

**CITY OF SAN ANTONIO
CITY MANAGER'S OFFICE**

TO: Neighborhood Improvements Community Bond Committee

FROM: Peter Zaroni, Deputy City Manager

COPY: Sheryl Sculley, City Manager; Executive Leadership Team; Mike Frisbie, Transportation & Capital Improvements Director; Bridgett White, Planning Director

DATE: November 2, 2016

SUBJECT: REQUESTED INFORMATION FROM OCTOBER 20, 2016 MEETING

This memo addresses requests for information from the Neighborhood Improvements Community Bond Committee Meeting held on October 20, 2016.

Breakdown of 2017 Bond Proposition Investments by Council District Beverly Watts Davis (D2) and Ricardo Jimenez (D10) requested a graph that shows the individual proposed bond category investments by Council District. A breakdown of the proposed bond program by City Council District is found in Attachment "A".

Access to Public Transportation Ana Sandoval (D7) requested information on public transportation accessibility for each of the staff recommended Neighborhood Improvement areas. Maps showing public transportation routes for each staff recommended area will be provided at the November 3 Committee meeting. Accessibility to public transportation is one of the strategic criteria for considering potential Neighborhood Improvement areas.

Wurzbach Parkway Area Coda Rayo-Garza (D8) requested that staff examine the Wurzbach/IH-10 vicinity for possible inclusion in the Wurzbach Neighborhood Improvements Area (Area 13). The Department of Planning and Community Development reviewed the suggested area and made modifications to the staff recommended boundaries for the Wurzbach Neighborhood Improvements Area including properties closer to IH-10. This updated map was provided for the October 29 bus tour of the areas and will be presented to the Committee at the November 3 meeting.

Former Fire Academy Bill McDonough (D6) requested an estimate of the cost associated with any environmental cleanup of the Former Fire Academy (Area 9). The estimated cost associated with environmental cleanup of the Former Fire Academy is in excess of \$5 million for residential development.

Health Hazards Andrea Sanchez (D4) asked which areas include identified health hazards similar to the situation in the Former Fire Academy (Area 9). City staff has not yet conducted a formal environmental analysis, with the exception of the Former Fire Academy (Area 9). Detailed official environmental reviews will be conducted following voter approval of the bond as part of any property acquisition.

REQUESTED INFORMATION FROM OCTOBER 6, 2016 MEETING

October 14, 2016

Page 2 of 2

Impact of Urban Renewal Area Designation on Property Values

Ricardo Jimenez (D10) requested that staff investigate whether any studies have been done regarding the impact of Urban Renewal Area designation on property values. The Bexar Appraisal District indicates that there would be no negative impact on values based on a designation by the City as an area targeted for renewal.

Overlap of Other Category Proposed Bond Investments Andrea Sanchez (D4) asked to see any overlap of proposed 2017 Bond Program activities from other categories that may assist the Committee to select/prioritize areas. Updated area maps will be provided to Committee members that include other proposed 2017 Bond Program activities at the November 3 meeting.

Historic Districts Claudia Castillo Gonzalez (D1) requested information on the presence of historic districts and historic structures within the staff recommended Neighborhood Improvement areas. Staff coordinated with the Office of Historic Preservation to evaluate the presence of historic districts and known historic landmarks and added this information to the area maps indicating any presence of such sites/districts. The maps including historic districts and structures will be provided to Committee members at the November 3 meeting.

Property liens, title issues, lawsuits and environmental issues Yulanee McKnight (D3) requested information on any liens, title issues, lawsuits and environmental issues for properties that may be selected for development. Staff will research any legal issues related property liens and titles following bond approval by the voters as part of any property acquisition. Environmental reviews also will be conducted before acquiring properties.

OUR SA Annual Report Ricardo Jimenez requested a copy of the last completed annual financial report for OUR SA, the City's urban renewal agency. The last OUR SA financial audit is found in Attachment "B".

Stakeholder Engagement in Development of Staff Recommended Areas Several committee members asked for information on the process for stakeholder input into the development of the staff recommended areas. Staff has engaged multiple stakeholders to obtain input into identification of the areas and subsequent revisions of the areas. The stakeholders have included community organizations, non-profit and for profit development agencies, the members of the City's Housing Commission to Protect and Preserve Dynamic and Diverse Neighborhoods, and the Neighborhood Improvements Community Bond Committee members. A Request for Information (RFI) also was issued on September 6, 2016 which resulted in a total of 13 responses received. Four responses to the RFI were from nonprofit housing providers, five responses were from private developers of affordable and market-rate housing, three responses came from contractors and manufacturers, and one response came from a registered neighborhood association.

