

***WEST COVINA HOUSING AUTHORITY
CITY OF WEST COVINA, CALIFORNIA***

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 2021

**West Covina Housing Authority
Year Ended June 30, 2021**

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INDEPENDENT AUDITOR'S 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 activities and the general fund of the West Covina Housing Authority (Housing Authority), a component unit of the City of West Covina, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Housing 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 error or fraud.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund of the Housing Authority of the City, as of June 30, 2021, 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.

Emphasis of Matter

As discussed in Note 1, the component unit financial statements present only the Housing Authority and do not purport to, and do not present fairly the financial position of the City, 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 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 schedule be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2022 on our consideration of the Housing 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 the 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 Housing Authority's internal control over financial reporting and on compliance.

Van Lant + Fankhaed, LLP

February 22, 2022

BASIC FINANCIAL STATEMENTS

West Covina Housing Authority
Statement of Net Position
June 30, 2021

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 8,505,735
Restricted Cash	12,050
Notes and Loans Receivable	14,626,990
Other Receivables	7,212
Interest Receivable	895,110
Total Current Assets	24,047,097
Total Assets	24,047,097
LIABILITIES	
Current Liabilities:	
Accounts Payable	24,313
Accrued Liabilities	14,461
Total Current Liabilities	38,774
Total Liabilities	38,774
NET POSITION	
Restricted	24,008,323
Total Net Position	\$ 24,008,323

The accompanying notes are an integral part of this statement.

**West Covina Housing Authority
Statement of Activities
Year Ended June 30, 2021**

Functions/Programs	Expenses	Program Revenues			Governmental Activities Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Total	Governmental Activities
Governmental Activities:					
Public Safety	\$ 181,450	\$ -	\$ -	\$ -	\$ (181,450)
Affordable Housing	786,828	98,802	-	98,802	(688,026)
 Total Governmental Activities	 <u>\$ 968,278</u>	 <u>\$ 98,802</u>	 <u>\$ -</u>	 <u>\$ 98,802</u>	 <u>(869,476)</u>
 General Revenues:					
Investment Income					<u>385,983</u>
Total General Revenues					<u>385,983</u>
Change in Net Position					(483,493)
Net Position - Beginning					<u>24,491,816</u>
Net Position - Ending					<u>\$ 24,008,323</u>

The accompanying notes are an integral part of this statement.

**West Covina Housing Authority
Balance Sheet
Governmental Fund
June 30, 2021**

	<u>General Fund</u>
ASSETS	
Cash and Investments	\$ 8,505,735
Restricted Cash	12,050
Notes and Loans Receivable	14,626,990
Other Receivables	7,212
Interest Receivable	<u>895,110</u>
Total Assets	<u><u>\$ 24,047,097</u></u>
LIABILITIES	
Accounts Payable	\$ 24,313
Accrued Liabilities	<u>14,461</u>
Total Liabilities	<u>38,774</u>
FUND BALANCES	
Restricted for Affordable Housing	<u>24,008,323</u>
Total Fund Balances	<u>24,008,323</u>
Total Liabilities and Fund Balances	<u><u>\$ 24,047,097</u></u>

The accompanying notes are an integral part of this statement.

West Covina Housing Authority
Reconciliation of the Governmental Fund Balance Sheet to the
Government-Wide Statement of Net Position
June 30, 2021

Fund balances - total governmental fund	\$ 24,008,323
Amounts reported for governmental activities in the statement of net position are different because:	
No Reconciling Differences for Fiscal Year 2021	<u>-</u>
Net Position of Governmental Activities	<u>\$ 24,008,323</u>

The accompanying notes are an integral part of this statement.

West Covina Housing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
Year Ended June 30, 2021

	<u>General Fund</u>
REVENUES	
Investment Income	\$ 385,983
Other Revenues	<u>98,802</u>
Total Revenues	<u>484,785</u>
EXPENDITURES	
Current:	
Public Safety	181,450
Affordable Housing	<u>786,828</u>
Total Expenditures	<u>968,278</u>
Net Change in Fund Balances	(483,493)
Fund Balance, Beginning of Year	<u>24,491,816</u>
Fund Balance, End of Year	<u><u>\$ 24,008,323</u></u>

The accompanying notes are an integral part of this statement.

West Covina Housing Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of Governmental Fund to the Statement of Activities
Year Ended June 30, 2021

Net change in fund balances - governmental fund	\$ (483,493)
Amounts reported for governmental activities in the Statement of Activities are different because:	
No Reconciling Differences for Fiscal Year 2021	<u>-</u>
Change in net position of governmental activities	<u>\$ (483,493)</u>

The accompanying notes are an integral part of this statement.

West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021

1) ORGANIZATION AND SUMMARY OF 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:

Description of 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 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 (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 Housing 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.

