

**SAN JUAN CAPISTRANO
HOUSING AUTHORITY**

**(A COMPONENT UNIT OF THE
CITY OF SAN JUAN CAPISTRANO)**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

SAN JUAN CAPISTRANO HOUSING AUTHORITY

For the Fiscal Year Ended June 30, 2019

Table of Contents

	<u>Page Number</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3-7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Basic Financial Statements	11
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 <i>Government Auditing Standards</i>	21

INDEPENDENT AUDITORS' REPORT

The Honorable Chair and Members of the Commission
San Juan Capistrano Housing Authority
San Juan Capistrano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Juan Capistrano Housing Authority (the Authority), a component unit of the City of San Juan Capistrano, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2019, and the changes in its financial position and cash flows 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 financial statements present only the Authority and do not purport to, and do not present fairly, the financial position of the City of San Juan Capistrano, California, as of June 30, 2019, and 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019, 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 Dickel Evans LLP

Irvine, California
November 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the San Juan Capistrano Housing Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2019. Please read it in conjunction with the accompanying basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's assets of the Authority exceeded its liabilities at June 30, 2019, by \$18.4 million. This amount is referred to as the Authority's net position. Of this amount, \$8.0 million is in the form of unrestricted net position. \$6.2 million of this unrestricted net position is invested in long-term loans to affordable housing developers.
- During fiscal year 2018-19, the Authority's overall net position increased by \$170,410 primarily as the result of interest earned on the Authority's investment portfolio.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include the following components: 1) the Statement of Net Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, 3) the Statement of Cash Flows, and 4) notes to the basic financial statements. The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to that which would be performed for a private-sector enterprise.

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities with the difference reported as *net position*. Over time, increases or decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating. However, one should also consider non-financial matters, such as changes in economic conditions and new or changed government legislation, such as changes in federal and state law regarding housing regulations.

The *Statement of Activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., loan repayments).

The *Statement of Cash Flows* presents information concerning the Authority's cash receipts and payments during the reporting period. This is done by summarizing in broad categories the amounts of cash collected and payments made, as well as changes in cash as the result of operating and investing activities. This statement provides answers to such questions as where cash came from, what cash was used for, and what was the amount of the net change in cash balance during the reporting period.

The *Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist readers in evaluating the Authority's overall financial position and results of operations.

A summary of the *Statement of Net Position* is provided below:

	<u>2019</u>	<u>2018</u>	<u>%</u>
Current assets	\$ 1,913,114	\$ 1,848,100	3.5%
Restricted assets	5,996,721	6,838,903	-12.3%
Other noncurrent assets	6,098,081	5,049,952	20.8%
Capital assets, net	4,409,231	4,506,835	-2.2%
Total assets	<u>18,417,147</u>	<u>18,243,790</u>	1.0%
Current liabilities	41,349	38,402	7.7%
Total liabilities	<u>41,349</u>	<u>38,402</u>	7.7%
Net position:			
Net investment in capital assets	4,409,231	4,506,835	-2.2%
Restricted	5,996,721	6,838,903	-12.3%
Unrestricted	7,969,846	6,859,650	16.2%
Total net position	<u>\$18,375,798</u>	<u>\$18,205,388</u>	0.9%

As noted earlier, net position may over time serve as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$18.4 million as of June 30, 2019. In comparison, net position was \$18.2 million as of June 30, 2018. Accordingly, the Authority's overall net position increased by \$170,410, or 0.9%, from June 30, 2018.

The Authority's net position at June 30, 2019, consists of three components. \$4.4 million (24.0% of total net position) reflects the Authority's investment in capital assets (e.g., land, buildings and improvements). The Authority uses its capital assets to support the Little Hollywood program. Accordingly, these assets are not available for future spending. Investment in capital assets decreased by \$97,604, or 2.2%, from June 30, 2018, due to the recognition of depreciation expense. An additional \$6.0 million of the Authority's net position is in the form of restricted net position, representing resources that are subject to external restriction on how they may be used. These funds represent unspent proceeds from the 2008B Subordinate Taxable Series B Bonds issued by the former San Juan Capistrano Community Redevelopment Agency and are restricted by bond covenants for affordable housing projects. Restricted net position decreased by \$842,182, or 12.3%, from the prior year, primarily due to the disbursement of a new loan to Seasons San Juan Capistrano AR, L.P. ("Seasons") for \$1,000,000 during the year. The remaining \$8.0 million is unrestricted net position, \$6.2 million dollars of which are invested in long-term loans to affordable housing developers and are not available to fund the ongoing operations of the Authority. Unrestricted net position increased \$1.1 million, or 16.2%, from June 30, 2018, due to the new loan to Seasons.

