

# California Residential Mitigation Program

Financial Statements and  
Independent Auditor's Report

December 31, 2018

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## **Independent Auditor's Report**

To the Governing Board  
California Residential Mitigation Program

We have audited the accompanying financial statements of the governmental activities and the General Fund of California Residential Mitigation Program (CRMP) as of December 31, 2018, and the related notes to the financial statements, which collectively comprise CRMP'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of CRMP as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 6 and 15 - 16 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 response 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.

*JLK Rosenberger, LLP*

Glendale, California  
July 12, 2019

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Management's Discussion and Analysis

### History

This discussion provides an assessment by management of the financial position, revenues, expenses, changes in net position, and budget of the California Residential Mitigation Program (CRMP). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole including the notes, which follow Management's Discussion and Analysis.

In August 2011 the Governor's Office of Emergency Services (Cal OES) and the California Earthquake Authority (CEA) entered into a joint exercise of powers agreement to create the CRMP to carry out a joint mitigation program. Both Cal OES and CEA are authorized to assist California dwelling owners who wish to retrofit their dwellings to protect against earthquake damage. CRMP is a legally separate entity from its members. It has a governing board consisting of two members appointed by the CEA and two members appointed by Cal OES.

### Management Team

Overall responsibility for operations has been delegated by the governing board to the Executive Director. The Governing Board has adopted a Procurement Guidelines and Contracting Manual and an Expenditures Procedures Manual. CRMP may employ or contract for staff and consultants as required to administer the program and will contract with private-sector organizations for the services described below.

### Program Funding

Funding for CRMP is provided by voluntary advances, contributions, or grants. It is expected that funds will be released to CRMP in increments as needed by CRMP.

The governing board is asked to approve funding to support programs designed to encourage dwelling owners to participate in retrofit activities.

### CRMP Focus

CRMP primarily focuses its effort on the following:

- a. Educating dwelling owners about their options to structurally strengthen their dwellings;
- b. Informing dwelling owners about any funding that is available to encourage participation in CRMP programs;
- c. Making available an application for dwelling owners who want to participate in CRMP programs;
- d. Educating contractors about CRMP programs;
- e. Educating building-inspection authorities about CRMP programs; and
- f. Informing, and productively working with, all interested parties about CRMP programs.

### Earthquake Brace & Bolt: Funds to Strengthen Your Foundation

The Earthquake Brace + Bolt (EBB) program was designed to encourage homeowners to complete a seismic retrofit of their older houses by offering up to \$3,000 toward the cost. EBB provides grants only for a specific "building-code-compliant" or an engineer designed and approved seismic retrofit, to ensure the retrofit will perform as designed and keep the house on its foundation. Although new-house construction in California has benefited from seismic building codes for many years, the availability of a seismic-retrofit building code for existing houses is actually quite recent.

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Management's Discussion and Analysis (Continued)

### Earthquake Brace & Bolt: Funds to Strengthen Your Foundation (Continued)

Before that code came into effect in California, residential retrofits of older houses were often incomplete and not based on a uniform best-practice. The consequences of an improper retrofit can be devastating, since the crawl space may still be vulnerable to collapse, possibly causing the house to slide off its foundation. The 2010 adoption of Chapter A3 into the California Building Code provided the first uniform guidelines for a quality, science-based retrofit for existing houses. EBB relies on Chapter A3 as its guidepost, offering cash grants for only these code-compliant seismic retrofits. The retrofit involves bolting the house to its foundation and adding bracing around the perimeter of the crawl space.

EBB began with a pilot program in 2013/14 and has grown each year since, adding more cities and more zip codes. To-date, more than 7,500 grants have been provided to California homeowners.

### Using the Report

CRMP's financial statements for the year ended December 31, 2018 have been prepared using accounting standards applicable to governmental entities. This document consists of financial statements with accompanying notes. The government-wide statements consist of a Statement of Net Position and Statement of Activities, which is an economic resources measurement focus and the accrual basis of accounting. The fund financial statements consist of a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance that are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

### Statement of Net Position

CRMP's assets, liabilities and net position as of December 31 are as follows:

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 355,519	\$ 2,027,465
Due from other governments	14,121	32,747
Prepaid expenses	-	1,900
Total assets	<u>369,640</u>	<u>2,062,112</u>
<b>Liabilities and Net Position</b>		
Accounts payable and accrued expenses	<u>190,032</u>	<u>249,657</u>
Total liabilities	<u>190,032</u>	<u>249,657</u>
Net position, unrestricted	<u>179,608</u>	<u>1,812,455</u>
Total net position	<u>179,608</u>	<u>1,812,455</u>
Total liabilities and net position	<u>\$ 369,640</u>	<u>\$ 2,062,112</u>

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Management's Discussion and Analysis (Continued)

### Assets, Liabilities and Net Position

Total assets decreased by \$1,692,472 (82%) in 2018 due to a significant increase in the number of completed retrofits due to the expansion of the EBB program. Total liabilities decreased by \$59,625 (24%) in 2018, largely due to a lower number of unpaid retrofits. Total net position decreased by \$1,632,847 (90%) in 2018 mainly due to an increase in the number of retrofits performed and paid in 2018.