ATTACHMENTS

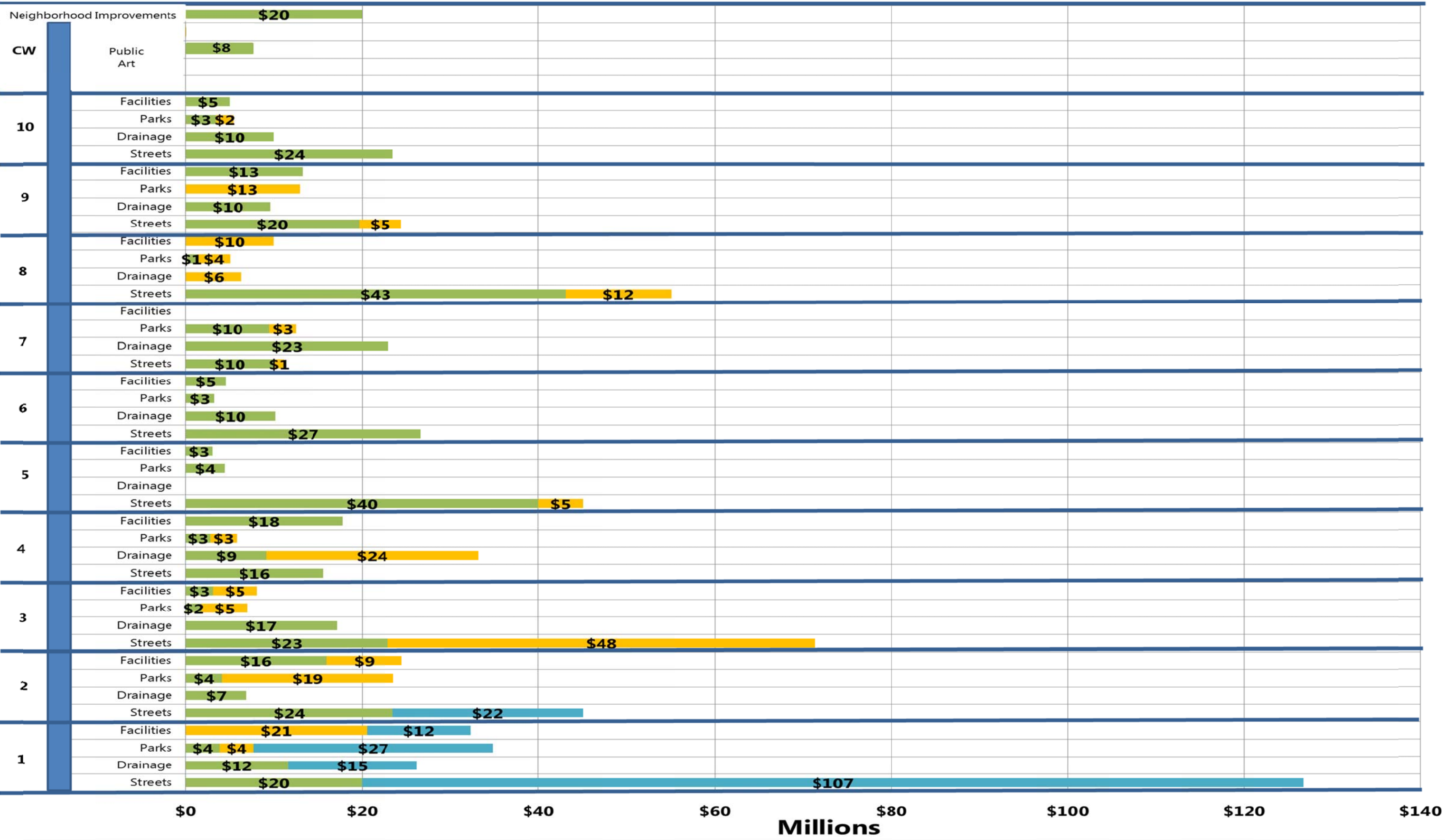
Attachment "A": 2017-2022 Proposed Bond Program—Staff Recommendation Summary by District, Project Type and Program Area

Attachment "B": OUR SA Financial Audit, September 30, 2015

Attachment “A”

**2017-2022 Proposed Bond Program--Staff Recommendation
Summary by District, Project Type and Program Area**

Attachment "A": 2017 - 2012 Proposed Bond Program--Staff Recommendation Summary by District, Project Type and Program Area



Attachment “B”

OUR SA Financial Audit, September 30, 2015

Attachment "B": OUR SA Financial Audit, Sept 30, 2015

**Urban Renewal Agency of the City of
San Antonio, dba Office of Urban
Redevelopment of San Antonio**
(A Component Unit of the City of San Antonio, Texas)

**Letter on Conduct of Audit and
Management Letter Comments**

September 30, 2015



Padgett Stratemann

April 21, 2016

To the Board of Commissioners
Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio
San Antonio, Texas 78205

Dear Members of the Board of Commissioners:

We are pleased to present this report related to our audit of the financial statements of Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio ("OUR SA") as of and for the year ended September 30, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for OUR SA's financial reporting process.

This report is intended solely for the information and use of the Board of Commissioners and management of Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Padgett, Stratemann & Co., L.L.P.

Certified Public Accountants

Attachment

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

Required Communications

Area	Comments
<p><i>Our Responsibility Under Auditing Standards Generally Accepted in the United States of America</i></p>	<p>As communicated in our arrangement letter dated November 5, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.</p> <p>Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of OUR SA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p> <p>We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.</p> <p>As communicated in the arrangement letter dated November 5, 2015, our responsibility, as described in <i>Government Auditing Standards</i>, is to report on the tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements.</p>

Area	Comments
	<p>However, they do not provide a basis for an opinion on OUR SA's internal control over financial reporting or on compliance and other matters.</p>
<p><i>Other Information in Documents Containing Audited Financial Statements</i></p>	<p>We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine such financial information was not materially inconsistent with the audited financial statements of OUR SA.</p>
<p><i>Planned Scope and Timing of the Audit</i></p>	<p>We conducted our audit consistent with the planned scope and timing we previously communicated to you.</p>
<p><i>Qualitative Aspects of Significant Accounting Practices</i></p>	<p><i>Significant Accounting Policies</i></p> <p>Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by OUR SA is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended September 30, 2015.</p> <p>No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><i>Significant Accounting Estimates</i></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive</p>

Area	Comments
	<p>because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.</p> <p>The most sensitive accounting estimate affecting the financial statements are the estimated carrying values of the land and building inventory. Management's estimate is based on information currently available, and the process used to calculate this estimate should be monitored throughout the year. This estimate was reviewed and it was determined it is reasonable in relation to the basic financial statements taken as a whole.</p> <p><i>Financial Statement Disclosures</i></p> <p>Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting OUR SA's financial statements relate to land and building inventory and commitments and contingent liabilities.</p>
<i>Significant Difficulties Encountered During the Audit</i>	We encountered no significant difficulties in dealing with management relating to the performance of the audit.
<i>Uncorrected and Corrected Misstatements</i>	<p>For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all identified misstatements.</p> <p>In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.</p>

Area	Comments
	<p>Below is a summary of the material misstatements we identified as a result of our audit procedures that were brought to the attention of, and corrected by, management.</p> <ul style="list-style-type: none"> • Adjustment to reclassify amounts recorded to grant revenue related to the Neighborhood Stabilization Program in the amount of \$430,612 and related expense account • Adjustment to reduce loan and notes receivable in the amount of \$296,084 for amounts received from developers and related revenue account • Adjustment to adjust beginning net position in the amount of \$170,845 and related land inventory and expense account.
<i>Disagreements With Management</i>	<p>For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to OUR SA's financial statements or the auditor's report. No such disagreements arose during the course of the audit.</p>
<i>Representations Requested From Management</i>	<p>We have requested certain written representations from management, dated April 21, 2016.</p>
<i>Management's Consultations With Other Accountants</i>	<p>In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.</p>
<i>Other Significant Findings or Issues</i>	<p>In the normal course of our professional association with OUR SA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting OUR SA, and business plans</p>

Area	Comments
	<p>and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as OUR SA's auditors.</p>

Recommendations Regarding the Internal Control Structure

In planning and performing our audit of the financial statements of OUR SA as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered OUR SA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OUR SA's internal control. Accordingly, we do not express an opinion on the effectiveness of OUR SA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in 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 the financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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. We consider the following deficiency in OUR SA's internal control to be a significant deficiency.