The *Statement of Revenues, Expenses, and Changes in Net Position* summarizes operations during the current fiscal year. A summary of the Authority's changes in net changes for the fiscal year ended June 30, 2019, is provided below:

	<u>2019</u>	<u>2018</u>	<u>% Change</u>
Operating Revenues:			
Rental income and other revenues	\$ 191,458	\$ 214,608	-10.8%
Total operating revenues	<u>191,458</u>	<u>214,608</u>	-10.8%
Operating Expenses:			
Maintenance and operations	203,688	153,607	32.6%
General and administrative	61,043	40,985	48.9%
Rental subsidies	12,660	12,660	0.0%
Legal services	2,169	736	194.7%
Depreciation	97,604	97,604	0.0%
Total operating expenses	<u>377,164</u>	<u>305,592</u>	23.4%
Operating loss	(185,706)	(90,984)	104.1%
Non-Operating Revenues:			
Interest and investment income	356,116	241,056	47.7%
Total non-operating revenues	<u>356,116</u>	<u>241,056</u>	47.7%
Change in Net Position	170,410	150,072	13.6%
Net position, beginning of year	<u>18,205,388</u>	<u>18,055,316</u>	0.8%
Net position, end of year	<u>\$18,375,798</u>	<u>\$18,205,388</u>	0.9%

The Authority's net position increased by \$170,410, or 0.9%, during the fiscal year ended June 30, 2019. A closer examination of the sources of changes in net position reveals that:

- Rental income and other revenues decreased by \$23,150, or 10.8%, due to a reduction in rents received for the Little Hollywood program. Rents charged for the Little Hollywood property vary depending on when program participants enter the program. For example, lower rents are charged when a new tenant initially moves into a property. The rent gradually increases as the tenant meets various occupation and education goals. During fiscal year 2018-19, the Little Hollywood program experienced significant turnover with new tenants moving into the Little Hollywood property, which resulted in lower rents charged during the current fiscal year.
- Maintenance and operations expenses increased by \$50,081, or 32.6%, due to various repairs (e.g. roof replacements and deck repairs) at the Little Hollywood property completed during the current fiscal year that had been deferred in prior years. In addition, on June 11, 2018, the Authority approved a professional services agreement with MDM & Associates to administer the Authority's rental subsidy and Little Hollywood programs, including management of the Little Hollywood property itself. The annual fixed fee for this agreement was \$20,000 more than the cost for these contracted services in the prior fiscal year.

- General and administrative expenses increased by \$20,058, or 48.9%, primarily due to an increase in the cost of staff time in the amount of \$20,000. The Authority reimburses the City of San Juan Capistrano for the staff time that City staff spends on Authority-related activities. The Housing Supervisor/Associate Planner's time spent working on Authority-related activities increased during the current fiscal year.
- Interest and investment income increased by \$115,060, or 47.7%, from the prior fiscal year due to improved performance of the Authority's investment portfolio and accrued interest charged on a new loan disbursed to Seasons during the current fiscal year. The Authority began contracting with Chandler Asset Management for investment management services on July 1, 2018. Prior to July 1, 2018, the investment portfolio was managed by staff. The Authority approved a \$1,000,000 loan to Seasons in November 2016. The funds were disbursed to Seasons in October 2018.

