

**CITY OF LA MESA, CALIFORNIA
HOUSING ASSET FUND
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2021**

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Independent Auditor's Report

To the Honorable City Council
City of La Mesa
La Mesa, California

Report on the Audit of the Financial Statements

Opinion

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, 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

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

Other 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, 2021, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2021 on our consideration of the Fund'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 the Fund's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
November 12, 2021

City of La Mesa, California
Housing Asset Fund
Balance Sheet
June 30, 2021

Assets

Cash and investments	\$ 1,856,940
Accounts receivable	1,313
Loans receivable	225,000
Due from Successor Agency	1,386,574
Property held for resale	<u>8,350,000</u>
 Total assets	 <u><u>\$ 11,819,827</u></u>

Liabilities, Deferred Inflows of Resources and Fund Balance

Liabilities

Accounts payable	\$ 2,340
Salaries payable	<u>3,742</u>

Total liabilities	<u>6,082</u>
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Deferred inflows of resources

Unavailable revenue - housing loans	<u>1,611,574</u>
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Fund balance

Restricted	<u>10,202,171</u>
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Total fund balance	<u>10,202,171</u>
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Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 11,819,827</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
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the year ended June 30, 2021

Revenues

Use of money and property	\$ 90,091
Intergovernmental	748,391
Other revenues	<u>84,013</u>
Total revenues	<u>922,495</u>

Expenditures

Current:	
Community development	<u>178,545</u>
Total expenditures	<u>178,545</u>
Net change in fund balance	743,950
Fund balance, beginning of year	<u>9,458,221</u>
Fund balance, end of year	<u><u>\$ 10,202,171</u></u>

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, 2021

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.

Note 2 – Cash and Investments

Cash at June 30, 2021, consisted of the following:

	<u>Amount</u>
Pooled cash and investments	<u>\$ 1,856,940</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, 2021, please see the City of La Mesa’s audited financial statements. The Fund’s cash and investments are held in this pool.

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, 2021, 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:

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. However, on December 7, 2017, the Oversight Board for the Successor Agency approved a repayment schedule in accordance with the maximum repayment amounts specified in the Dissolution Law including H&S Code Section 34191.4(b)(3) until the loan is repaid in full. On January 23, 2018, the Department of Finance issued a Determination Letter, approving the loan balance of \$5,300,000. Repayments of this loan will begin after other deferrals listed on the ROPS are repaid.

City of La Mesa, California
Housing Asset Fund
Notes to the Financial Statements
For the year ended June 30, 2021

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.

The City Council, as the governing body of the Housing Asset Fund, 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 Housing Asset Fund’s policy to use restricted resources first, then unrestricted resources as they are needed. It is also the Housing Asset Fund’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, 2021, are presented below:

	Housing Asset Fund
Restricted for:	
Low and moderate income housing	\$ 10,202,171
Total fund balance	\$ 10,202,171

Note 6 – Loans Receivable

The loans receivable to the Housing Asset Fund are loans originally made from low and moderate income housing loans for three properties located on Lubbock Avenue. The loans are secured by trust deeds on the individual properties and are payable upon sale or transfer of the property by the original property owner.

Note 7 – Due From Successor Agency

Beginning in fiscal year 1985-1986 and continuing through fiscal year 2010-2011 and the dissolution of redevelopment, the former La Mesa Community Redevelopment Agency had deferred the deposit of tax increment funds totaling \$3,148,381 into the Low and Moderate Income Housing Funds of the Redevelopment Agency as housing set-aside funds pursuant to the authority provided in the Redevelopment Law. After the Redevelopment Agency was dissolved and the Successor Agency and Housing Successor Agency were established, the deferred housing set-aside funds remained an unpaid obligation of the Successor Agency to the Housing Successor Agency.

In December 2017, the Oversight Board for the Successor Agency to the La Mesa Community Redevelopment Agency approved the repayments of deferred housing set-aside funds in the amount of \$3,148,381 owed to the Low and Moderate Income Housing Fund, now the Housing Asset Fund, as an enforceable obligation and authorized the inclusion of the obligation on the Successor Agency's Recognized Obligation Payment Schedule (ROPS) beginning with the ROPS 18-19. The Oversight Board also approved the repayment schedule for the first payment in the amount of \$541,221 to be requested on the ROPS 18-19. In January 2018, the California Department of Finance approved the repayment schedule for the deferred housing set-aside funds to the Housing Asset Fund for inclusion on the 2018-2019 Recognized Obligation Payment Schedule and all future ROPS until the obligation is retired.

As of June 30, 2021, the total remaining deferred enforcement obligation is \$1,386,574.