OUR SA's written response to the significant deficiency identified in our audit was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Accurate and Timely Financial Reporting – Recurring Comment

Observation

Financial reporting is an integral part of the internal control structure of an organization. Accurate and timely financial reporting is required to effectively manage and guide an organization. The preparation of accurate financial records is dependent upon maintaining an accurate and complete general ledger throughout the year.

During our testing, we noted material adjustments were needed to correct the financial statements.

- A substantial adjustment in the amount of \$430,612 was proposed to increase grant revenue for revenue to be recognized in fiscal year 2015.
- Another adjustment was proposed in the net amount of \$170,845 to adjust net assets to actual and recognize current year activity of \$110,553 and inventory of \$60,292.

We recommend management review the financial records to ensure they are appropriately adjusted. If items do not reconcile or appear correct, management should consult with the City of San Antonio's Finance team or external auditors to address these issues.

Management Response

As noted in the audit comments, there were adjustments that needed to be made at the end of the fiscal year. Center City Development and Operations Department ("CCDO") Fiscal Management is responsible for ensuring accurate and timely processing of all payments, revenue collections, and inventory adjustments. The concerns were immediately reviewed with Central Finance, and the necessary adjustments were made to reflect accurate accounting records for the fiscal year. Going forward, CCDO Fiscal Management will work with Central Finance on a regular basis (at least quarterly) to ensure inventory and accounting adjustments are made timely. Any significant transactions may be reviewed with the audit team as well, so there are no issues with financials at year-end.

This letter does not affect our report dated April 21, 2016 on the financial statements of OUR SA. We will review the status of this comment during our next audit engagement. The comment and recommendation included, both of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist in implementing the recommendation.

**Urban Renewal Agency of the City of
San Antonio, dba Office of Urban
Redevelopment of San Antonio**
(A Component Unit of the City of San Antonio, Texas)

Financial Statements

September 30, 2015 and 2014

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
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Padgett Stratemann

Independent Auditor's Report

To the Board of Commissioners
Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio ("OUR SA"), a component unit of the City of San Antonio, Texas, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which comprise OUR SA'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 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 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 OUR SA'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 OUR SA'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.

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

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 financial position of OUR SA as of September 30, 2015 and 2014, and the respective changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited), as listed in the table of contents, 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 basic 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OUR SA's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2016 on our consideration of OUR SA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OUR SA's internal control over financial reporting and compliance.

Padgett, Statemann + Co., L.L.P.

San Antonio, Texas

April 21, 2016

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Management's Discussion and Analysis (Unaudited)

Years Ended September 30, 2015 and 2014

This Management's Discussion and Analysis of the 2015 and 2014 basic financial statements is prepared by the Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio ("OUR SA"), and is designed to assist the reader in focusing on significant financial issues and providing a performance overview of OUR SA's operations. Please read this analysis in conjunction with the financial statements and notes to the financial statements, which follow this section. Comparative analysis of key elements of total enterprise funds has been provided, as well as comparisons to the prior year. OUR SA's fiscal year is October 1 through September 30. OUR SA's financial statements are prepared on the basis of an enterprise fund, as defined by the Governmental Accounting Standards Board ("GASB"). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Highlights

- Total assets for OUR SA for September 30, 2015 ("FY 2015") were \$936,922; compared to the September 30, 2014 ("FY 2014") amount of \$2,289,916, this represents a decrease of \$1,352,994. The decrease is due to a decrease in accounts receivable from the City of San Antonio (the "City"), a decrease in inventory due to sales of inventory during the year, and a decrease in cash due to the payoff of liabilities discussed below. Total assets for OUR SA for FY 2014 were \$2,289,916, representing an increase of \$977,145 compared to FY 2013 total assets. The increase is due to an increase of pooled cash due to the acquisition and sales of some new properties during the year, as well as accounts receivable from the City.
- As of FY 2015, total liabilities for OUR SA were \$3,688, compared to the FY 2014 amount of \$916,391, which was a decrease of \$912,703. The decrease is due to the repayment of housing program funds to the City, as well as the payoff of the note payable. As of FY 2014, total liabilities for OUR SA were \$916,391, compared to the FY 2013 amount of \$674,625, which was an increase of \$241,766. The increase is due to activity for the housing programs.
- Unrestricted net position for FY 2015 totaled \$933,234, compared to FY 2014 amount of \$1,373,525, this represents a decrease of \$440,291. The decrease is due to sales activity of the housing programs, which resulted in losses. Unrestricted net position for FY 2014 totaled \$1,373,525, compared to FY 2013 amount of \$638,146, this represents an increase of \$735,379. The increase is primarily due to grant revenue recorded in 2014 for the housing programs.

Overview of the Financial Statements

The basic financial statements include the statements of net position, activities, and cash flows and the notes to the financial statements. Management's Discussion and Analysis introduces the basic financial statements and provides an overview of OUR SA's basic financial statements. The statements of net position reflect both short-term and long-term assets and liabilities. The components of net position are required to be presented in three separate components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. OUR SA only had unrestricted net position at September 30, 2015 and

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
Management's Discussion and Analysis (Unaudited) – Continued
Years Ended September 30, 2015 and 2014

2014. The statements of activities reflect the revenues, expenses, and changes in net position of OUR SA's operations. The statements of cash flows show the cash flows for the year from operating activities, investing activities, capital and related financing activities (none in the current or prior year), and noncapital and related financing activities. The sum of net cash provided (increase in cash) or used (decrease in cash) equals the net increase or decrease in OUR SA's equity in the City's pooled cash for the year.