CAPITAL ASSETS

Changes in capital asset amounts for the fiscal year ended June 30, 2019 were as follows:

	<u>2019</u>	<u>2018</u>	%
			<u>Change</u>
Land	\$ 784,008	\$ 784,008	0.0%
Buildings	4,878,900	4,878,900	0.0%
Less: accumulated depreciation	<u>(1,253,677)</u>	<u>(1,156,073)</u>	8.4%
Totals	<u>\$ 4,409,231</u>	<u>\$ 4,506,835</u>	-2.2%

The Authority's capital assets as of June 30, 2019, was \$4.4 million, net of accumulated depreciation. The reduction in capital assets of \$97,604, or 2.2%, was for current year depreciation expense.

Additional information on the Authority's capital assets can be found in Note 4 in the Notes to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Local governments throughout the State of California face economic, political, and social pressures to create more temporary and affordable permanent housing to increase increasing population moving into the State as well as the homeless population. The Authority maintains a conservative approach to budgeting revenues and expenses. Management takes an active role in monitoring the application of the budget during the fiscal year to apply necessary changes to projected revenues as well as appropriated expenses. The budget for the 2019-20 fiscal year was projected with minimal revenue growth and an increase in expenses to account for additional staff time to address housing issues. The Authority's fiscal year 2019-20 budget included the use of \$80,060 of reserves.

A copy of the Authority's Fiscal Year 2019-20 Operating Budget is included with the City of San Juan Capistrano's Fiscal Year 2019-20 Operating and Capital Budget and is available on the City of San Juan Capistrano's website.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, 32400 Paseo Adelanto, San Juan Capistrano, CA 92675.

SAN JUAN CAPISTRANO HOUSING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2019

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 640,096
Investments	1,108,767
Accounts receivable	1,287
Interest receivable	42,964
Notes receivable	<u>120,000</u>

TOTAL CURRENT ASSETS	<u>1,913,114</u>
----------------------	------------------

RESTRICTED ASSETS:

Investments	<u>5,996,721</u>
-------------	------------------

NONCURRENT ASSETS:

Capital assets:

Not being depreciated	784,008
Being depreciated, net	<u>3,625,223</u>

Net capital assets	4,409,231
--------------------	-----------

Other noncurrent assets:

Notes receivable, net of current portion	<u>6,098,081</u>
--	------------------

TOTAL NONCURRENT ASSETS	<u>10,507,312</u>
-------------------------	-------------------

TOTAL ASSETS	<u>18,417,147</u>
--------------	-------------------

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	10,564
Deposits payable	29,635
Unearned revenue	<u>1,150</u>

TOTAL CURRENT LIABILITIES	<u>41,349</u>
---------------------------	---------------

TOTAL LIABILITIES	<u>41,349</u>
-------------------	---------------

NET POSITION:

Net investment in capital assets	4,409,231
Restricted - affordable housing projects	5,996,721
Unrestricted	<u>7,969,846</u>

TOTAL NET POSITION	<u>\$ 18,375,798</u>
--------------------	----------------------

See accompanying notes to basic financial statements.

SAN JUAN CAPISTRANO HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2019

OPERATING REVENUES:	
Rental income and other revenues	<u>\$ 191,458</u>
 TOTAL OPERATING REVENUES	 <u>191,458</u>
OPERATING EXPENSES:	
Maintenance and operations	203,688
General and administrative	61,043
Rental subsidies	12,660
Legal services	2,169
Depreciation and amortization	<u>97,604</u>
 TOTAL OPERATING EXPENSES	 <u>377,164</u>
 OPERATING LOSS	 <u>(185,706)</u>
NONOPERATING REVENUES:	
Interest and investment income	<u>356,116</u>
 TOTAL NONOPERATING REVENUES	 <u>356,116</u>
 CHANGE IN NET POSITION	 170,410
TOTAL NET POSITION - BEGINNING OF YEAR	<u>18,205,388</u>
TOTAL NET POSITION - END OF YEAR	<u><u>\$ 18,375,798</u></u>

See accompanying notes to basic financial statements.

SAN JUAN CAPISTRANO HOUSING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and user departments	\$ 189,841
Payments to suppliers of goods or services	<u>(276,283)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(86,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(1,232,991)
Sale of investments	1,074,120
Collection on notes receivable	122,721
Issuance of note receivable	(1,000,000)
Interest received	<u>160,420</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(875,730)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(962,172)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,602,268</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 640,096</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (185,706)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization	97,604
(Increase) decrease in operating assets:	
Accounts receivable	(1,287)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued liabilities	3,277
Deposits payable	(935)
Unearned revenue	<u>605</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (86,442)</u></u>

See accompanying notes to basic financial statements.

