

**WEST COVINA
HOUSING AUTHORITY**

**(A COMPONENT UNIT OF
THE CITY OF WEST COVINA)**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

WEST COVINA HOUSING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
West Covina Housing Authority
West Covina, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and the major fund of the West Covina Housing Authority (the Authority), (a component unit of the City of West Covina, California), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

Our responsibility is to express opinions 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, 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 basic 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 auditors' 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 auditors consider internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and the major fund of the Authority, as of June 30, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described more fully in Note 1a, the basic component unit financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of West Covina, California 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 budgetary comparison schedule, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the 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 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. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 29, 2015

WEST COVINA HOUSING AUTHORITY

GENERAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION

June 30, 2015

	Housing Authority	Adjustments	Statement of Net Position
ASSETS			
Cash and investments	\$ 2,777,996	\$ -	\$ 2,777,996
Receivables:			
Interest	1,038	-	1,038
Notes and loans	14,808,900	-	14,808,900
Advances to Successor Agency	6,645,194	-	6,645,194
Prepays	145,833	-	145,833
	<u>24,378,961</u>	<u>-</u>	<u>24,378,961</u>
TOTAL ASSETS	\$ 24,378,961	\$ -	\$ 24,378,961
LIABILITIES AND FUND BALANCE/NET POSITION			
LIABILITIES:			
Accounts payable	\$ 3,755	\$ -	\$ 3,755
Other accrued liabilities	5,385	-	5,385
	<u>9,140</u>	<u>-</u>	<u>9,140</u>
TOTAL LIABILITIES	9,140	-	9,140
FUND BALANCE/NET POSITION:			
Nonspendable:			
Prepays	145,833	(145,833)	-
Restricted for:			
Affordable housing	24,223,988	145,833	24,369,821
	<u>24,369,821</u>	<u>-</u>	<u>24,369,821</u>
TOTAL FUND BALANCE/NET POSITION	24,369,821	-	24,369,821
TOTAL LIABILITIES AND FUND BALANCE/NET POSITION	\$ 24,378,961	\$ -	\$ 24,378,961

See accompanying notes to basic financial statements.

WEST COVINA HOUSING AUTHORITY

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

	Housing Authority	Adjustments	Statement of Activities
REVENUES:			
Investment income	\$ 332,124	\$ -	\$ 332,124
TOTAL REVENUES	<u>332,124</u>	<u>-</u>	<u>332,124</u>
EXPENDITURES:			
Current:			
Affordable housing	<u>779,341</u>	<u>-</u>	<u>779,341</u>
TOTAL EXPENDITURES	<u>779,341</u>	<u>-</u>	<u>779,341</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(447,217)	-	(447,217)
FUND BALANCE/NET POSITION - BEGINNING OF YEAR	<u>24,817,038</u>	<u>-</u>	<u>24,817,038</u>
FUND BALANCE/NET POSITION - END OF YEAR	<u><u>\$ 24,369,821</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,369,821</u></u>

See accompanying notes to basic financial statements.

WEST COVINA HOUSING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the West Covina Housing Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the Authority's significant accounting policies:

a. Description of the Reporting Entity:

On February 1, 2011, the City Council activated the West Covina Housing Authority pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". The primary purpose of the Authority is to develop affordable housing for families of low and moderate income within the City of West Covina. The Authority is a component unit of the City of West Covina. The fund of the Authority has been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Authority.

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 that provided for the dissolution of all redevelopment agencies in the State of California. As of February 1, 2012, the West Covina Community Development Commission (the Commission) was dissolved and the Housing Authority accepted the role as the Successor Housing Agency.

The housing assets of the former Commission, and to the extent approved by the California Department of Finance, were transferred to the Authority, and continue the housing function of the former Commission.

Only the fund of the Authority is included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of West Covina, California.

b. Financial Statement Presentation:

Government-Wide Financial Statements

The Authority's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of the Governmental Activity for the Authority.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Financial Statement Presentation (Continued):

Government-Wide Financial Statements (Continued)

These statements are presented on an *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets as well as long-term debt, if any, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the *accrual basis of accounting*, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

The types of transactions reported as program revenues for the Authority can be reported in three categories:

1. Charges for services,
2. Operating grants and contributions, and
3. Capital grants and contributions.

Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenses. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balance for all major governmental funds. The Authority has presented its major fund that met the qualifications of GASB Statement No. 34.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Financial Statement Presentation (Continued):

Governmental Fund Financial Statements (Continued)

Governmental funds are accounted for on a spending or *current financial resources measurement focus* and the *modified accrual basis of accounting*. Accordingly, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Under *modified accrual basis of accounting*, revenues are recognized in the accounting period in which they become both *measurable* and *available* to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for revenues subject to accrual (generally 60-days after year end) are recognized when due. The primary revenue source susceptible to accrual is investment income.