Government-wide Financial Statements

The Housing 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 Housing Authority.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Housing 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.

West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 an expenditure.

Governmental Fund Financial Statements

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 accounts of the Housing Authority are organized on the basis of a fund, which is considered a separate accounting entity. The operations of the fund are 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.

West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Housing Authority reports the following major governmental fund:

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

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.

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 Housing Authority's fund are those of the City of West Covina and are included in the notes to the City's basic financial statements.

Classification of Net Position and Governmental Fund Balance

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.

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

Net Position Flow Assumption

Sometimes the Housing 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.

West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

It is the Housing 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 Housing 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.

Assigned Fund Balance - This classification includes amounts that are intended to be used by the Housing 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 Housing 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 Housing Authority's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Use of Estimates in the Preparation of the 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.

**West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021**

2) CASH AND INVESTMENTS

Cash at June 30, 2021 consisted of the following:

Equity in City Cash and Investment Pool	\$	8,505,735
Restricted Cash		12,050

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's Annual Comprehensive Financial Report.

3) NOTES AND LOANS RECEIVABLE

As of June 30, 2021, the following notes and loans receivable were outstanding:

Housing Rehabilitation	\$	353,888
First Time Homebuyer Loans		177,447
Housing Preservation Program		673,382
Home Improvement Program		688,913
Lark Ellen Towers		6,472,664
Executive Lodge Apartments Limited Partnership		6,355,378
West Covina Senior Villas, LLC		2,833,333
West Covina Senior Villas II, LP		8,513,884
Other Loans		608,196
Less: Allowance for Doubtful Accounts		<u>(12,050,095)</u>
Total Governmental Funds		<u>\$ 14,626,990</u>

Several housing rehabilitation loans totaling \$353,888 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 Housing Authority has included 5% of the balance in the allowance for doubtful accounts.

The Housing Authority has made loans to first-time home buyers totaling \$177,447. These 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. The Housing Authority has included 5% of the balance in the allowance for doubtful accounts.

The Housing Authority has also made housing preservation loans to qualified applicants using housing set-aside funds, totaling \$673,382. 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. The Housing Authority has included 5% of the balance in the allowance for doubtful accounts.

West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021

3) NOTES AND LOANS RECEIVABLE - Continued

Several housing improvement loans totaling \$688,913 have been made to qualified applicants. The loans are secured by second trust deeds. The Housing Authority has included 5% of the balance in the allowance for doubtful accounts.

In May 1997, the Commission loaned \$4,270,000 to Lark Ellen Towers. The loan was transferred to the Housing 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, 2021 was \$6,472,664.

In April 1998, the Commission loaned \$5,622,300 to Executive Lodge Apartments Limited Partnership (Promenade Apartments project). The loan was transferred to the Housing Authority from the dissolved former Commission. The loan is secured by a deed of trust. The loan was amended and restated on April 1, 2017, with a principal of \$6,056,621 accruing interest at 2.82% compounded annually and requires annual payments equal to 50% of "Available Cash Flow." The outstanding principal and accrued interest at June 30, 2021 was \$6,355,378.

In May 2002, the Commission loaned \$4,360,000 to West Covina Senior Villas, LLC. The loan is secured by a deed of trust. The loan does not accrue interest. The loan requires annual payments of \$141,667 through May 2032 that are forgiven unless the borrower defaults on the agreement. The outstanding principal at June 30, 2021 was \$2,833,333. The loan is likely to be forgiven; therefore, the Housing Authority has included the entire balance in the allowance for doubtful accounts.

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 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, 2021 was \$8,513,884. The loan is likely to be forgiven; therefore, the Housing Authority has included the entire balance in the allowance for doubtful accounts.

Other notes consist of affordable housing loans of \$400,000. The notes do not accrue interest and are forgiven unless the borrower sells or refinances the property. Additionally, the balance included a note of \$208,196 for low-income housing which accrues no interest and is forgivable if the owner maintains the low- and moderate-income housing status. The outstanding principal of these loans combined at June 30, 2021 was \$608,196. The loan is likely to be forgiven; therefore, the Housing Authority has included the entire balance in the allowance for doubtful accounts.

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

Prior to the dissolution of the Commission's redevelopment activities on February 1, 2012, the City authorized several advances to be used for completing redevelopment projects throughout the community. As a result of the dissolution, the liabilities related to these advances were transferred to the Successor Agency. See the notes to the City's financial statements for more information.

**West Covina Housing Authority
Notes to Financial Statements
Year Ended June 30, 2021**

4) ADVANCES TO THE SUCCESSOR AGENCY OF THE CITY OF WEST COVINA - Continued

The long-term amounts due from the Successor Agency at June 30, 2021 were as follows:

- a) The General Fund had made the several advances to the Commission totaling \$8,100,000 for administrative and capital improvement construction costs (General Advance). Eighty percent (80%) of the balance is reported in the General Fund and the remaining twenty percent (20%) of the balance is reported in the West Covina Housing Authority Special Revenue Fund. The outstanding balance at June 30, 2021 was \$147,238.

