

**CITY OF LA MESA, CALIFORNIA
HOUSING ASSET FUND**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

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ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of La Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Asset Fund (the Fund) of the City of La Mesa, California (City), as of and for the year ended June 30, 2016, and the related notes to the 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.

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Nathan Statham, CPA, MBA
Gardenya Duran, CPA
Brianna Schultz, CPA
Daniel Hernandez, CPA, MBA
Lisa Dongxue Guo, CPA, MSA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Asset Fund of the City of La Mesa, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of that basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this omitted information.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Housing Asset Fund and do not purport to, and do not present fairly the financial position of the City of La Mesa, California, as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Rogers, Anderson, Malody & Scott, LLP

San Bernardino, California
December 6, 2016

City of La Mesa, California
Housing Asset Fund
Balance Sheet
June 30, 2016

Assets

Cash and investments	\$ 142,801
Accounts receivable	233
Property held for resale	<u>8,350,000</u>
Total assets	<u>\$ 8,493,034</u>

Liabilities and Fund Balance

Liabilities	
Salaries payable	<u>\$ 728</u>
Total liabilities	<u>728</u>
Fund balance	
Restricted	<u>8,492,306</u>
Total fund balance	<u>8,492,306</u>
Total liabilities and fund balance	<u>\$ 8,493,034</u>

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

City of La Mesa, California

Housing Asset Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

For the year ended June 30, 2016

Revenues

Use of money and property	<u>\$ 9,095</u>
Total revenues	<u>9,095</u>

Expenditures

Current:

Community development	<u>39,204</u>
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Total expenditures	<u>39,204</u>
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Net change in fund balance	(30,109)
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Fund balance, beginning of year	<u>8,522,415</u>
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Fund balance, end of year	<u><u>\$ 8,492,306</u></u>
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The accompanying notes are an integral part of these financial statements.

City of La Mesa, California
Housing Asset Fund
Notes to the Financial Statements
For the year ended June 30, 2016

Note 1 – Organization and Summary of Significant Accounting Policies

The City of La Mesa was incorporated in 1912, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city. It is governed by an elected five-member City Council.

The following is a summary of the significant accounting policies of the City of La Mesa as they pertain to the Housing Asset Fund. Only the Housing Asset Fund information is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of La Mesa, California.

Basis of Accounting

These fund financial statements are reported using the modified-accrual basis of accounting. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both measurable and available). “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized in the accounting period in which the liability is incurred, if measurable.

Use of Estimates in the Preparation of Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Implementation of New Accounting Principles

The City implemented GASB Statement No. 72, Fair Value Measurement and Application. The objective of this statement is to address accounting and financial reporting issues related to fair value measurement. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

City of La Mesa, California
Housing Asset Fund
Notes to the Financial Statements
For the year ended June 30, 2016

Note 2 – Cash and Investments

Cash at June 30, 2016, consisted of the following:

	<u>Amount</u>
Pooled cash and investments	<u>\$ 142,801</u>

The City follows the practice of pooling cash and investments for all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

For more information on the City's cash and investments as of June 30, 2016, please see the City of La Mesa's audited financial statements.

Note 3 – Capital Assets

The Housing Asset Fund owns the Campina Court Apartment property, with a historical cost of \$6,065,000. This amount is included in the City's government-wide financial statements and is not reported at the fund level.

Note 4 – Property Held for Resale

On November 25, 2008, the City entered into a Purchase and Sale Agreement with the Redevelopment Agency (Agency) to sell certain real property located at 8181 Allison Avenue, La Mesa, California at the appraised value of \$8,350,000 for the purposes of increasing, improving and preserving the community's supply of housing available at affordable cost to persons and families of low or moderate income. The Agency made an initial payment of \$1,000,000 at closing and issued a promissory note to the City for \$7,350,000.

The outstanding balance was transferred from the Agency to the Successor Agency on February 1, 2012 as part of the dissolution of the Redevelopment Agency. At June 30, 2016, the outstanding balance of the advances from the City to the Successor Agency relating to this transaction was \$5,300,000.

On August 23, 2012, the City of La Mesa acting as Successor Agency filed the Recognized Obligation Payment Schedule (ROPS III) for the January through June 2013 time period. As it had been for all previous ROPS, included on the ROPS III was the outstanding loan balance (\$5,300,000 at June 30, 2012) for the Police Station Land Sale between the General Fund and the Successor Agency and the related annual debt service (\$750,000 per year). The Department of Finance denied the debt on the ROPS III as an enforceable obligation, despite approving it on all previous ROPS, stating:

City of La Mesa, California
Housing Asset Fund
Notes to the Financial Statements
For the year ended June 30, 2016

Note 4 – Property Held for Resale, (continued)

HSC section 34171 (d) defines enforceable obligations. Based on our review and application of the law, Item No.5 - a loan agreement between the City of La Mesa (City) and the Agency in the amount of \$5.3 million is not an enforceable obligation. The loan was used to purchase the land under the police station. HSC section 34171 (d) (2) states that agreements between the City and the Agency are not enforceable.

The City requested a Meet and Confer with the Department of Finance, which was held on November 21, 2012. On December 19, 2012, the City received a determination from the Department of Finance that upheld the original determination to deny both the outstanding loan balance and related annual debt service as enforceable obligations. Because the balance of the sale (\$5,300,000) is recorded as a receivable in the General Fund, this presents a potentially material negative impact on the General Fund. As of December 6, 2016, which is the date these statements were available to be issued, the City is considering the next steps to resolve this issue with the Department of Finance.

Note 5 – Fund Balance

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

City of La Mesa, California
Housing Asset Fund
Notes to the Financial Statements
For the year ended June 30, 2016

Note 5 – Fund Balance, (continued)

The City Council, establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Director of Finance has the authority, granted by the Council, to assign City resources. When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is also the City's policy to consider committed amounts as being reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The Housing Asset Fund's governmental fund balances at June 30, 2016, are presented below:

	<u>Housing Asset Fund</u>
Restricted for:	
Low and moderate income housing	<u>\$ 8,492,306</u>
 Total fund balance	 <u><u>\$ 8,492,306</u></u>