Expenditures are generally recognized under the *modified accrual basis of accounting* when the related fund liability is incurred.

The account of the Authority is organized on the basis of a fund, which is considered a separate accounting entity. The operations of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in the individual fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Authority reports the following major governmental fund:

The General Fund is used to account for the Authority's financial resources received and used in developing affordable housing for families of low and moderate income.

c. New Accounting Pronouncements:

Current Year Standards:

GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", required to be implemented in the current fiscal year did not impact the Authority.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. New Accounting Pronouncements (Continued):

Current Year Standards (Continued):

GASB 69 - "*Government Combinations and Disposals of Government Operations*", required to be implemented in the current fiscal year did not impact the Authority.

GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", required to be implemented in the current fiscal year did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

d. Cash and Investments:

Investments are reported in the accompanying financial statements at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Cash and Investments (Continued):

Cash and investments are pooled with other City of West Covina funds for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled funds cash and investment balances. Interest income for cash and investments excluded from pooled cash is credited directly to the related fund. Investment policies applicable to the Authority's fund are those of the City of West Covina and are included in the notes to the City's basic financial statements.

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until that time. The Authority does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any applicable deferred inflows of resources.

f. Classification of Net Position and Governmental Fund Balances:

Net Position Classifications

In the government-wide financial statements, net position is classified in the following categories:

Investment in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation on these assets reduces this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Classification of Net Position and Governmental Fund Balances (Continued):

Net Position Classifications (Continued)

Unrestricted Net Position - This category represents the net position of the Authority that is not restricted for any project or other purpose.

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Governmental Fund Balance Classifications

The fund balances reported on the fund statements consist of the following categories:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that have been limited to specific purposes through adoption of an ordinance by the City Council, the highest level of decision making authority of the Authority. These commitments may be changed or lifted but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Classification of Net Position and Governmental Fund Balances (Continued):

Governmental Fund Balance Classifications (Continued)

Assigned Fund Balance - This classification includes amounts that are intended to be used by the Authority for specific purposes through the City Council budgetary actions but do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance - This classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Authority's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Authority's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

g. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

General Fund Balance Sheet and
Statement of Net Position:

Cash and investments \$ 2,777,996

WEST COVINA HOUSING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments (Continued)

Cash and investments as of June 30, 2015 consist of the following:

Equity in City investment pool	<u>\$ 2,777,996</u>
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Equity in the Cash and Investment Pool of the City of West Covina

The Authority has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of West Covina. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of West Covina. The Authority has not adopted an investment policy separate from that of the City of West Covina. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value.

Investments Authorized by the California Government Code and the City's Investment Policy for the Authority

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the City's Investment Policy for the Authority (Continued)

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity *	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer *
Local Agency Bonds	No	N/A	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Government Sponsored Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	40%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	30%
Repurchase Agreements	Yes	100 days	20%	20%
Medium-Term Notes	Yes	5 years	30%	30%
Mutual Funds	No	N/A	N/A	N/A
Time Certificates of Deposit	Yes	5 years	25%	25%
Money Market Mutual Funds	Yes	N/A	20%	10%
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None

* - Based on state law requirements or investment policy requirements, whichever is more restrictive.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2015, the City's investment pool deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

Disclosures Relating to Interest Rate Risk, Credit Risk and Custodial Credit Risk

Additional disclosures related to interest rate risk, credit risk and custodial credit risk are available in the City of West Covina's Comprehensive Annual Financial Report.