### Statement of Activities

CRMP's program revenues and expenses, general revenues and net position as of December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Program revenues:		
Contributions from other governments	\$ -	\$ 3,095,998
Program expenses:		
Administration and office expenses	34,849	4,582
Audit services	41,000	39,000
Board meeting	1,509	1,105
Consumer incentives	9,621,834	6,561,142
EDP software	107	905
Information technology	18,265	18,593
Inspection services	109,502	77,850
Insurance	39,546	33,535
Legal services	68,375	53,038
Marketing services	386,962	305,038
Program education	71,486	5,356
Telecommunications	131,923	84,517
Travel	7,489	14,622
Total expenses	<u>10,532,847</u>	<u>7,199,283</u>
General revenues:		
Contributions from a member	<u>8,900,000</u>	<u>5,400,000</u>
Change in net position	(1,632,847)	1,296,715
Net position, beginning of year	<u>1,812,455</u>	<u>515,740</u>
Net position, end of year	<u>\$ 179,608</u>	<u>\$ 1,812,455</u>

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Management's Discussion and Analysis (Continued)

### **Program Expenses, General Revenue and Net Position**

Total program revenues come from grants received from the Department of Insurance and Federal Emergency Management Agency (FEMA) to cover consumer incentives payments. No program revenues were received in 2018, as the Department of Insurance provided no additional funding, and CRMP had not been awarded any new FEMA grants. Total program expenses increased by \$3,333,564 (47%) in 2018 due to more expenses necessary for the expanded EBB program, especially in consumer incentives, which accounts for the majority of the increase. General revenues from contributions increased by \$3,500,000 (65%) and net position decreased by \$1,632,847 (90%).

### **Budget Analysis**

CRMP's original budget had expenditures of \$6,640,250 and final budget expenditures of \$9,940,250. The \$3 million increase is due to an expansion of the EBB program to accommodate the significant number of applicants on the waiting list.

Actual total expenditures for 2018 were \$10,532,847 compared to the final budget of \$10,242,400, a negative variance of \$290,447. The consumer incentives had a negative variance of \$321,834 which was caused by the timing of when homeowners completed their retrofit. There was also a negative variance of \$61,962 for marketing services, which was due to increased marketing efforts for the 2<sup>nd</sup> program opening that happened during the year. These negative variances were offset by various positive variances, with the administration and office expenses having a positive variance of \$44,201 and the travel expenditures having a positive variance of \$25,311.

### **Current Economic Factors and Conditions**

CRMP continues to expand the EBB program each year, with the 2019 program including zip codes covering more than 50 cities in California. CRMP continues to see significant interest and participation in the program and has seen an increase in the amount of consumer incentives reimbursements each year accordingly. CRMP is consistently monitoring opportunities for funding beyond its members, so that it can continue to grow and meet the program objectives.

### **Requests for Information**

This financial report is designed to provide a general overview of CRMP's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

California Residential Mitigation Program  
801 K Street, Suite 1000  
Sacramento, CA 95814



# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Statement of Net Position As of December 31, 2018

	<u>2018</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 355,519
Accounts receivable	<u>14,121</u>
Total assets	<u>369,640</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	<u>190,032</u>
Total liabilities	<u>190,032</u>
<b>Net position:</b>	
Unrestricted	<u>179,608</u>
Total net position	<u><u>\$ 179,608</u></u>

*See accompanying notes to financial statements.*

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Statement of Activities For the Year Ended December 31, 2018

	<u>2018</u>
Program expenses:	
Administration and office expenses	\$ 34,849
Audit services	41,000
Board meeting	1,509
Consumer incentives	9,621,834
EDP software	107
Information technology	18,265
Inspection services	109,502
Insurance	39,546
Legal services	68,375
Marketing services	386,962
Program education	71,486
Telecommunications	131,923
Travel	7,489
Total program expenses	<u>10,532,847</u>
General revenues:	
Contributions from a member	<u>8,900,000</u>
Change in net position	(1,632,847)
Net position, beginning of period	<u>1,812,455</u>
Net position, end of period	<u><u>\$ 179,608</u></u>