Condensed Financial Information and Analysis

Condensed Assets, Liabilities and Net Position Information

	September 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Equity in the City's pooled cash	\$ 15,983	\$ 303,819	\$ 235,167
Accounts receivable	-	871,213	177
Loans receivable	103,375	48,307	399,460
Land and building inventory	<u>817,564</u>	<u>1,066,577</u>	<u>677,967</u>
Total assets	<u>936,922</u>	<u>2,289,916</u>	<u>1,312,771</u>
Liabilities:			
Current liabilities	3,688	889,051	645,489
Note payable – due in more than one year	<u>-</u>	<u>27,340</u>	<u>29,136</u>
Total liabilities	<u>3,688</u>	<u>916,391</u>	<u>674,625</u>
Net Position:			
Unrestricted	<u>933,234</u>	<u>1,373,525</u>	<u>638,146</u>
Total net position	<u>\$ 933,234</u>	<u>\$ 1,373,525</u>	<u>\$ 638,146</u>

Financial Analysis

- Equity in the City's pooled cash decreased from \$303,819 in FY 2014 to \$15,983 in FY 2015. The decrease was due mainly to the results of operations. Equity in the City's pooled cash increased from \$235,167 in FY 2013 to \$303,819 in FY 2014. The increase was mainly due to the results of operations.
- Accounts receivable decreased from \$871,213 in FY 2014 to \$0 in FY 2015, primarily due to the payment of the amount from the City related to the housing programs. Accounts receivable increased from \$177 in FY 2013 to \$871,213 in FY 2014, primarily due to amounts receivable from the City related to the housing programs.

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
Management's Discussion and Analysis (Unaudited) – Continued
Years Ended September 30, 2015 and 2014

- Loans receivable increased in FY 2015 by \$55,068 as loans were issued to the developers related to the housing programs. Loans receivable decreased in FY 2014 by \$351,153 as loans due back from developers related to the housing programs were repaid.
- Land and building inventory decreased from \$1,066,577 in FY 2014 to \$817,564 in FY 2015, primarily due to the sales of inventory related to the Neighborhood Stabilization Program ("NSP") Land Bank program in FY 2015. Land and building inventory increased from \$677,977 in FY 2013 to \$1,066,577 in FY 2014, primarily due to the purchase of inventory related to the NSP Land Bank program in FY 2014.
- Current liabilities decreased from \$889,051 in FY 2014 to \$3,688 in FY 2015. The decrease is primarily due to the repayment of amounts due back to the City related to the housing programs. Current liabilities increased from \$645,489 in FY 2013 to \$889,051 in FY 2014. The increase is primarily due to amounts due back to the City related to the housing programs.

Summary of Activities Information

	Years Ended September 30,		
	2015	2014	2013
Operating revenues	\$ <u>585,411</u>	\$ <u>966,555</u>	\$ <u>163,247</u>
Operating expenses:			
Salaries, wages, and benefits	-	-	12,465
Cost of the sales of redeveloped real estate	<u>1,231,255</u>	640,648	54,502
Professional contractor fees	<u>16,664</u>	5,962	3,315
Other contractual services and fees	<u>73,570</u>	<u>92,013</u>	<u>118,202</u>
Total operating expenses	<u>1,321,489</u>	<u>738,623</u>	<u>188,484</u>
Nonoperating revenues (expenses)	<u>295,787</u>	<u>507,447</u>	<u>267,433</u>
Change in net position	<u>(440,291)</u>	735,379	242,196
Net position at beginning of year	<u>1,373,525</u>	<u>638,146</u>	<u>395,950</u>
Net position at end of year	\$ <u><u>933,234</u></u>	\$ <u><u>1,373,525</u></u>	\$ <u><u>638,146</u></u>

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
Management's Discussion and Analysis (Unaudited) – Continued
Years Ended September 30, 2015 and 2014

Financial Analysis

- Operating revenues decreased from \$966,555 in FY 2014 to \$585,411 in FY 2015. The decrease is primarily due to the loss on the sale of redeveloped inventory and not receiving contributions from other agencies. Operating revenues increased from \$163,247 in FY 2013 to \$966,555 in FY 2014. The increase is primarily due to the income related to the acquisition of property and contributions from other agencies.
- Overall, the total operating expenses increased from \$738,623 in FY 2014 to \$1,321,489 in FY 2015. The increase is due to the cost of sales of redeveloped properties. Overall, the total operating expenses increased from \$188,484 in FY 2013 to \$738,623 in FY 2014. The increase is primarily due to the cost of sales of redeveloped properties.
- Overall, the total nonoperating revenues (expenses) decreased from \$507,447 in FY 2014 to \$295,787 in FY 2015, primarily due to less acquisitions made related to the NSP land acquisition grant. Overall, the total nonoperating revenues (expenses) increased from \$267,433 in FY 2013 to \$507,447 in FY 2014, primarily due to the NSP land acquisition grant.

Economic Factors and Outlook for Fiscal Year 2016

OUR SA, previously known as San Antonio Development Agency ("SADA"), was created on December 18, 1957 by a City referendum, ordinance, and resolution, under the provisions of the Urban Renewal Law of the State of Texas. OUR SA has been in transition since late 2006, when the City entered into a memorandum of understanding with OUR SA, which outlined that the City would support all administrative functions of OUR SA. Since then, the City has been able to address a number of organizational and financial issues associated with the previous administration. Significant progress has been made to set up mechanisms and systems to properly administer OUR SA functions.

Effective October 1, 2009, management of OUR SA was transferred from the City's Housing and Neighborhood Services Department to the Center City Development Office under the leadership of one of the City's Deputy City Managers. Recently named the Center City Development and Operations Department ("CCDO"), the mission of CCDO is to initiate and facilitate livability, commerce, infrastructure, and prosperity for a vibrant center city. OUR SA will play a vital role in support of the CCDO's mission to initiate and facilitate livability in the center city. This effort will be accomplished through the strategic use of OUR SA-owned property and the legal ability to acquire and hold properties for development. In FY 2016, the City and OUR SA will continue to develop and implement strategies to meet the revitalization needs of the City and will look at opportunities for OUR SA to be sustainable over the long term.