3. NOTES AND LOANS RECEIVABLE:

As of June 30, 2015, the following notes and loans receivable were outstanding:

Housing rehabilitation	\$ 379,446
First time home buyers	326,207
Housing preservation program	709,910
Lark Ellen Towers	5,930,181
Executive Lodge Apartments Limited Partnership	6,404,959
Home improvement program	1,058,197
West Covina Senior Villas, LLC	2,833,333
West Covina Senior Villas II, L.P.	8,513,885
Other loans	742,892
Allowance for doubtful accounts	<u>(12,090,110)</u>
Total	<u>\$ 14,808,900</u>

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. NOTES AND LOANS RECEIVABLE (CONTINUED):

Several housing rehabilitation loans totaling \$379,446 have been made to qualified applicants using Community Development Block Grants received by the City and housing set-aside funds of the former Commission's redevelopment activities. These loans bear interest up to 5% and are repaid when title to the property changes.

The Authority has loans to first-time home buyers totaling \$326,207. Loans are secured by second trust deeds and bear interest at 5%. Principal and interest are deferred for five years and are due monthly in years 6 through 30. There were 20 individual loans outstanding at June 30, 2015 ranging from \$9,529 to \$22,460.

The Authority also has housing preservation loans to qualified applicants using housing set-aside funds totaling \$709,910. Principal and interest are deferred for ten years; after the tenth year loans bear interest at 5%. Loans are repaid after the tenth year or when title to the property changes. There were 86 individual loans outstanding at June 30, 2015 ranging from \$205 to \$10,659.

In May 1997, the Commission loaned \$4,270,000 to Lark Ellen Towers. The loan was transferred to the Authority from the dissolved former Commission. The loan is secured by a deed of trust. The loan accrues interest at 3% per annum and requires annual payments equal to the maximum of \$35,000 or 50% of net profits earned by the project. The outstanding principal and accrued interest at June 30, 2015 is \$5,930,181.

In April 1998, the Commission loaned \$5,622,300 to Executive Lodge Apartments Limited Partnership (Promenade Apartments project). The loan was transferred to the Authority from the dissolved former Commission. The loan is secured by a deed of trust. The loan accrues interest at 3% per annum and requires annual payments equal to 80% of net profits earned by the project. The outstanding principal and accrued interest at June 30, 2015 is \$6,404,959.

Several housing improvement loans totaling \$1,058,197 have been made to qualified applicants. Loans are secured by second trust deeds.

In May 2002, the Commission loaned \$4,250,000 to West Covina Senior Villas, LLC. The loan is secured by a deed of trust. The loan does not accrue interest. The note requires annual payments of \$141,667 through May 2032 that are forgiven by the City unless the borrower defaults on the agreement. The outstanding principal at June 30, 2015 is \$2,833,333. The loan is likely to be forgiven therefore the City has included the entire balance in the allowance for doubtful accounts.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. NOTES AND LOANS RECEIVABLE (CONTINUED):

In May 2009, the Commission entered into an agreement with West Covina Senior Villas II, L.P. to provide \$8,600,000 for the acquisition of real property in the City of West Covina and construction and maintenance of an approximately 65-unit apartment complex to be rented to low income and very low income senior citizens. The loan is secured by a deed of trust. The loan does not accrue interest and is forgiven so long as the borrower does not default on the loan. The outstanding principal at June 30, 2015 is \$8,513,885. The loan is likely to be forgiven therefore the City has included the entire balance in the allowance for doubtful accounts.

Other notes consist of affordable housing loans of \$500,000. The notes do not accrue interest and are forgivable unless the borrower sells or refinances the property. Additionally, the balance includes a note of \$242,892 for low income housing which accrues no interest and is forgivable if the owners maintain the low and moderate income housing status. The notes are likely to be forgiven therefore the City has included the entire balance in the allowance for doubtful accounts.

4. ADVANCES TO THE SUCCESSOR AGENCY OF THE CITY OF WEST COVINA

As a result of the dissolution, the advances were transferred to the Housing Authority. At June 30, 2015 the outstanding receivable side of these advances was as follows:

- (a) In May 2010, the Commission made an advance of \$6,529,308 from its housing assets to satisfy the Commission's Supplemental Educational Revenue Augmentation Fund (SERAF) obligation as allowed by Assembly Bill ABX4-26. The advance bears no interest. In May 2011, the Commission made an advance of \$1,344,269 from its housing assets to satisfy the Commission's Supplemental Educational Revenue Augmentation Fund (SERAF) obligation as allowed by Assembly Bill ABX4-26. The advance bears no interest and the outstanding balance at June 30, 2015 was \$5,025,194. On February 1, 2012, these advance receivables were transferred to the Authority.
- (b) The General Fund of the City of West Covina has made several advances to the Commission totaling \$8,100,000 for administrative and capital improvement construction costs. Eighty percent (80%) of the balance is reported in the City's General Fund and the remaining twenty percent (20%) balance is reported in the West Covina Housing Authority.