*See accompanying notes to financial statements.*

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

## Balance Sheet As of December 31, 2018

	<u>2018</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 355,519
Accounts receivable	14,121
Total assets	<u>\$ 369,640</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	<u>\$ 190,032</u>
Total liabilities	<u>190,032</u>
<b>Fund Balance:</b>	
Unassigned	<u>179,608</u>
Total fund balance	<u>179,608</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 369,640</u>

*See accompanying notes to financial statements.*

## CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

### Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2018

	<u>2018</u>
Revenues:	
Contributions from a member	\$ 8,900,000
Total revenues	<u>8,900,000</u>
Expenditures:	
Administration and office expenses	34,849
Audit services	41,000
Board meeting	1,509
Consumer incentives	9,621,834
EDP software	107
Information technology	18,265
Inspection services	109,502
Insurance	39,546
Legal services	68,375
Marketing services	386,962
Program education	71,486
Telecommunications	131,923
Travel	7,489
Total expenditures	<u>10,532,847</u>
Net change in fund balance	(1,632,847)
Fund balance, beginning of period	<u>1,812,455</u>
Fund balance, end of period	<u><u>\$ 179,608</u></u>

*See accompanying notes to financial statements.*

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

Notes to Financial Statements  
December 31, 2018

## 1. Reporting Entity and Summary of Significant Accounting Policies

### *Reporting Entity*

California Residential Mitigation Program (CRMP) is a public entity established August 16, 2011 by a Joint Exercise of Powers Agreement (JPA) between two members: California Earthquake Authority, a public instrumentality of the State of California (CEA), and the Governor's Office of Emergency Services (Cal OES). The JPA is effective until December 31, 2021, unless extended or terminated by written agreement of the members. A four-member board governs CRMP. Two board members are appointed by Cal OES and the other two are appointed by CEA.

CRMP's purpose is to supply grants, loans, and loan guarantees (and related assistance and incentives) to owners of dwellings in California who wish to retrofit their homes to protect against earthquake damage. Neither member has any obligation to make advances or contributions to CRMP, but may contribute or advance funds, or allow CRMP to use its personnel, equipment or property. Any advance may, but need not, be subject to repayment. Upon termination of the JPA, any money and other assets in possession of CRMP shall be returned to members in proportion to the contributions each made.

While CRMP members are instrumentalities and agencies of the state, the State of California's General Fund is not liable for CRMP expenses or other liabilities. However, CRMP meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

### *Basis of Presentation and Accounting*

#### *Government-Wide Statements*

The statement of net position and statement of activities display information about CRMP in a manner consistent with a primary government. These statements include the financial activities of CRMP overall.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The statement of activities presents a comparison between direct expenses and program revenues for CRMP's governmental-type activity. Direct expenses are those that are specifically associated with CRMP. Program revenues include grants and contributions that are restricted for specific programs or purposes. Revenues that are not classified as program revenues, including investment income and general contributions, are presented instead as general revenues.

#### *Fund Financial Statements*

Separate financial statements are provided for the governmental funds. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available to use for expenditures of the current period. Revenues are accrued as measurable and available when receipt occurs within sixty days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

Notes to Financial Statements (Continued)  
December 31, 2018

## 1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

### *Basis of Presentation and Accounting (Continued)*

#### *Fund Financial Statements (Continued)*

Non-exchange transactions, in which CRMP gives (or receives) value without directly receiving (or giving) value in exchange, include grants, entitlements and donations. On a modified accrual basis, revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

CRMP reports one major governmental fund, the General Fund. The General Fund is CRMP's primary operating fund. It accounts for all financial resources of CRMP.

#### *Cash and Cash Equivalents*

CRMP considers all highly liquid instruments with a maturity of three months or less when acquired, to be cash and cash equivalents.

#### *Capital Assets*

Capital assets are recorded at historical costs. CRMP defines capital assets with an initial, individual cost of \$5,000 or more with an estimated useful life in excess of one year. Depreciation is computed by the straight-line method over estimated useful lives of the assets.

#### *Net Position*

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation reduced by the outstanding balance of any outstanding borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislations of other governments when those restrictions are more restrictive than the normal activities of CRMP.

When an expense is incurred for which both restricted and unrestricted net position is available, CRMP's policy is to first apply the restricted net position before applying any of the unrestricted net position.

#### *Fund Balance*

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, CRMP uses the following fund balance classifications to describe the relative strength of spending constraints:

- **Non-spendable** – The category includes elements of the fund balance that cannot be spent because of their form (such as inventory) or because they must be maintained intact.