SAN JUAN CAPISTRANO HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2019

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the San Juan Capistrano Housing Authority (the Authority) have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

This report only includes the financial statements of the Authority. The Authority carries out the City's affordable housing obligations. These financial statements do not purport to represent the financial position or results of operations of the City of San Juan Capistrano (the City).

A. Reporting Entity

The San Juan Capistrano Housing Authority was formed by the City of San Juan Capistrano on January 17, 2012, after being assigned the housing functions of the former Community Redevelopment Agency of the City of San Juan Capistrano. The primary purpose of the Authority is to develop affordable housing for families of low and moderate income within the City. The Authority operates under a chair-member form of government.

The Authority is considered to be a blended component unit of the City. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are reported with the interfund data of the City. The governing boards of the component units are comprised of the same membership as the City Council. The City may impose its will on the component units, including the ability to appoint, hire, reassign or dismiss management. There are also financial benefit/burden relationships between the City and these entities.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund types are accounted for using the *economic resources measurement focus* and *accrual basis of accounting*. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the statement of net position. Their reported fund equity presents total net position. The operating statement of the proprietary funds present increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. *Operating* revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are rental payments. *Operating* expenses for include the cost of maintaining properties, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Authority's significant nonoperating items consist of investment income and contributions from the City to support the Authority.

SAN JUAN CAPISTRANO HOUSING AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

NOTE 1- REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. New Accounting Pronouncements

Current Year Standards

GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018, and did not impact the Authority.

GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018, and 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 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.
- GASB 91 - *Conduit Debt Obligations*, effective for periods beginning after December 15, 2020.

D. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

E. Investments:

Investments are recorded at fair value, except for investment contracts that are reported at cost because, they are not transferable and they have terms that are not affected by changes in market interest rates. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

SAN JUAN CAPISTRANO HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2019

NOTE 1- REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets:

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 to \$15,000 depending upon the type of asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at acquisition value on the date donated.

Depreciation is charged to operations using the straight-line method of depreciation over the following estimated useful lives:

Machinery and equipment	3 - 10 years
Buildings and building improvements	10 - 50 years

G. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position 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 (expenses) until then. The Authority currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflow of resources. This separate element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently has no items that qualify for reporting in this category.

H. Net Position:

The financial statements utilize a net position presentation. Net position is classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - This amount is restricted by enabling legislation (such as external creditors, grantors, contributors, or laws or regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The Authority has restricted net position representing unspent bond proceeds transferred from the former Community Redevelopment Agency in prior years that must be spent on affordable housing projects.

SAN JUAN CAPISTRANO HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2019

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Net Position (Continued):

Unrestricted net position - This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

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, 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, unless otherwise directed by the Commission.

I. 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, 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.

NOTE 2 - CASH AND INVESTMENTS

Cash and Investments

Cash and investments at June 30, 2019, are classified in the accompanying financial statements as follows:

Cash City	\$ 640,096
Investments	1,108,767
Restricted assets:	
Investments - unspent bond proceeds	<u>5,996,721</u>
Total cash and investments	<u>\$ 7,745,584</u>

Cash and investments at June 30, 2019, consisted of the following:

Deposits with financial institutions	\$ 640,096
Investments	<u>7,105,488</u>
Total cash and investments	<u>\$ 7,745,584</u>

SAN JUAN CAPISTRANO HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

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

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

Authorized Investment Type	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
United States Treasury Bills, Bonds and Notes	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
Securities issued by the State of California or local agencies within the State of California	5 years	25%	3%
Negotiable Certificates of Deposit	5 years	30%	3%
Passbook Savings Account:			
Demand Deposits	N/A	5%	3%
Money Market Mutual Funds	N/A	20%	3%
Orange County Investment Pool	N/A	40%	None
Local Government Investment Pools	N/A	40%	None
Local Agency Investment Fund	N/A	None	\$65 million
Banker's Acceptance	180 days	30%	3%
Commercial Paper	270 days	25%	3%
Medium-Term Notes	5 years	30%	3%
Supranational	5 years	15%	None
Asset backed securities	5 years	20%	3%

The weighted average maturity of the portfolio cannot exceed three years.

