,998
Distribution to Shareholders	—	(473,000)
Net Position, End of Year	<u>\$ 6,747,117</u>	<u>\$ 6,834,516</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	June 30, 2021	June 30, 2020
Cash Flows from Operating Activities		
Increase/(Decrease) in Net Position	\$ (87,399)	\$ 417,998
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	(421)	62,726
(Increase)/Decrease in Prepaid Insurance	(406)	(340)
(Increase)/Decrease in Accounts Payable	274,375	—
Net Cash Provided by Operating Activities	<u>\$ 186,149</u>	<u>\$ 480,384</u>
Cash Flows from Financing Activities		
Distribution to Shareholders	—	(473,000)
Net Increase/(Decrease) in Cash	<u>186,149</u>	<u>7,384</u>
Cash, Beginning of Year	50,363	42,979
Cash, End of Year	<u>\$ 236,512</u>	<u>\$ 50,363</u>
Supplemental Disclosures of Cash Flow Information		
Non-Cash Investing Activities:		
Net Unrealized Appreciation/(Depreciation) on Rental Property	<u>\$ —</u>	<u>—</u>

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 204 shares for a total value of \$6,120,000. 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 standards update (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, 2021 and 2020, 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 2016.

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 \$800 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, 2021, there were no distributions made; for the fiscal year ended June 30, 2020, distributions were \$473,000.

Subsequent Events

Subsequent events were evaluated through November 12, 2021, which is the date the financial statements were available to be issued. The Corporation identified the following subsequent events that required disclosure:

On July 2, 2021, the Corporation authorized the issuance of 8 shares of common stock at a price of \$30,000 per share, for a total of \$240,000. Of the 8 shares sold, four were sold to the City of Fresno Employees Retirement System and four to the City of Fresno Fire and Police Retirement System.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In fiscal year 2021, the Corporation began its renovation of the second floor. The renovations included multiple new offices and common areas to be occupied by the second floor tenant, as well as building security upgrades. The final payments for the renovations occurred in September 2021; any expenses that were incurred before fiscal year end were appropriately accrued and are included as part of the Corporation's accounts payable balance for the fiscal year ended June 30, 2021.

In April of 2021, the Corporation re-commenced a request for proposal search for an independent property management company. This search began in fiscal year 2020 but was delayed due to the COVID-19 pandemic. In June of 2021, a new management company was appointed, with a five year agreement beginning on October 1, 2021.

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, 2021 and 2020:

	June 30, 2021	June 30, 2020
Cash In Bank	\$236,512	\$50,363
Total Cash	\$236,512	\$50,363

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, 2021 and 2020, the Corporation's cash balances in excess of the applicable insured limit of \$250,000 for 2021 and 2020 totaled \$0 and \$0, respectively.

5 | LIQUIDITY AND AVAILABILITY

As of June 30, 2021 and 2020, 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, 2021	June 30, 2020
Cash	\$ 236,512	\$ 50,363
Accounts Receivable	721	300
	\$ 237,233	\$ 50,663
Less: Donor Restrictions	—	—
Financial assets available to meet expenses over the next 12 months	\$ 237,233	\$ 50,663

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, 2021 and 2020			
	Amount	Number of Shares	
		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, 2021, \$1.63 per square feet per month, triple net.

For the years ended June 30, 2021 and 2020, the Corporation received \$229,922 and \$186,097, respectively, as rental income from these related parties. In addition to the base rent, the tenant is responsible for a prorated share of the Common Area Maintenance (CAM) Expenses and paid \$147,246 and \$97,675 for the years ended June 30, 2021 and 2020, respectively.

8 | FAIR VALUE MEASUREMENTS

The Corporation follows Accounting Standards Update (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, 2021 and 2020:

Investments Measured Using Significant Other Observable Inputs (Level 2)		
	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Rental Property	<u>\$6,795,000</u>	<u>\$6,795,000</u>
Total Investments Classified as Level 2	<u>\$6,795,000</u>	<u>\$6,795,000</u>

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 Members of the Appraisal Institute (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.