Currently, OUR SA has one dedicated real estate manager responsible for all day to day efforts of both OUR SA and its not for profit San Antonio Affordable Housing, Inc. ("SAAH"). CCDO provides OUR SA and SAAH with all necessary accounting and financial services, as well as management oversight.

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
Management's Discussion and Analysis (Unaudited) – Continued
Years Ended September 30, 2015 and 2014

Request for Information

This financial report is designed to provide our patrons and other interested parties with a general overview of the financial condition of OUR SA. If you have questions about this report or need additional financial information, please call (210) 207-5418.

Financial Statements

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**

Statements of Net Position

September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Equity in City of San Antonio pooled cash	\$ 15,983	\$ 303,819
Accounts receivable	-	871,213
Loans receivable	103,375	48,307
Land inventory	817,564	1,035,487
Building inventory	-	31,090
	<u>936,922</u>	<u>2,289,916</u>
Total assets		
	<u>936,922</u>	<u>2,289,916</u>
Liabilities		
Current liabilities:		
Accounts payable	3,438	21,447
Accrued expenses and liabilities	250	250
Due to other governments	-	866,000
Note payable – due within one year	-	1,354
	<u>3,688</u>	<u>889,051</u>
Total current liabilities		
	<u>3,688</u>	<u>889,051</u>
Note payable – due in more than one year	-	27,340
	<u>-</u>	<u>27,340</u>
Total liabilities		
	<u>3,688</u>	<u>916,391</u>
Net Position		
Unrestricted	933,234	1,373,525
	<u>933,234</u>	<u>1,373,525</u>
Total net position		
	<u>\$ 933,234</u>	<u>\$ 1,373,525</u>

Notes to the financial statements form an integral part of these statements.

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**

Statements of Activities

Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Sales of redeveloped real estate	\$ 585,411	\$ 88,545
Contributions from other agencies	-	870,969
Facility rental	-	7,041
	<u>585,411</u>	<u>966,555</u>
Total operating revenues		
Operating expenses:		
Cost of the sales of redeveloped real estate	1,231,255	640,648
Professional contractor fees	16,664	5,962
Other contractual services and fees	73,570	92,013
	<u>1,321,489</u>	<u>738,623</u>
Total operating expenses		
Operating income (loss)	<u>(736,078)</u>	<u>227,932</u>
Nonoperating revenues (expenses):		
Grant revenue	147,911	487,183
Interest income	5,626	21,653
Other income	142,250	697
Interest expense	-	(2,086)
	<u>295,787</u>	<u>507,447</u>
Total nonoperating revenues (expenses)		
Change in net position	<u>(440,291)</u>	735,379
Net position at beginning of year	<u>1,373,525</u>	<u>638,146</u>
Net position at end of year	<u>\$ 933,234</u>	<u>\$ 1,373,525</u>

Notes to the financial statements form an integral part of these statements.

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Statements of Cash Flows

Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 530,343	\$ 446,739
Cash received from the City	871,213	250,000
Cash payments to vendors	(1,339,498)	(745,339)
Cash payment to the City	<u>(866,000)</u>	<u>-</u>
Net cash used in operating activities	<u>(803,942)</u>	<u>(48,600)</u>
Cash Flows From Investing Activities		
Sale of inventory	476,231	99,140
Purchase of inventory	(227,218)	(487,750)
Interest income and other	<u>147,876</u>	<u>22,350</u>
Net cash provided by (used in) investing activities	<u>396,889</u>	<u>(366,260)</u>
Cash Flows From Capital and Related Financing Activities		
Activities – proceeds from grant activity	<u>147,911</u>	<u>487,183</u>
Cash Flows From Noncapital and Related Financing Activities		
Principal payment of long-term debt	(28,694)	(1,585)
Interest paid	<u>-</u>	<u>(2,086)</u>
Net cash used in noncapital and related financing activities	<u>(28,694)</u>	<u>(3,671)</u>
Net change in equity in the City's pooled cash	<u>(287,836)</u>	68,652
Equity in the City's pooled cash at beginning of year	<u>303,819</u>	<u>235,167</u>
Equity in the City's pooled cash at end of year	<u>\$ 15,983</u>	<u>\$ 303,819</u>
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (736,078)	\$ 227,932
Changes in assets and liabilities:		
Accounts receivable	871,213	(871,036)
Loans receivable	(55,068)	351,153
Accounts payable and accrued expenses and liabilities	<u>(884,009)</u>	<u>243,351</u>
Net cash used in operating activities	<u>\$ (803,942)</u>	<u>\$ (48,600)</u>

Notes to the financial statements form an integral part of these statements.

Notes to the Financial Statements

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Urban Renewal Agency of the City of San Antonio, dba the Office of Urban Redevelopment of San Antonio ("OUR SA"), was created on December 18, 1957 by a City of San Antonio, Texas (the "City") referendum, ordinance, and resolution, under the provisions of the Urban Renewal Law of the State of Texas. As a chartered political subdivision of the state of Texas (the "State"), OUR SA is governed by a seven-member Board of Commissioners (the "Board") appointed by the City Council.

The original purpose of OUR SA was to exercise urban renewal project powers for the removal of slum and blight in designated areas. OUR SA's urban renewal project powers, granted by the State, allow for the acquisition of property by eminent domain/condemnation for the purpose of redevelopment.

The federally-funded Urban Renewal Program was terminated in 1974 and was replaced by the Community Development Block Grant Program ("CDBG"), which included among its eligible activities the removal of slum and blighted areas, housing activities, and other nonhousing-related activities, such as economic development. OUR SA receives the majority of its operating funds from the sale of redeveloped real estate and intergovernmental funds (grants) from the City. Some of the grants come from the United States Department of Housing and Urban Development ("HUD") as pass-through grant funds under the CDBG and HOME Investment Partnership ("HOME") Programs.