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

Notes to Financial Statements (Continued)  
December 31, 2018

## 1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

### *Fund Balance (Continued)*

- **Restricted** – Amounts that are subject to external constraints that are legally enforceable restrictions. Such as, funding from other governments that are legally restricted for a specific use.
- **Committed** – Amounts constrained to specific purposes by CRMP itself by its highest level of decision-making authority (CRMP Board). Committed amounts cannot be used for any other purpose unless CRMP Board takes the same highest-level action to remove or change the constraint.
- **Assigned** – Amounts CRMP intends to use for a specific purpose. Intent can only be expressed by formal CRMP Board action.
- **Unassigned** – Amounts that cannot be classified into any other categories.

When expenditures occur that qualify for multiple fund balance types, it is CRMP policy to apply the expenditures in the following order: committed, assigned, then unassigned.

### *Use of Estimates*

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

## 2. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31, 2018:

Cash in bank	\$	355,486
Petty cash		33
Total	\$	<u>355,519</u>

As of December 31, 2018, CRMP did not have a policy governing deposits to address custodial credit risk.

## 3. Related-Party Transactions

CRMP has an agreement to accept personnel, equipment, and office space from CEA. These include the services of CRMP's executive director, secretary and treasurer. If CRMP had been autonomous, the operating results and financial position for this year would have been significantly different.

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

Notes to Financial Statements (Continued)  
December 31, 2018

## 4. Concentrations of Risk

CRMP's business is dependent upon contributions and advances from members. Changes in contributions could significantly affect the level of CRMP's operations.

## 5. Risk Management

CRMP is exposed to various risks of loss; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CRMP has insurance policies with private insurance companies for the following policies:

<u>Policy Type</u>	<u>Claim Limit</u>	<u>Policy Limit</u>
Director and Officers Liability	\$ 2,000,000	\$ 5,000,000
Business Liability	2,000,000	4,000,000
Information Security & Privacy	1,000,000	2,000,000

CRMP also has additional umbrella coverage of \$3,000,000. Management believes such coverage is sufficient to preclude any significant uninsured losses to CRMP. Claim amounts have not exceeded policy limits in the last three years.

## 6. Subsequent Events

Management has evaluated subsequent events through July 12, 2019, which is the date the financial statements were made available to be issued. No events have occurred subsequent to December 31, 2018 requiring recording or disclosure in these financial statements.



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**REQUIRED SUPPLEMENTARY INFORMATION**

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## CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

### Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Budgetary fund balances, January 1	\$ 1,812,455	\$ 1,812,455	\$ 1,812,455	\$ -
Revenues:				
Contribution from a member	-	8,900,000	8,900,000	-
Total revenues	-	8,900,000	8,900,000	-
Expenditures:				
Travel	32,800	32,800	7,489	25,311
Insurance	38,000	38,000	39,546	(1,546)
Board meeting	2,300	2,300	1,509	791
Administration and office	79,050	79,050	34,849	44,201
EDP software/information technology	25,250	25,250	18,372	6,878
Telecommunications	120,000	120,000	131,923	(11,923)
Audit services	50,000	50,000	41,000	9,000
Legal services	100,000	100,000	68,375	31,625
Inspection services	95,000	95,000	109,502	(14,502)
Marketing services	325,000	325,000	386,962	(61,962)
Program education	75,000	75,000	71,486	3,514
Consumer incentives	6,000,000	9,300,000	9,621,834	(321,834)
Total expenditures	<u>6,942,400</u>	<u>10,242,400</u>	<u>10,532,847</u>	<u>(290,447)</u>
Deficiency of revenue over expenditures	<u>(6,942,400)</u>	<u>(1,342,400)</u>	<u>(1,632,847)</u>	<u>290,447</u>
Net change in fund balances	<u>(6,942,400)</u>	<u>(1,342,400)</u>	<u>(1,632,847)</u>	<u>290,447</u>
Fund balances, end of year	<u><u>\$ (5,129,945)</u></u>	<u><u>\$ 470,055</u></u>	<u><u>\$ 179,608</u></u>	<u><u>\$ 290,447</u></u>

# CALIFORNIA RESIDENTIAL MITIGATION PROGRAM

Notes to Required Supplementary Information  
December 31, 2018

## **Budget and Budgetary Accounting**

CRMP prepares and adopts an operating budget each year. The budget is prepared on a modified accrual basis and is consistent with generally accepted accounting principles. After the budget is approved, the appropriations can be added to, subtracted from or changed only by a CRMP Board resolution.