*Based on state law requirements or the City's investment policy requirements, whichever is more restrictive.

N/A - Not Applicable

SAN JUAN CAPISTRANO HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

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.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Remaining Maturity (in Months)		Total
	12 Months or Less	13 to 24 Months	
Local Agency Investment Fund (LAIF)	\$ 5,856,482	\$ -	\$ 5,856,482
United States (U.S.) Government Sponsored Agency Securities:			
U.S. Treasury Notes	1,215,041	-	1,215,041
Money Market Mutual Funds	33,965	-	33,965
Total	<u>\$ 7,105,488</u>	<u>\$ -</u>	<u>\$ 7,105,488</u>

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, and the actual rating, as reported by Standard & Poor's and Moody's as of year-end for each investment type:

Investment Type	Total as of June 30, 2019	Minimum Legal Rating	S&P Rating	Moody's Rating
LAIF	\$ 5,856,482	None	Not Rated	Not Rated
U.S. Government Sponsored Agency Securities:				
U.S. Treasury Notes	1,215,041	None	AA+	Aaa
Money Market Mutual Funds	33,965	AAA	AAA	Aaa
Total	<u>\$ 7,105,488</u>			

SAN JUAN CAPISTRANO HOUSING AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Other than LAIF and U.S. Treasury notes, the Authority had no investments in any one issuer that represent 5% or more of the Authority's total investments for the year ended June 30, 2019.

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 Authority'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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Demand deposits held in noninterest bearing checking accounts are fully insured by the Federal Depository Insurance Corporation.

At June 30, 2019, the Authority deposits (bank balances) were collateralized under California Law.

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. 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 prorated share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF.

SAN JUAN CAPISTRANO HOUSING AUTHORITY
Notes to Basic Financial Statements
June 30, 2019

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2019:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
U.S. Government Sponsored Agency Securities:				
U.S. Treasury Notes	\$ -	\$ 1,215,041	\$ -	\$ 1,215,041
Money Market Mutual Funds	-	33,965	-	33,965
Total Leveled Investments	<u>\$ -</u>	<u>\$ 1,249,006</u>	<u>\$ -</u>	<u>1,249,006</u>
LAIF*				5,856,482
Total Investment Portfolio				<u>\$ 7,105,488</u>

* Not subject to fair value measurement hierarchy.

NOTE 3 - NOTES RECEIVABLE

Notes receivable at June 30, 2019, include the following:

SACRA Trust Fund*	Total <u>\$ 142,275</u>
Senior Seasons Apartments II, L.P.	<u>6,075,806</u>
Total	<u>\$ 6,218,081</u>

SAN JUAN CAPISTRANO HOUSING AUTHORITY

Notes to Basic Financial Statements

June 30, 2019

NOTE 3 - NOTES RECEIVABLE (CONTINUED)

A. SACRA Trust Fund

The former Community Redevelopment Agency borrowed \$400,000 during fiscal year 1998-99 from the City for the purchase of property at an interest rate equal to the average rate earned by the City during the loan term. Due to the implementation of Assembly Bill 1484 (AB 1484), the interest is now calculated at the LAIF rate. The City opted to not utilize the 3% simple interest rate made available by Senate Bill 107 (SB 107). The note is payable from future tax increments and will be paid as funds become available. AB 1484 requires that 20% of the proceeds from this loan be provided to the Authority. As such, 20% of this note receivable balance is reflected in the Authority's financial statements. The total balance due on this loan as of June 30, 2019 is \$108,452, including \$48 of accrued interest, of which 20%, or \$21,690, is reflected in the Authority's Statement of Net Position, including \$10 of accrued interest. The Authority's portion of interest income for the year ended June 30, 2019 was \$89.