With regard to repayment of the SERAF advances, repayment was authorized to begin in the 2014-15 fiscal year, and annual repayments are capped pursuant to a statutory formula.

WEST COVINA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. ADVANCES TO THE SUCCESSOR AGENCY OF THE CITY OF WEST COVINA
(CONTINUED)

Successor Agency and Housing Authority management believes, in consultation with legal counsel, that the SERAF advances are enforceable obligations payable by the Successor Agency under the Dissolution Act's repayment restrictions. Therefore, the Housing Authority has not recorded an allowance for uncollectible advances. That said, the Dissolution Act is a complicated statutory scheme and the State and local agency implementation thereof has been the subject of substantial dispute and litigation. As such, repayment of the SERAF advances cannot be guaranteed.

5. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT
AGENCIES:

On June 29, 2011, Assembly Bills 1x 26 (the "Dissolution Act") and 1x 27 were enacted as part of the fiscal year 2011-12 state budget package, which dissolved the redevelopment agency.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The West Covina Housing Authority elected on January 17, 2012 to serve as the Housing Successor Agency.

After the date of dissolution, the housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Authority.

The State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency. The State Controller completed its review on December 11, 2013 and did not identify any unallowable transfers of assets that occurred during the audit between the former RDA, the City or other public agencies that had not already been corrected by the City.

WEST COVINA HOUSING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. SUBSEQUENT EVENTS:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 29, 2015, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

WEST COVINA HOUSING AUTHORITY

BUDGETARY COMPARISON SCHEDULE

WEST COVINA HOUSING AUTHORITY GENERAL FUND

For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 332,124	\$ 332,124
Repayment of notes and loans	15,000	15,000	-	(15,000)
TOTAL REVENUES	15,000	15,000	332,124	317,124
EXPENDITURES:				
Current:				
Affordable housing	819,060	820,060	779,341	40,719
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(804,060)	(805,060)	(447,217)	357,843
FUND BALANCE - BEGINNING OF YEAR	24,817,038	24,817,038	24,817,038	-
FUND BALANCE - END OF YEAR	<u>\$ 24,012,978</u>	<u>\$ 24,011,978</u>	<u>\$ 24,369,821</u>	<u>\$ 357,843</u>

See accompanying note to required supplementary information.

WEST COVINA HOUSING AUTHORITY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

1. BUDGETARY DATA:

The annual budget adopted by the City Council provides for the general operation of the Authority. The annual budget is adopted in summary by the City Council in June of each year. The resolution sets a combined appropriation of the fund for the operation of the Authority.

The City Manager is authorized to transfer budgeted amounts between departments to ensure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations which increase appropriations, must be approved by the City Council. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements' budget to actual comparisons are the final amended amounts.

The budget is formally integrated into the accounting system and employed as a management control device during the year.

Budgets for governmental fund types are adopted on a basis consistent with generally accepted accounting principles. Operating appropriations lapse at the end of the fiscal year.

INDEPENDENT AUDITORS' 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*

The Board of Directors
West Covina Housing Authority
West Covina, California

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 the governmental activity and the major fund of the West Covina Housing Authority (the Authority), (a component unit of the City of West Covina, California), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 29, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 the Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described below.

Compliance with Senate Bill 341

Auditors' Comment and Recommendation

During our review of the compliance with Senate Bill 341, we noted the Authority is required to comply with Government Code Section 65400 which requires preparation of an annual report on the status and progress in implementing the City's housing element of the general plan using forms and definitions adopted to the Department of Housing and Community Development (HCD) by April 1st annually. The Authority did not submit the required information to the HCD by April 1, 2015. We recommend the Authority implement policies and procedures to ensure reporting of all required elements for SB 341.

Management's Response

Due to significant turnover in staffing, the required forms were not submitted to the Department of Housing and Community Development. Staff is in the process of completing the current and prior year forms to ensure they are submitted as soon as possible. City staff has also developed procedures to make sure this does not happen in the future.

Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described above. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we have reported to management and the Board of Directors in a separate letter dated December 29, 2015.

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

White Nelson Nick Evans LLP

Irvine, California
December 29, 2015