As of March 1, 2001, several of OUR SA's functions were incorporated with the City's Housing and Neighborhood Services Department ("HNSD") in order to improve efficiency. The functions incorporated by the City into HNSD include (1) new construction, (2) rehabilitation, (3) down payment assistance, and (4) loan servicing of new loans originated after February 28, 2001. As of March 1, 2001, OUR SA's primary focus is to continue acquiring property in neighborhoods of San Antonio, Texas for the purpose of residential, commercial, and economic redevelopment. OUR SA retained the planning and acquisition and accounting departments. In October 2006, the City incorporated all the administrative functions into the City. Since then, the Board of OUR SA and City staff have focused on implementing processes and activities in a more accountable fashion.

As defined by the Governmental Accounting Standards Board ("GASB") Codification 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, OUR SA is considered a blended component unit of the City because of its financial dependency upon the City and the fact the City Council appoints its governing Board. Additionally, OUR SA provides services entirely to the City and has met the fiscal dependency and financial benefit/burden criteria.

As required by GASB Codification 2600, these financial statements present OUR SA and its component unit, an entity for which it is considered to be financially accountable, as described below.

The accompanying financial statements present the activities of OUR SA and its component unit, San Antonio Affordable Housing, Inc. ("SAAH"). SAAH is a legally separate organization for which OUR SA is financially accountable. In April 1997, the Board of OUR SA formed SAAH, a 501(c)(3) nonprofit

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Notes to the Financial Statements

organization established to develop the expertise to develop infrastructure and revitalize neighborhoods through economic development and historic preservation. SAAH has no employees of its own and, as such, contracts with OUR SA to provide it with the skills required to accomplish its mission.

OUR SA has reflected SAAH as a blended component unit, since this component unit is governed by the same Board as OUR SA. Additionally, SAAH provides services entirely to OUR SA and has met the fiscal dependency and financial benefit/burden criteria; therefore, SAAH is blended and reported as if it was part of OUR SA. All disclosures related to SAAH are included in these financial statements since separate financial statements for SAAH are not prepared.

Basis of Presentation

OUR SA meets the definition of a governmental entity as set forth in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *State and Local Governments*. The financial statements of OUR SA are prepared using the accrual basis of accounting with the economic resources measurement focus as prescribed by GASB. OUR SA operates a proprietary fund and applies applicable GASB pronouncements and presents its financial statements in accordance with the GASB Codification of Governmental Accounting and Financial Reporting Standards. Under this approach, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of OUR SA are reported in the statements of net position; revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating and Nonoperating Revenues and Expenses

OUR SA distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally result from sales of redeveloped real estate, as well as contributions from other agencies. Operating expenses include salaries, wages, and benefits; cost of the sales of redeveloped real estate; professional contractor fees; and other contractor services and fees. Revenues and expenses not fitting the above definitions are considered nonoperating revenues and expenses.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of net position and reported revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

Accounts Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Notes to the Financial Statements

Loans Receivable

Loans receivable consist of loans made to developers of the Infill Pilot Program property. The balance of these loans is \$103,375 and \$48,307 at September 30, 2015 and 2014, respectively. The loans bear interest at a rate of 4% and are due upon the sale of the individual property. Upon commencement of a project, the developer has 120 days to complete the project. Thus, all receivables are deemed to be short-term and are classified as current assets on the balance sheets. No allowance for uncollectible accounts is reported, as management has determined these receivables to be fully collectible.

Land and Building Inventory

Land and building inventory are reported at the lower of cost or fair value. Historical costs for properties are based on deeds and purchase records. Fair values, for properties where historical cost was not available, are determined using Bexar Appraisal District values for the year 2006 or a value established through the analysis of comparable land values in proximity to the property in question.

Sale of Redeveloped Real Estate (Program Income)

In accordance with the terms of the program contracts, program income, which consists primarily of proceeds from the sale of land and building inventory, is returned to the City since the original project was funded with CDBG funds. Return of any program income to the City is included as due to other governments and it reduces the gross proceeds from the sale of the land and building inventory. Since OUR SA historically received only one source of funds, HUD Funds (CDBG, HOME, or Urban Renewal Funds), all proceeds from the sale of real estate are considered program income.

Grant Expenditures

OUR SA receives a significant amount of its funds from the City as pass-through federal grant funds under the CDBG program. The grantor will make final determination of the eligibility of costs. Should any costs be found ineligible, OUR SA and the City will be responsible for reimbursing the grantor for these amounts. OUR SA's management believes such disallowance, if any, will not have a material effect on the financial statements.

Note 2 – Equity in City of San Antonio Pooled Cash

OUR SA maintains its cash accounts in the City's centralized cash pool program. As of September 30, 2015 and 2014, the City is responsible for maintaining adequate coverage by the Federal Deposit Insurance Corporation or pledged collateral.

Note 3 – Land and Building Inventory

OUR SA acquires both depressed and nondepressed residential and commercial land and/or buildings in designated neighborhood redevelopment and revitalization areas and is responsible for the ultimate disposition.

The land inventory consists of various vacant lots throughout the San Antonio area. As of September 30, 2015 and 2014, land inventory totaled \$817,564 and \$1,035,487, respectively. The building inventory consists of various buildings throughout the San Antonio area. As of September 30, 2015 and 2014, the building inventory totaled \$0 and \$31,090, respectively.

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Notes to the Financial Statements

Note 4 – Due to Other Governments

Due to other governments consists primarily of amounts due to the City for funds deposited into the San Antonio Affordable Housing Trust on behalf of SAAH for the purpose of using these funds toward the 380 loans related to the Infill Pilot Program. The amount due to the City as of September 30, 2015 and 2014 totaled \$0 and \$866,000, respectively.

Note 5 – Note Payable

OUR SA had an outstanding note payable due to Wells Fargo Bank, N.A. in the original amount of \$40,100, bearing interest at 8.5%. This note was collateralized by land inventory and was payable in monthly installments of principal and interest of \$323. The note was due in December 2027, however, during the 2015 fiscal year it was paid off as the related property was sold.