The former Community Redevelopment Agency borrowed \$9,540,378 during fiscal year 1989-90 from the City at 9% interest to be paid on a quarterly basis. Due to the implementation of AB 1484, the interest is now calculated at the LAIF rate. The City opted to not utilize the 3% simple interest rate made available by SB 107. The note is payable from future tax increments and will be paid as funds become available. AB 1484 requires that 20% of the proceeds from this loan be provided to the Authority. As such, 20% of this note receivable balance is reflected in the Authority's financial statements. The total balance due on this loan as of June 30, 2019 is \$602,924, including \$75 of accrued interest, of which 20%, or \$120,585, is reflected in the Authority's Statement of Net Position, including \$15 of accrued interest. The Authority's portion of interest income for the year ended June 30, 2019 was \$372.

B. Senior Seasons Apartments II, L.P.

The Former Community Redevelopment Agency agreed to loan \$4,900,000, with an interest rate of 3% related to a disposition and development agreement with Senior Seasons Apartments II, L.P. dated November 6, 2006 and amended February 18, 2008. Under the agreement, the borrower agreed to acquire the site and construct and operate a housing project for low-income households. The loan amount is to be paid by the borrower annually in an amount equal to 50% of the residual receipts as defined in the agreement from operation of the housing project. Any remaining portion is due on the 55th anniversary of the date of the Former Community Redevelopment Agency's issuance of a certificate of occupancy of the project. This receivable was transferred to the Authority by operation of law on February 1, 2012. At June 30, 2019, the total amount due of \$5,053,861 included \$4,019,769 in principal and \$1,034,092 in interest. Interest income for this note in the year ended June 30, 2019 was \$148,444.

On November 1, 2016, the Authority entered into an affordable housing loan agreement in the amount of \$1,000,000 with Senior Seasons Apartments II, L.P. Under the agreement, the borrower agreed to make certain improvements, repairs, and replacements to an affordable housing apartment complex. The loan bears simple interest at a rate of 3% and is to be paid by the borrower annually in an amount equal to 50% of the residual receipts as defined in the agreement from operation of the housing project.

SAN JUAN CAPISTRANO HOUSING AUTHORITY**Notes to Basic Financial Statements****June 30, 2019****NOTE 3 - NOTES RECEIVABLE (CONTINUED)**

Any remaining portion is due 40 years after the date of execution of the note, which is November 1, 2056. Disbursement of the \$1,000,000 loan proceeds requires the borrower to complete the project improvements and the Authority to issue a certificate of completion, which occurred in October 2018. At June 30, 2019, the total amount due of \$1,021,945 included \$1,000,000 in principal and \$21,945 in interest. Interest income for this note in the year ended June 30, 2019 was \$21,945.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Authority's capital assets at June 30, 2019, is as follows:

	Balance at July 1, 2018	Additions	Deletions/ Transfers	Balance at June 30, 2019
Capital assets, not depreciated:				
Land	\$ 784,008	\$ -	\$ -	\$ 784,008
Total capital assets, not depreciated	784,008	-	-	784,008
Capital assets, being depreciated:				
Buildings	4,878,900	-	-	4,878,900
Total capital assets, being depreciated	4,878,900	-	-	4,878,900
Less accumulated depreciation for:				
Buildings	(1,156,073)	(97,604)	-	(1,253,677)
Total accumulated depreciation	(1,156,073)	(97,604)	-	(1,253,677)
Total capital assets, being depreciated, net	3,722,827	(97,604)	-	3,625,223
Total Business-type Activities capital assets, net	\$ 4,506,835	\$ (97,604)	\$ -	\$ 4,409,231

NOTE 5 - SUBSEQUENT EVENTS

Other events occurring after June 30, 2019, have been evaluated for possible adjustments to the financial statements or disclosure as of November 13, 2019, which is the date these financial statements were available to be issued.

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 Honorable Chair and Members of the Commission
San Juan Capistrano Housing Authority
San Juan Capistrano, 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 San Juan Capistrano Housing Authority (the Authority), a component unit of the City of San Juan Capistrano, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 13, 2019.

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

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 Dick Evans LLP

Irvine, California
November 13, 2019