- b) In May 2010, the Commission made an advance of \$6,529,308 from the Low and Moderate-Income Housing Capital Projects Fund to the Citywide Project Area Debt Service Fund to satisfy the Commission's Supplemental Educational Revenue Augmentation Fund (SERAF) obligation as required by Assembly Bill ABX4-26. The advance bears no interest. In May 2011, the Commission made an advance of \$1,344,269 from the Low and Moderate-Income Housing Capital Projects Fund to the Citywide Project Area Debt Service Fund to satisfy the SERAF obligation as required by Assembly Bill ABX4-26. The advance bears no interest and must be repaid by August 1, 2022. The outstanding balance at June 30, 2021 was \$747,872.

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.

Management of the Successor Agency and the Housing Authority 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) FUND BALANCE

The Housing Authority's fund balance of \$24,008,323 at June 30, 2021 is restricted for affordable housing purposes.

REQUIRED SUPPLEMENTARY INFORMATION

West Covina Housing Authority
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive/ (Negative)
REVENUES				
Investment Income	\$ -	\$ -	\$ 385,983	\$ 385,983
Other Revenue	310,000	-	98,802	98,802
Total Revenues	<u>310,000</u>	<u>-</u>	<u>484,785</u>	<u>484,785</u>
EXPENDITURES				
Current:				
Public Safety	204,251	204,251	181,450	22,801
Affordable Housing	1,364,598	1,079,598	786,828	292,770
Total Expenditures	<u>1,568,849</u>	<u>1,283,849</u>	<u>968,278</u>	<u>315,571</u>
Net Change in Fund Balance	(1,258,849)	(1,283,849)	(483,493)	800,356
Fund Balance, Beginning of Year	<u>24,491,816</u>	<u>24,491,816</u>	<u>24,491,816</u>	
Fund Balance, End of Year	<u>\$ 23,232,967</u>	<u>\$ 23,207,967</u>	<u>\$ 24,008,323</u>	<u>\$ 800,356</u>

West Covina Housing Authority
Notes to Required Supplementary Information
Year Ended June 30, 2021

Budgetary Data

The annual budget adopted by the City Council provides for the general operation of the Housing 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 Housing 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 Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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 West Covina Housing Authority (Housing Authority), a component unit of the City of West Covina, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated February 22, 2022. These financial statements present only the Housing Authority and do not purport to, and do not, present fairly the financial position of the City.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing 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 Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Van Lant & Fankhanel, LLP

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Housing Authority's Response to Findings

The Housing Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Housing 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.

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 Housing 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 Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Van Lant & Fankhanel, LLP". The signature is written in a cursive style and is positioned above the date.

February 22, 2022

**WEST COVINA HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021**

2021-001 Housing Loans Receivable Administration

Condition:

The City and Housing Authority have issued loans in prior years for first-time homebuyers and home improvement loans. The terms of these loans vary depending on the loan type and the period when it was issued. As part of our audit procedures, we selected various loans listed on the loans receivable schedule provided and reviewed the related promissory notes. Based on this review, we found that certain loans required periodic payments to be made throughout the year, however, it does not appear that the City has been receiving payments in accordance with the terms of the loan. In another instance, City staff were unable to provide the promissory note for the loan selected. In addition, one of the promissory notes reviewed indicates a 5% interest rate, charged annually, on the outstanding balance of the loan, however, through discussions with City staff, the City is not calculating and charging 5% per year.

Criteria:

In a strong internal control environment, procedures should be established to ensure the loans receivable schedule is properly maintained throughout the year, payments are collected and recorded in accordance with the applicable promissory notes, and proper records are maintained for all loans receivable balances.

Cause of Condition:

A large number of the first-time homebuyer and housing improvement loans were issued many years ago, in some cases 30+ years or more, and it does not appear that detailed administration and tracking of these loans has been done annually to ensure the loan balances are sufficiently tracked and accounted for each year.

Potential Effect of Condition:

The Housing Authority may not be collecting the full value of the amounts due in accordance with the terms of the promissory note agreements.

Recommendation:

We recommend the Housing Authority perform a detailed review of the loan balances and perform test recalculations of the interest balances on the loans to ensure the interest calculations are in accordance with the executed loan agreements and that payments are being collected in accordance with these agreements.

Views of Responsible Officials:

The City and Housing Authority will perform a detailed review of the loans to ensure the interest calculations and collections are done in accordance with the executed loan agreements. Additionally, the City and Housing Authority will establish a process for updating loan balances moving forward.