The following is a table of outstanding note payable activity as of September 30, 2015:

	Balance October 1, 2014	Additions	Deletions	Balance September 30, 2015	Due Within One Year
Note payable	\$ <u>28,694</u>	\$ <u>-</u>	\$ <u>28,694</u>	\$ <u>-</u>	\$ <u>-</u>

Note 6 – Commitments and Contingent Liabilities

Rehabilitation/Reconstruction Files

On January 15, 2010, officials from the City's HNSD informed management of OUR SA of the existence of 23 rehabilitation/reconstruction files. These project files were initiated from 1998 through 2000 and were the result of work involving extensive rehabilitation of owner-occupied properties and/or the demolition and reconstruction of new homes. Once such work was complete, OUR SA would execute a note agreement with the property owner based on his or her ability to pay. This note would serve as the financing agreement for the property owner to repay OUR SA the amount of costs incurred and/or OUR SA would execute a deferred payment loan ("DPL") that would be deferred for 10 years and forgiven if the property owner would meet certain requirements (e.g., reside at and remain as sole property owner for at least 10 years). However, since a note agreement, deed of trust, or DPL was not executed for any of these projects, management of OUR SA never included the related note receivable in its financial statements. Management of OUR SA believes that since these property-related documents were never executed, a note receivable could not be recorded in the financial statements of OUR SA.

Furthermore, on February 15, 2001, the City Council passed Ordinance 93462, which transferred all properties related to the Housing Rehabilitation, Reconstruction, and Loan Servicing Program, as well as the respective executed notes receivable, funds, duties, and personnel to the Neighborhood Action Department. As a result of this ordinance, all ownership rights for these projects were transferred by OUR SA to the City. In 2010, the City's staff and OUR SA's staff and management developed a disposition plan

Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio

Notes to the Financial Statements

for these properties that was approved by OUR SA's Board. Consequently, the mechanic's liens on 8 properties, whose intent was for the total loan to be deferred and forgivable, have been released and recorded. Of the remaining 15 property files, the liens on 3 were previously released and properly recorded; the liens on 4 properties were reduced and filed to reflect an intended note. The deferred and forgivable loans associated with the 8 remaining files have been reviewed and released.

Environmental Contingency

In the normal course of its business, OUR SA acquires real estate in certain designated areas of the City. It is possible that real estate acquired may be environmentally impaired, such that liability may accrue to OUR SA in the future. OUR SA's management is not currently aware of any such contingent environmental liabilities.

Memorandum of Understanding ("MOU") With the City

On May 2011, the City and OUR SA signed a MOU, which defines the responsibilities of the City and OUR SA with respect to land banking and urban renewal activities. The City is responsible for providing staffing and technical assistance to perform all necessary tasks. The City and OUR SA will undertake land banking activities on behalf of the City to acquire, maintain, and dispose of vacant underutilized single family real estate properties within targeted areas in accordance with laws and the City's plans, policies, and goals. All costs related to this MOU are paid and recorded in the City's financial statements. There is no effect on the financial statements of OUR SA related to these activities.

Contract with the City

On June 2013, the City entered into an agreement with SAAH, which defines the responsibilities of the City and SAAH with respect to land banking and urban renewal activities as part of the Neighborhood Stabilization Program Land Banking program. The City received funds through HUD and has entered into this contract with SAAH as sub-grantee of these funds. SAAH is responsible for performing all necessary tasks to comply with the contract agreement to include the acquisition of foreclosed homes, and working with the Planning and Community Development Office on the repair and disposition of all acquired properties. The City and SAAH will undertake land banking activities to acquire, maintain, and dispose of real estate in accordance with applicable laws and the contract. All costs related to this contract agreement are paid and recorded in SAAH's financial statements.

Note 7 – Risk Management

OUR SA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. OUR SA has obtained insurance to manage its risk of loss.

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
Notes to the Financial Statements

Note 8 – Condensed Financial Information – Component Unit

The accompanying condensed financial information presents the financial information of SAAH. The condensed financial information is presented below:

	September 30,	
	2015	2014
Assets:		
Equity in the City's pooled cash	\$ 30,079	\$ 243,934
Accounts receivable	-	871,175
Loans receivable	103,375	48,307
Due from other fund	2,332	-
Land and building inventory	592,154	841,168
Total assets	727,940	2,004,584
Liabilities:		
Current liabilities	3,757	888,536
Note payable – due in more than one year	-	27,340
Total liabilities	3,757	915,876
Net Position:		
Unrestricted	724,183	1,088,708
Total net position	\$ 724,183	\$ 1,088,708
	September 30,	
	2015	2014
Operating revenues	\$ 712,592	\$ 918,779
Operating expenses – contractual services	1,230,562	702,909
Nonoperating revenues and expenses – net	153,445	507,196
Increase in net assets	(364,525)	723,066
Net position at beginning of year	1,088,708	365,642
Net position at end of year	\$ 724,183	\$ 1,088,708

**Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio**
Notes to the Financial Statements

	September 30,	
	<u>2014</u>	<u>2013</u>
Net cash provided by (used in):	\$ (364,525)	\$ 723,066
Operating activities	(71,004)	(261,773)
Noncapital investing activities	249,014	(424,400)
Capital and related financing activities	(27,340)	(1,796)
Equity in the City's pooled cash at beginning of year	<u>243,934</u>	<u>208,837</u>
Equity in the City's pooled cash at end of year	\$ <u><u>30,079</u></u>	\$ <u><u>243,934</u></u>



Padgett Stratemann

Independent Auditor's 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*

To the Board of Commissioners
Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio
San Antonio, Texas

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 Urban Renewal Agency of the City of San Antonio, dba Office of Urban Redevelopment of San Antonio ("OUR SA"), a component unit of the City of San Antonio, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise OUR SA's basic financial statements, and have issued our report thereon dated April 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OUR SA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OUR SA's internal control. Accordingly, we do not express an opinion on the effectiveness of OUR SA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of OUR SA'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OUR SA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

OUR SA's Response to Finding

OUR SA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. OUR SA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 OUR SA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OUR SA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas

April 21, 2016



Padgett Stratemann

Independent Auditor's Report on Compliance for a Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133

To the Board of Commissioners
Urban Renewal Agency of the City of San Antonio,
dba Office of Urban Redevelopment of San Antonio
San Antonio, Texas

Report on Compliance for Each Major Federal Program

We have audited OUR SA's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on OUR SA's major federal program for the year ended September 30, 2015. OUR SA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for OUR SA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OUR SA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OUR SA's compliance.

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

Opinion on Each Major Federal Program

In our opinion, OUR SA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-002. Our opinion on the major federal program is not modified with respect to these matters.

OUR SA's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. OUR SA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of OUR SA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OUR SA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OUR SA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any

deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-002 that we consider to be a significant deficiency.

OUR SA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. OUR SA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Padgett, Stratemann & Co., L.L.P.

San Antonio, Texas

April 21, 2016

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**
Schedule of Findings and Questioned Costs
September 30, 2015

Section A – Summary of Auditor’s Results

1. Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

2. Federal Awards

Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>		
Internal control over major programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of <i>OMB Circular A-133</i> ?	<u> X </u> Yes	<u> </u> No	
Identification of major programs:			
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>		
14.218	Neighborhood Stabilization Program		
Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>		
Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No	

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**
Schedule of Findings and Questioned Costs – Continued
September 30, 2015

Section B – Financial Statement Findings

Finding 2015-001 – Accurate and Timely Financial Reporting – Recurring Comment

Significant Deficiency

Criteria: Financial reporting is an integral part of the internal control structure of an organization. Accurate and timely financial reporting is required to effectively manage and guide an organization. The preparation of accurate financial records is dependent upon maintaining an accurate and complete general ledger throughout the year.

Condition/Context: During our testing, we noted material adjustments were needed to correct the financial statements.

- A substantial adjustment in the amount of \$430,612 was proposed to increase grant revenue for revenue to be recognized in fiscal year 2015.
- Another adjustment was proposed in the net amount of \$170,845 to adjust net assets to actual and recognize current year activity of \$110,553 and inventory of \$60,292.

Effect: The effect of the unrecorded transactions significantly understates revenues by \$430,612 and understates expenses for cost of property by \$110,553.

Cause: OUR SA received grant funds which were not recognized in the financial statements of OUR SA. Additionally, inventory adjustments were made to net assets which were required to be included as part of OUR SA's current year activity.

Recommendation: We recommend management review the financial records to ensure they are appropriately adjusted. If items do not reconcile or appear correct, management should consult with the City's Finance team or external auditors to address these issues.

View of Responsible Officials and Planned Corrective Action: As noted in the audit comments, there were adjustments that needed to be made at the end of the fiscal year. Center City Development and Operations Department ("CCDO") Fiscal Management is responsible for ensuring accurate and timely processing of all payments, revenue collections, and inventory adjustments. The concerns were immediately reviewed with Central Finance, and the necessary adjustments were made to reflect accurate accounting records for the fiscal year. Going forward, CCDO Fiscal Management will work with Central Finance on a regular basis (at least quarterly) to ensure inventory and accounting adjustments are made timely. Any significant transactions may be reviewed with the audit team as well, so there are no issues with financials at year-end.

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**
Schedule of Findings and Questioned Costs – Continued
September 30, 2015

Section C – Federal Award Findings and Questioned Costs

Finding 2015-002 – Procurement, Suspension, and Debarment

Federal Program: Neighborhood Stabilization Program
CFDA Number: 14.218
Department of Housing and Urban Development
Passed Through the City of San Antonio
Type of Finding: Noncompliance and Significant Deficiency

Criteria: OMB Circular A-133 requires nonfederal entities to follow state law related to purchasing and competitive bidding. Nonfederal entities are prohibited from contracting with or making sub awards under covered transactions to parties that have been suspended or debarred. Covered transactions are those goods and services that are expected to equal or exceed \$50,000.

Condition: During our testing of procurement, suspension, and debarment for this program, it was noted one vendor was not competitively bid, as required. Instead, quotes were obtained from vendors listed as approved vendors by the City. Additionally, OUR SA did not verify whether the vendor was excluded from participating in federal financial assistance. A review of the excluded parties list indicated the vendor was not prohibited from participating in federal financial assistance; however, OUR SA did not have a process in place to verify whether they were suspended or debarred.

Questioned Costs: None

Context: The vendor we examined was not competitively bid as required under the OMB Circular A-133.

Possible Effect: OUR SA was not in compliance with the requirements of OMB Circular A-133 and OUR SA may not be receiving the best cost for purchases since they were not competitively bid.

Cause: OUR SA relied on the City of San Antonio vendors which had been previously approved for other projects not specific to OUR SA.

Recommendation: We recommend OUR SA adopt a policy addressing compliance with federal requirements. The policy should indicate the process to determine whether vendors receiving federal financial assistance have not been suspended or debarred from participating in federal financial assistance. Additionally, we recommend OUR SA develop a procurement policy.

Views of Responsible Officials and Planned Corrective Action: CCDO Management (OUR SA Real Estate and Financial Management) will continue working closely with the Department of Planning and Community Development making sure the procurement process for the NSP Land Bank program is in-line with Federal and City practices, ensuring the best use of federal funds and to confirming that contractors are eligible to receive federal funding.

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**
Schedule of Findings and Questioned Costs – Continued
September 30, 2015

Responsible Person: OUR SA and CCDO Management

Implementation Date: April 1, 2016

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**
Summary Schedule of Prior Audit Findings
September 30, 2015

Status of Prior Year Finding

Finding 2014-001 – Accurate and Timely Financial Reporting – Recurring Comment

Status: This finding is still in process and, as such, was repeated in the current year.

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**
Schedule of Expenditures of Federal Awards
September 30, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Housing and Urban Development:</u>			
Passed Through the City of San Antonio: Neighborhood Stabilization Program	14.218	23-028001	\$ <u>586,133</u>
Total Passed Through the City of San Antonio			<u>586,133</u>
Total Department of Housing and Urban Development			<u>586,133</u>
Total Expenditures of Federal Awards			\$ <u><u>586,133</u></u>

**Urban Renewal Agency of the City of San Antonio, dba
Office of Urban Redevelopment of San Antonio**

Note to Schedule of Expenditures of Federal Awards

September 30, 2015

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of OUR SA under programs of the federal government passed-through from the City for the year ended September 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

1. Basis of Presentation

Expenditures for the Schedule represent expenditures which are recognized on an accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-87, *Costs Principles for State, Local, and Indian Tribal Governments*. The expenditures reported for the NSP are the use of grant funded loans and other grant proceeds.